"All the News That's Fit to Print"

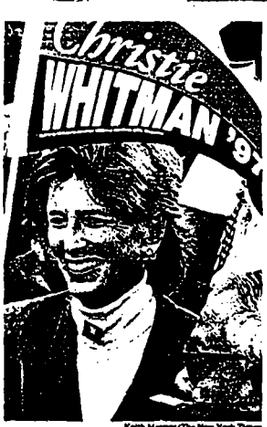
The New York Times

Washington Final
Washington and Baltimore Partly sunny, an early shower possible Highs mid 50's. Tonight, partly cloudy Low 30's Tomorrow, partly sunny, cool. Highs mid 50's Details, page A30.

VOL. CXLVII . . . . No. 50,966 TUESDAY, NOVEMBER 4, 1997 ONE DOLLAR

Angel Franco/The New York Times

Associated Press



Keith Meyers/The New York Times

One Last Chance To Sway the People

On an Election Day with a modest number of contests, Virginia and New Jersey will elect governors today, while 223 cities elect mayors. Votes on propositions are scheduled in four states and several cities.

In Portland, Ore., at top right, Cullen Johnson collected drop-off ballots on the state's assisted-suicide proposition. In Virginia, President Clinton campaigned with Don Beyer, Democratic candidate for governor.

In New York City, top left, Mayor Rudolph W. Giuliani campaigned, while in New Jersey, Gov. Christine Todd Whitman shook hands in Freehold. Page A28.

Paul Hosefros/The New York Times

Iraq Threatens To Shoot Down U.S. Spy Planes

U-2 Flights to Continue, U.N. Inspector Says

By BARBARA CROSSETTE

UNITED NATIONS, Nov. 3 — President Saddam Hussein of Iraq, in a move sure to isolate his country further, threatened today to shoot down the American U-2 spy planes used by international disarmament monitors.

The United States has not said it has any plans to ground the U-2's. Tonight, after meeting with the United Nations Security Council, Richard Butler, the head of the organization's inspection commission charged with eliminating Iraq's weapons of mass destruction, said, "The U-2's have been authorized to go ahead."

The final decision to fly, however, would have to rest with the Pentagon. Iraq has defensive missiles capable of hitting the plane, officials said here, and the Pentagon would have to assess the risks, but the likelihood of hitting the high-altitude planes is low. [Page A6.]

Bill Richardson, the United States representative to the United Nations, called the threat against the U-2 flights "irresponsible."

The Clinton Administration, under pressure from Congress to react forcefully to Iraq, has tried to contain the dispute within the United Nations system, where Washington can count on the backing of the Security Council. Any independent use of force by the United States without Council approval would shatter that unity at this point.

Mr. Richardson said pointedly today that the warning about U-2 flights was "a direct threat to the United Nations" and did not portray it as a strictly national issue, but rather as an outgrowth of the coalition built within the United Nations that was critical to the United States during the 1991 war with Iraq.

Some diplomats believe that President Hussein may in fact be trying to goad Washington into military action to drive a wedge between Washington and other Council members, particularly Russia and France, which have argued in the past for an easing of sanctions. But that plan could backfire. A Western diplomat said today that Iraq's action was "not the best way to consolidate support."

The threat to shoot down — or shoot at — the surveillance aircraft was in a letter sent to Mr. Butler on Sunday night by Iraq's United Nations representative, Nizar Ham-

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MOVE UNDER WAY TO TRY TO BLOCK HEALTH CARE BILLS

G.O.P. PUSHING LOBBYISTS

Rules on Standards of Quality Are Seen as Ploy to Revive the Failed Clinton Plan

By ROBERT PEAR

WASHINGTON, Nov. 3 — Business and insurance lobbyists who helped kill President Clinton's health plan in 1994 are mobilizing a new campaign to block more modest proposals that would set Federal standards for the quality of care.

Republican leaders of Congress are urging the lobbyists to step up their activities against an array of health care bills backed by consumer advocates as a way to protect patients in a turbulent medical market.

The lobbyists, from groups like the Health Insurance Association of America and the National Federation of Independent Business, have swung into action, with briefings for Congressional aides and plans for a grass-roots campaign to fight the legislation.

They see the proposals as an effort to accomplish, in an incremental way, some of the goals that Mr. Clinton pursued with his plan for national health insurance.

A Presidential advisory commission is drafting a bill of rights for patients. Legislative proposals are proliferating on Capitol Hill, and lawmakers of both parties say they may prove irresistible in an election year. Some bills are narrowly and would, for example, require insurance companies to cover 48-hour hospital stays for women undergoing mastectomies. Others are more comprehensive and would prescribe detailed standards for the operation of health plans, which have constrained costs, in part by limiting patients' choices.

Insurers, employers and R leaders contend that the proposed new regulations will raise the cost of health benefits. As a result, they say, employers will cut back coverage, and the number of uninsured people, which now exceeds 41 million, will rise further.

The Senate Republican leader, Trent Lott of Mississippi, and his deputy, Don Nickles of Oklahoma, organized a briefing for aides to Republican members of Congress on Friday. Mr. Lott and Mr. Nickles announced the session in letters that said ominously, "Clinton Care Returns: the Trojan Horse Strategy."

The letters, to Republicans on Capitol Hill, said: "A flurry of health care legislation has been introduced in both the House and the Senate this Congress which propose sweeping new Federal mandates and control over the private health care market. While many have described these proposals as 'quality' bills, it is clear that these initiatives are a Trojan horse for implementing the once-defeated Clinton health plan."

Melody J. Harned, Federal affairs counsel at the Health Insurance Association of America, summarized the situation in a confidential memorandum to her supervisor, Michael P. Fortier, a vice president of the

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Second Trial Opens In Oklahoma Blast

As they opened their case in Federal District Court in Denver, prosecutors portrayed the defendant, Terry L. Nichols, as working side by side with Timothy J. McVeigh in preparing the bomb that destroyed the Federal building in Oklahoma City on April 19, 1995, and killed 168 people. Prosecutors began constructing a case that includes previously undisclosed evidence and is broader than the one against Mr. McVeigh that in June led to his conviction and condemnation to death on murder and conspiracy charges.

But Mr. Nichols's lawyer portrayed his client as a man who was deceived by a friend and who is implicated only by misleading circumstantial evidence or actions for which there for which there are innocent explanations. In his opening statement, Mr. Nichols's main lawyer, Michael E. Tigar, told the jury that "Terry Nichols was building a life, not a bomb."

Article, page A16.

Clinton Wins Support on His Trade Authority

By ALISON MITCHELL

WASHINGTON, Nov. 3 — After weeks of lobbying, President Clinton today virtually secured Senate renewal of the trade negotiating authority that he has called a centerpiece of his economic policy.

Mr. Clinton won over the support of Thomas A. Daschle, the Senate minority leader, on the so-called fast-track trade legislation.

Mr. Daschle announced his backing today, the day before a key Senate vote. The Administration now hopes to use his conversion to help rally Democratic support in the House, where the President still faces an uphill fight.

Mr. Daschle made his statement surrounded by Cabinet officials. They said Mr. Clinton would take a range of actions aimed at winning over legislators from agricultural states and Democrats worried about losing out to developing countries with lower wages and less stringent environmental laws.

The announcement was part of a major lobbying drive as the President fights for the legislation, which he has called crucial to taking the lead in the global economy.

Every President since Gerald R. Ford has made good use of fast-track powers — which give Congress the right to approve or disapprove trade agreements but not modify them. The authority has helped bolster the Presidential negotiating position with foreign governments on trade deals. Administration officials have said they view this battle to renew the power as one of the most significant legislative confrontations of President Clinton's second term.

"We are now at a crossroads with respect to the strategy of opening markets around the globe," Treasury Secretary Robert E. Rubin said today.

With Mr. Daschle's help, the Administration is counting on winning the 60 votes necessary in the Senate to defeat Democrats who are trying to block the trade measure from coming to a vote either on Tuesday or later in the week. Mr. Clinton met tonight with two separate groups of Democratic Senators to try to shore up their votes for the trade legislation.

The White House hopes to use Mr. Daschle's support to offset the opposition of two House Democratic lead-

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Wealth of Mine Barons Turns to Dust at Source

Kevin Moloney for The New York Times; inset, Reuters

The Guggenheim Bilbao Museum in Spain, inset, represents the expansion of the family name. Its fortune was made in silver mines like this one in Leadville, Colo., a town that has fallen into decline.

By JAMES BROOKE

LEADVILLE, Colo. — Guggenheim Berlin, Guggenheim Bilbao, Guggenheim New York, Guggenheim Venice. Why not a Guggenheim Leadville?

Leadville, as the name implies, is not chic. Perched at 10,152 feet, it is a hard-knocks mining town, claiming a little fame as the highest incorporated city in North America.

More than 135 years of a "get rich and get out" mining ethic has left two legacies. The population has dwindled to a tenth of its 1880's size, and the Environmental Protection Agency has declared the entire town a Superfund site.

Some holes that environmental engineers are plugging today produced the cornerstone of the Guggenheim fortune a century ago — silver and lead worth $268 million in 1997 dollars.

"The Guggenheim fortune was started right here in Leadville," said Carl Miller, a third-generation resident who represents the area in the State Assembly. "It sure would be nice if they looked back at this community, which is struggling through the hardest times in its history."

In 1989, Mr. Miller wangled the only Guggenheim donation seen here in modern times, $25,000 to the National Mining Hall of Fame and Museum.

For their part, officers and spokesmen for the four Guggenheim foundations, all based in New York, said few projects in Leadville would meet the criteria stipulated by the bylaws of their foundations. One promotes modern art, a second grants midcareer fellowships, another studies criminal justice and the last supports research on violence and aggression.

Another response might be that everyone else did it.

Since 1860, mines in Leadville and elsewhere in Lake County have disgorged, at present-day prices, $12.5 billion in gold, silver, lead, copper, zinc and molybde-

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At a Western Outpost of Russia, AIDS Spreads 'Like a Forest Fire'

By MICHAEL SPECTER

KALININGRAD, Russia, Oct. 29 — The young man sitting before the psychiatrist stared darkly at the wall and bit his lip to keep from crying. He had answered a dozen questions about his sexual habits and absorbed in silence a lecture about how AIDS would change his life.

"Aleksei, everything now is up to you," the psychiatrist, Oleg Petroshuk, told him gently. "If you take care of yourself you can live a long time. I know how hard this is, but you have to believe me: nothing ends here."

As if in answer, Aleksei stripped to the waist. He has three tattoos, but the one that draws the eye covers his left shoulder. It is a skull engulfed in huge batwings. Above the wings two English words have been burned into his skin: "No Future."

Few words could apply more fully to Aleksei, who is 23, or to this odd and lonely city, which has suddenly become the center of what many experts say is the world's fastest-moving epidemic of AIDS infection.

Kindled by a surge in the use of an easily contaminated liquid form of heroin, the epidemic has been fueled, as anywhere, by poverty and unemployment.

But that is not why H.I.V., the virus that causes AIDS, is now tearing "like a forest fire through Russia," in the words of this country's chief AIDS official, Mikhail Narkevich.

While the Soviet Union stood, official prudishness combined with totalitarianism to keep borders closed and sexual freedom to a minimum. The AIDS virus, on the other hand, thrives on drug abuse and the open road. And since the fall of Communism, both have been particularly plentiful here, in the vague borderland between Europe and Russia.

Kaliningrad is unique, but it is not alone. A special economic zone that was supposed to become Russia's Hong Kong, it has floundered economically. But its status helped ignite the interlocking epidemics of drug addiction and AIDS that are

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WORLD BANK FUNDS FOR AIDS

The World Bank, saying the AIDS epidemic is about to explode in several regions, offered help. Page A10.

INSIDE

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The lobbyists, from groups like the Health Insurance Association of America and the National Federation of Independent Business, have swung into action, with briefings for Congressional aides and plans for a grass-roots campaign to fight the legislation.

They see the proposals as an effort to accomplish, in an incremental way, some of the goals that Mr. Clinton pursued with his plan for national health insurance.

A Presidential advisory commission is drafting a bill of rights for patients. Legislative proposals are proliferating on Capitol Hill, and lawmakers of both parties say they may prove irresistible in an election year. Some bills are narrowly focused and would, for example, require insurance companies to cover 48-hour hospital stays for women undergoing mastectomies. Others are more comprehensive and would prescribe detailed standards for the operation of health plans, which have constrained costs, in part by limiting patients' choices.

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The letters to Republicans on Capitol Hill, said: "A flurry of health care legislation has been introduced in both the House and the Senate this Congress which propose sweeping new Federal mandates and control over the private health care market. While many have described these proposals as 'quality' bills, it is clear that these initiatives are a Trojan horse for implementing the once-defeated Clinton health plan."

Melody J. Harned, Federal affairs counsel at the Health Insurance Association of America, summarized the situation in a confidential memorandum to her supervisor, Michael P. Fortier, a vice president of the

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association, on Oct. 22.

"The message we are getting from House and Senate leadership is that we are in a war and need to start fighting like we're in a war," Ms. Harned wrote. "Republican leadership is now engaged on this issue and is issuing strong directives to all players in the insurance and employer community to get activated."

Ms. Harned said Senator Lott and his aides had indicated that "Senate Republicans need a lot of help from their friends on the outside" if they are to withstand the pressure for Federal regulation of health insurance and managed care.

In her memorandum, Ms. Harned said that Senator Lott's office had told the lobbyists, "Get off your butts, get off your wallets."

Aides to Mr. Lott said he did not normally use such blunt language, but they confirmed that Ms. Harned had accurately summarized the Senator's deep concern about Federal regulation and mandates.

Ms. Harned said that aides to Republican leaders on both sides of the Capitol had urged the lobbyists to write a definitive paper "trashing all these bills."

Her memorandum shows the intensity of organized resistance to consumer protections that involve new Federal regulation or mandates.

The Health Insurance Association of America helped defeat Mr. Clinton's health plan in 1994 with a series of television commercials in which "Harry and Louise" lampooned the bureaucratic complexity of the proposal. The National Federation of

Seeing danger in small steps toward a new health policy.

Independent Business, which represents 600,000 small-business owners, galvanized opposition around the country, saying the President's plan would destroy jobs by imposing new health insurance costs on many employers.

Some Republicans see political risks in opposing "patient protection" bills. A Republican on the staff of the Senate Finance Committee asked: "If we oppose all these bills, isn't there something we should be for? If our response is always, 'No, no, no,' that doesn't go over very well with constituents."

In September, three nonprofit health maintenance organizations called for "legally enforceable national standards" to protect patients in managed care. But the H.M.O.'s — Kaiser Permanente, HIP Health Insurance Plans, based in New York, and the Group Health Cooperative of Puget Sound — did not say who should enforce the standards.

Business and insurance lobbyists say they believe that Mr. Clinton, in his State of the Union Message early next year, will prod Congress to set Federal standards for health plans.

Mr. Clinton outlined his strategy in a speech to the Service Employees International Union on Sept. 15. He defended his original proposal, saying he was right to seek universal health insurance coverage in 1993 and now hoped to achieve the goal by other means.

"What I tried to do before won't work," Mr. Clinton said in the speech. "Maybe we can do it in another way. That's what we've tried to do, a step at a time until eventually we finish this."

In letters to all senators last week, R. Bruce Josten, executive vice president of the Chamber of Commerce of the United States, expressed alarm about the bills to mandate health benefits and regulate managed care.

"Militant incrementalism of this kind is as dangerous to our health care system as were past proposals for Government-run health care," Mr. Josten said.

Mark W. Isakowitz, director of Federal relations at the National Federation of Independent Business, said: "These incremental proposals can fly in under the radar on Capitol Hill. They do not present a big fat target as the Clinton health plan did."

Mr. Isakowitz said he held a weekly meeting of lobbyists from health plans and employer groups who shared such concerns. The coalition, he said, includes the Business Roundtable, the Blue Cross and Blue Shield Association, the American Association of Health Plans, Cigna and Prudential.

Rank-and-file Republican lawmakers are split on the proposals. The split reflects disagreements among traditional Republican constituencies. Many doctors complain that their income and their freedom to practice medicine have been unduly restricted by managed care companies. They favor many provisions of the bills opposed by insurers and businesses.

One of the most comprehensive "patient protection" bills has been introduced by two Republicans, Representative Charlie Norwood of Georgia, a dentist, and Senator Alfonse M. D'Amato of New York. It has gained 193 co-sponsors in the House, including 83 Republicans.

Senator James M. Jeffords, the Vermont Republican who is chairman of the Committee on Labor and Human Resources, is working on a separate bill that would set Federal standards for health plans, to make sure patients have access to the services and information they need.

In her memorandum, Ms. Harned said Senator Lott had told Mr. Jeffords not to introduce the bill this year and to work more with committee Republicans and less with Senator Edward M. Kennedy of Massachusetts, the senior Democrat on the panel.

President Clinton's health plan altered the terms of debate so that major changes in the health care system are now seen as modest by comparison with his scheme. Mr. Clinton last year signed a bill requiring insurers to offer coverage to many people who could previously have been turned down because of illness or disability.

Congress also required health plans to cover at least 48 hours of hospital care for new mothers and their babies. And it prohibited insurers from setting lower limits on mental health benefits than on coverage of physical illnesses.

Insurers generally opposed such requirements, saying that employers and employees should be free to design their own health plans.

Several bills pending in Congress would require health plans to pay for emergency care in any situation that "a prudent lay person" would regard as an emergency. Other bills would guarantee patients' rights to appeal denials of care, to seek help from medical specialists and to sue health plans that provide substandard care.

The New York Times
TUESDAY, NOVEMBER 4, 1997

cc Ira, Chris J, Jen

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Chicago Tribune
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Commentary - *Other voices*

MEDICAL EMERGENCIES

TOO BAD WE IGNORED HILLARY'S HEALTH-CARE PROPOSALS IN 1993

By John McCarron
Web-posted Monday, January 12, 1998; 6:02 a.m. CST

Hillary Rodham Clinton had it right all along.

Every new initiative from the White House, every counter-move by the Republican Congress, all point to the wisdom of the health insurance reform that the first lady and her task force proposed back in 1993.

Hardly anybody concedes this, not even her husband. It's still uncool to support a big plan from Washington, especially one from a strong, intelligent woman. (The latter still being a handicap in American pop/political culture.)

But Mrs. Clinton pretty much covered all the bases. Which would be water over the dam . . . were it not for the likelihood that a much worse system is headed our way.

Or did you think we could limp as is?

Not that it's that bad. Everyone gets care in America, whether you're filthy rich, dirt poor, in jail or just off the bus from someplace else. Not everybody gets Cadillac care and there's a scandalous lack of preventive services for the poor, but our emergency rooms don't turn people away.

The problem is paying for it all.

The situation was desperate in 1993, following a decade of double-digit annual increases that hurt our economic competitiveness and punched holes in federal and state budgets.

Hillary & Co.'s plan, though likened to "Mein Kampf," was deceptively simple for its book length: 1) Make America's existing private, employer-based health-care system universal by mandating that all companies, directly or indirectly, contribute toward their employees' health insurance; and 2) set up a government-regulated arena for "managed competition" in which both HMOs and regular indemnity plans would compete for business, including the business of those whose premiums would be paid by the government's Medicare and Medicaid programs.

There were drawbacks, especially its imposition of price controls that would have led to the rationing of care. These problems could have been ironed out in congressional negotiations. Instead, politics and special interests ruled the day. Non-insuring employers, whose workers' medical bills are shifted onto everybody else, didn't want to give up **their** free ride. The doctors' lobby didn't like Hillary's promotion of managed care. The insurance industry, in a move it will one day regret, savaged the proposal with "Harry and Louise" TV ads, no doubt hoping their slice of medical inflation would keep rising forever.

So "Hillarycare" went down. And then, something unforeseen happened.

Big corporations seized on managed care and HMOs as the most efficient way to get maximum care for minimum dollars. Premiums stabilized. Soon a majority of working Americans were enrolled in managed care, and the doctors' lobby, which would have had considerable influence under Hillary's plan, became marginalized. Indeed, the medical associations have been reduced to begging Congress and state legislatures to force HMOs to hire their members and abide by their medical opinions.

The only winners have been those non-insuring employers, whose workers still ride free in what the policy wonks call "cost shifting."

But the do-nothing option of 1993 is coming unglued. HMOs don't like to pay the bills of non-members, so they are not letting hospitals pad the tab with shifted costs. Hospitals are failing and patients are complaining. And all the while, the number of uninsured people continues to climb as corporations downsize their core (full benefits) work forces, and as more small companies drop coverage, preferring to be subsidized rather than subsidize others.)

Not surprisingly, the number of uninsured Americans--43 million and rising--is becoming a political force in its own right. No longer confined to burger flippers and day laborers, the new uninsured include millions of laid-off managers and self-employed "consultants." With assets to protect, like houses and 401(k) balances, they are desperate for coverage yet can't afford outla**ndishly** priced individual premiums.

This is the force Bill Clinton hopes to tap with his proposal to let the laid-off "buy-in" to Medicare, beginning at age 55.

But that's just the beginning. As insurance anxiety spreads, a new majority will clamor to go on Medicare, or something like Medicare. The wonks will call it a universal, single-payer system. Corporations will welcome it, glad to have the health care monkey off their backs. A handful of the largest insurers will survive . . . but only as contractors to administer the federal program. It will be totally tax-funded, impersonal and expensive. Very expensive, because government, the single-payer, won't be able to say no to patients (voters) or providers (special interests).

So good-bye balanced federal budget. Hello, Medicare for all.

All because we wouldn't take advice from a strong woman.

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Enthoven commission offers prescription for managed care

A new regulatory authority with expertise in health care management should replace California's Department of Corporations in overseeing health maintenance organizations, a state commission headed by the Business School's Alain Enthoven said in its final report to the governor and legislature on Jan. 5.

The 77 multi-part recommendations of the California Managed Health Care Improvement Task Force are expected not only to provide a basis for state legislation in 1998 but to influence reform at the national level as well.

"The recommendations taken as a whole could make a significant difference and should help to restore the public's trust in their health care system," said Enthoven, the Marriner S. Eccles Professor of Public and Private Management.

Gov. Pete Wilson asked Enthoven, who is considered the "father of managed competition in health care," to lead the 30-person task force on managed health care reform. The group began meetings and public hearings in April 1997.

One of the most anticipated recommendations concerned ongoing oversight. Currently, health maintenance organizations (HMOs) are regulated by the state's Department of Corporations, which was formed to oversee the securities industry. The final report recommended forming a new body with specific expertise in health issues.

Other recommendations are aimed at improving the market for consumers and ensuring a minimum level of quality of care as well as making competition among health plans fairer.

A separate report on academic medical centers did not make recommendations but pointed to the shortage of financial data necessary to assess the economic impact of managed care on medical training and research in the state's nine academic medical centers, including Stanford. The centers were concerned that demands by government, employers and consumers to slow growth in spending could threaten their missions and traditional use of cross-subsidies. The report's authors conclude that the centers were "financially stable, at least through 1994," but caution that more recent data, if available, could show a different picture.

Some of the highlights of the main report:

- Health plans and medical groups would be required to provide continuity with health care practitioners through a course of treatment, up to a maximum of 90 days, or safe transfer of the patient.
- The state agency that regulates health plans could require specific reporting elements so that medical outcomes for particular conditions could be compared.
- Health plans, medical groups or individual providers would, upon request by a patient, disclose the specific method by which they are compensated for the care of that patient.
- Patients could not be forced to change drugs for an ongoing condition.
- Patients could receive standing referrals to specialists for chronic conditions or for a complete course of treatment.
- Doctors would no longer have to ask permission in advance from a health plan before providing treatment.
- Large health care purchasers in the state would begin adjusting payments to health plans to compensate those that enroll the sickest patients.

*Standards for dispute resolution processes across health plans would be made consistent and patients who complain would receive full explanations for decisions no matter what plans they join. For serious problems, the task force recommended review of complaints by expert, independent third parties.

The task force considered but declined to support a recommendation to expand tort liability of HMOs contributing to medical decisions in the state. Federal law currently exempts HMOs serving self-insured employers from being sued. SR

The report can be seen in its entirety on the World Wide Web at http://www.chipp.cahwnet.gov/mctf/front.htm. The report on academic medical centers can be seen at http://www.chipp.ca.gov/mctf/backgrnd/ACADEMIC.pdf.m

People danced in the streets, embraced strangers, pulled off a few headscarves—all of it behavior forbidden by the Islamic authorities. The soccer team hadn't made a good showing since before the revolution, and now the radio played patriotic marches from pre-1979 days. To top it all off, the team's winning coach, Valdeir Vieira, was a Brazilian infidel. His predecessor's public shows of religiosity pleased the leadership, but he couldn't win a game and was fired in the face of public outrage.

After the Australia game, Khatami immediately congratulated the team. The religious leadership did so, too—but no one could help noticing how, at Friday prayers with the big shots, all the team members were clean-shaven, and all the religious leaders wore beards. Most amazing of all: in its second match on June 21, Iran will face the United States. Iranians can hardly believe their luck. The Chinese had ping-pong, Iranians have soccer. Mustn't diplomacy follow?

Maybe. A rapprochement with the United States would be symbolic of what Iran's youthful population yearns for: a reconciliation with modernity. Thus, all of Iran's factions recognize that whoever makes the first move in that direction will immediately become the darling of the people. Wedded to their own tired, unpopular mantras of "Death to America," Khatami's rivals want to deny him that triumph, and it appears they'll do anything they can to get their way.

CARROLL R. BOGERT was a foreign correspondent with *Newsweek* for twelve years.

Is Clintoncare really back?

REFORM PLACEBO

By Jonathan Chait

Ever since President Clinton's health care reform met its untimely demise in 1994, conventional wisdom has held that the plan was a victim of its own excessive ambition. The thinking was that if only Clinton had sought from the outset to achieve universal coverage through small, incremental steps, instead of trying for universal coverage all at once in a fit of hubristic Rodhamism, the reform effort would have succeeded.

Since then, members of both parties, including the president, have acted upon this view, slowly putting into place a new regime of bite-sized health care reforms. In the summer of 1996, Republican Senator Nancy Kassebaum of Kansas joined with Democratic Senator Ted Kennedy of Massachusetts to propose a bill guaranteeing that people who switched or lost their jobs could buy insurance. After Clinton endorsed the Kassebaum-Kennedy bill, it eventually passed the Senate unanimously. Last spring, Kennedy teamed up with another Senate Republican, Orrin Hatch of Utah, to demand health coverage grants for uninsured children. Clinton successfully included such a measure in last summer's bipartisan budget bill. Since then, he has proposed a "bill of rights," setting federal standards for the treatment of patients by health plans, such as the guarantee of emergency room care. And he is reportedly considering a new program to help the "near elderly"—those between the ages of 54 and 65—obtain medical coverage.

These incremental measures, both proponents and foes agree, essentially amount to the Clinton Plan chopped up into digestible nuggets. "If what I tried before won't work, maybe we can do it another way," said Clinton in a speech last fall. "That's what we've tried to do, a step at a time, until we eventually finish this." The congressional Republican leadership is fighting these reforms for the very same reason Clinton supports them. "It is clear that these initiatives are a Trojan horse for implementing the once-defeated Clinton plan," Senate Majority Leader Trent Lott and Majority Whip Don Nickles wrote in a memo to fellow congressmen. Conservatives hope to kill the new reforms by associating them with the old reforms. HMO lobbyist Karen Ignagni told *The New York Times*: "It's beginning to feel a lot like 1993."

But it's not like 1993, at least politically, in that this time it's the Republicans—not Clinton—who are getting flogged. Kassebaum-Kennedy and kiddiecare eventually sailed through virtually without public opposition, and Clinton's bill of rights is registering Mother Teresa-like approval levels in opinion polls. The few naysayers—insurance lobbies and their conservative allies in Congress—have been stymied by massive Republican defections. Some of the most stringent new HMO regulations, in fact, are sponsored by Republican Representative Charlie Norwood of Georgia and Senator Al D'Amato of New York. "Once these bills hit the floor, it's real hard to oppose them," Bill Gradison, president of the Health Insurance Association of America, conceded to *Congressional Quarterly*.

There's a good reason for this shift. Incremental reform is not politically equivalent to sweeping health care reform because it is not substantively equivalent to it, either. Incrementalism doesn't seek to change the perverse incentives of the current market-driven system, nor does it address the issue of health care costs. This is, of course, part of the reason why it's so popular. It's also why, as a matter of policy, it will likely disappoint.

To understand this paradox, step back for a moment and consider the rationale for health care reform. The main flaws with the current system revolve around the fact that it is voluntary. Employers can choose whether or not to cover their workers; individuals can choose whether or not to buy insurance. This lets people game the system: healthy people choose to forego insurance coverage until they become sick, while insurance companies do the same thing right back by trying to exclude

high-risk cases and cover only low-risk ones.

Since voluntarism is what ails the system, the heart of any systematic solution ought to be compulsion. But compulsion creates losers—it forces companies to pay for their employees' health care, or people to buy their own insurance. Incrementalism avoids this unpleasantness. It doesn't require that any employer pay for health care, and it doesn't force anyone into an insurance pool. No wonder incrementalism appeals so much to politicians.

Except that expanding coverage in this fashion isn't quite as easy it sounds. Consider the Kassebaum-Kennedy law, which was designed to help prevent insurance companies from denying coverage to people with a high risk of getting sick, a practice known as skimming. Kassebaum-Kennedy didn't attack all skimming. Rather, it focused on a particular kind of skimming, in which people who have insurance change their jobs and are subsequently denied coverage, typically because of a preexisting health condition. The law required insurance companies to offer coverage to anybody who had previously been insured, which most people consider fair.

But the law didn't require insurance companies to offer job-switchers coverage *at the same rates* they previously paid. So while somebody with a chronic condition like diabetes won't lose coverage if he switches jobs, chances are he'll have to pay a lot more for it—quite possibly more than he can afford. Kennedy-Kassebaum could have prohibited such price discrimination, of course, but that would have created other problems. Since it costs more to insure the sick than it does to insure the healthy, the insurance companies would have had to pass on increases to everyone—which, in turn, would have caused more healthy people to drop out of the plans completely.

This trade-off is inescapable without a universal system. Insuring more sick people, which may be a good idea, means insuring fewer healthy people. Forbidding insurers to choose whether or not to offer coverage while still allowing individuals to choose whether or not to buy insurance inherently creates these kinds of perversities and instabilities.

Another problem with incrementalism arises when the government tries to cover an uninsured population in a system in which employers can decide whether or not to insure their workers. Take, for instance, the child health care law—kiddiecare—which offered federal grants to states to cover uninsured children. The rationale is straightforward. Children in very-low-income families get insurance through Medicaid, while those in higher-income families generally receive coverage from their parents' employers. Kiddiecare aims to cover the kids in between. A state could insure kids in families that earn, say, up to two or three times the poverty level—where you're likely to find parents working in part-time and low-paying jobs that typically don't offer health insurance.

Again, that's a fine idea. But, inevitably, even at lower income levels, you'll be offering insurance to at least some families who already get it through their jobs. This will create a perverse incentive to the good employers—who now offer coverage—to stop doing so. Why should they pay, after all, if the taxpayers will pick up the tab instead?

This phenomenon is called the crowding-out effect, and it neatly illustrates the limits of incrementalism. Partial coverage can work with populations that don't have insurance on their own—the elderly and the extreme poor, for example. But the more the government steps in with other groups, the more the private sector steps back. It is impossible to design a system in which the private sector decides whom to insure and the government insures everybody else. This is why Clinton's goal—universal coverage through incremental steps—cannot happen. In order to achieve universal coverage, either all businesses must be forced to cover their employees (which is what made his 1993 plan politically unpassable), or the government must cover everybody.

So what's wrong with the government covering everybody? Absolutely nothing, if—and only if—it's part of an overhaul of the entire health care system. Simply extending coverage to one group at a time—children, the near-elderly—until the state is paying for everybody isn't the same thing as a systematic overhaul. Achieving universal coverage by incrementally layering new programs would be prohibitively expensive. "The more steps you put into a system," observes Joe White, a health care specialist at the Twentieth Century Fund, "the more money sloshes away in administration and intergovernmental fights."

That kind of inefficiency might sound like nothing more than an annoying side-effect until you consider the original reasons for overhauling the health care system in the first place. Remember, the problem with our system is not just that millions go without insurance. We also have the costliest health care in the world. The point of systematic overhaul was to cover everybody *and* save money. That's why reformers in 1993 explicitly rejected incrementalism, which simply reinforces the irrationalities of the status quo.

Cost control, then, represents the most dramatic difference between health care reform four years ago and health care reform today. Clinton's 1994 plan was an effort to restrain health care spending by harnessing market forces. Incrementalism is an effort to restrain the market forces themselves. It is in this way, ironically, what Clinton is doing now is actually more liberal than what he was doing then.

And that's exactly why it's so politically successful. The public didn't turn against the Clinton plan because it imposed regulations on insurance companies or because it instituted an employer mandate. What the public feared—what Harry and Louise said they feared—was being herded into managed care. Business and insurance lobbies cultivated and preyed upon this anxiety to kill reform in 1994; now Clinton has coopted this same fear and turned it against his old enemies. Somewhere, Hillary Rodham Clinton and Ira Magaziner must be enjoying the joke. •

THE WHITE HOUSE

May 27, 1997

Hon. Pat Williams
Senior Fellow
Center for the Rocky Mountain West
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Milwaukee Station, 2nd Floor
Missoula, Montana 59812-1205

Dear Pat:

Thank you for your letter and all the news from "big sky country". I am glad to know that you and Carol are enjoying this new chapter in your life.

When you are ready to begin your radio commentaries, please feel free to call me or Jennifer Klein of my staff at (202) 456-2369 to discuss health care reform. She was with us when it all began and will be a great resource. I will pass along your regards to Melanne and hope you will do the same with Carol. I hope there will be an opportunity to get back to Montana in the not too distant future.

With warm regards, I remain

Sincerely yours,

Hillary

Hillary Rodham Clinton

cc: Jennifer Klein

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3/97

Dear Hillary,

Carol & I are home in Montana after 18 years of Congress & peace links. We are like kids in a candy store, although all transitions, as you learned, are difficult.

As I briefly mentioned to you when we last visited in Yellowstone —

I'm teaching at the University of Montana.

Additionally, I'm with the U affiliated Center for the Rocky Mountain West, doing an occasional newspaper column, and on the verge of beginning those radio commentaries I mentioned to you.

In that light, I'd sure like to be commenting about Health Care Reform: how we were right the first time (!) & what

remains to be accomplished- particularly during the Presidents' second term (any thoughts or material?)

Carol joins me in best wishes & God speed.

Please pass along our regards to Melanne.

With high regards,

Pat Williams