

Observations on CBO's scoring of health proposals

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Two parts to health reform

Cover people

Generally ok, but...

1. Relied on MA experience, and MA experience was not what economic models predicted

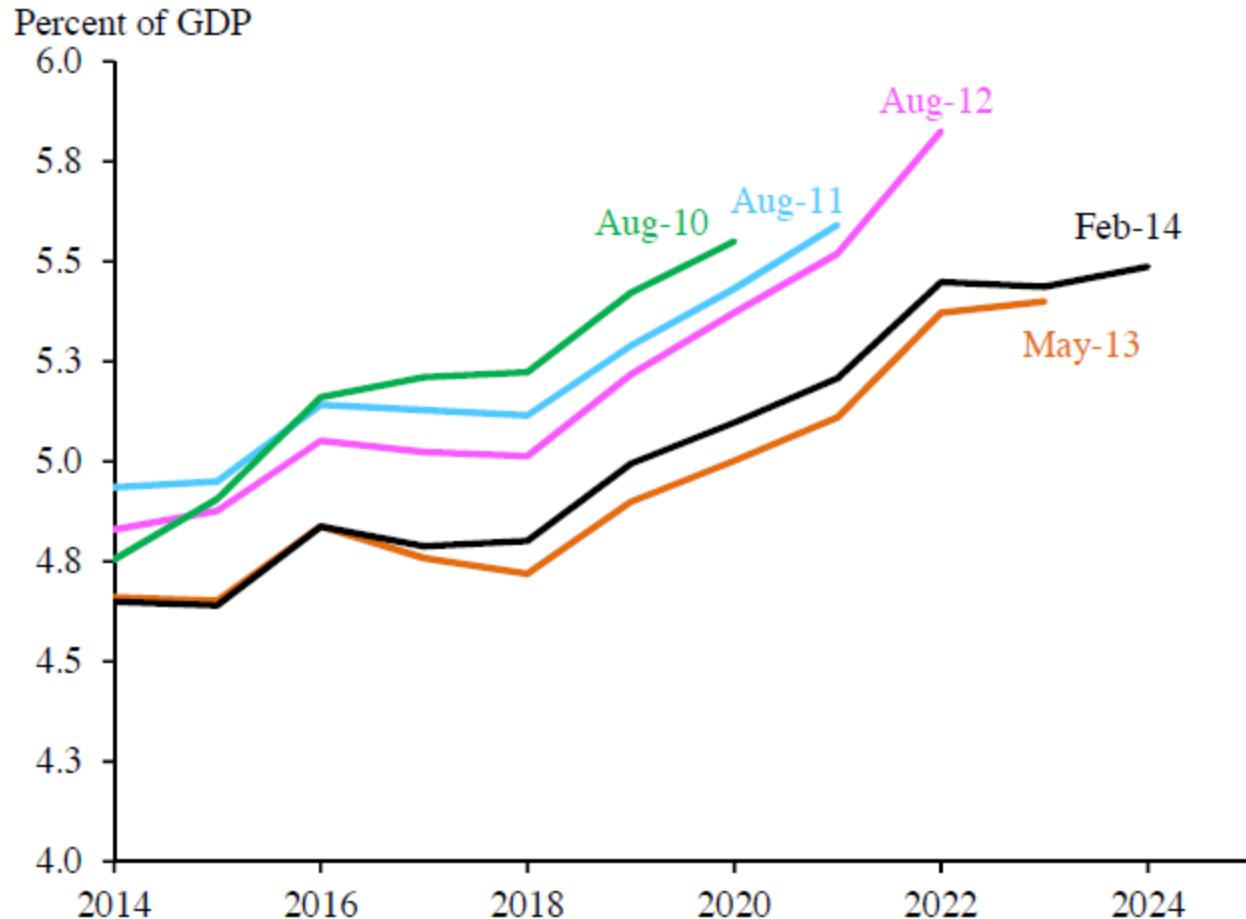
Reform health care delivery

CBO was off

1. Slow cost growth – Medicare is the big outlier
2. Obvious efficiencies – readmissions; errors
3. Overestimate of premiums

Why did CBO miss this?

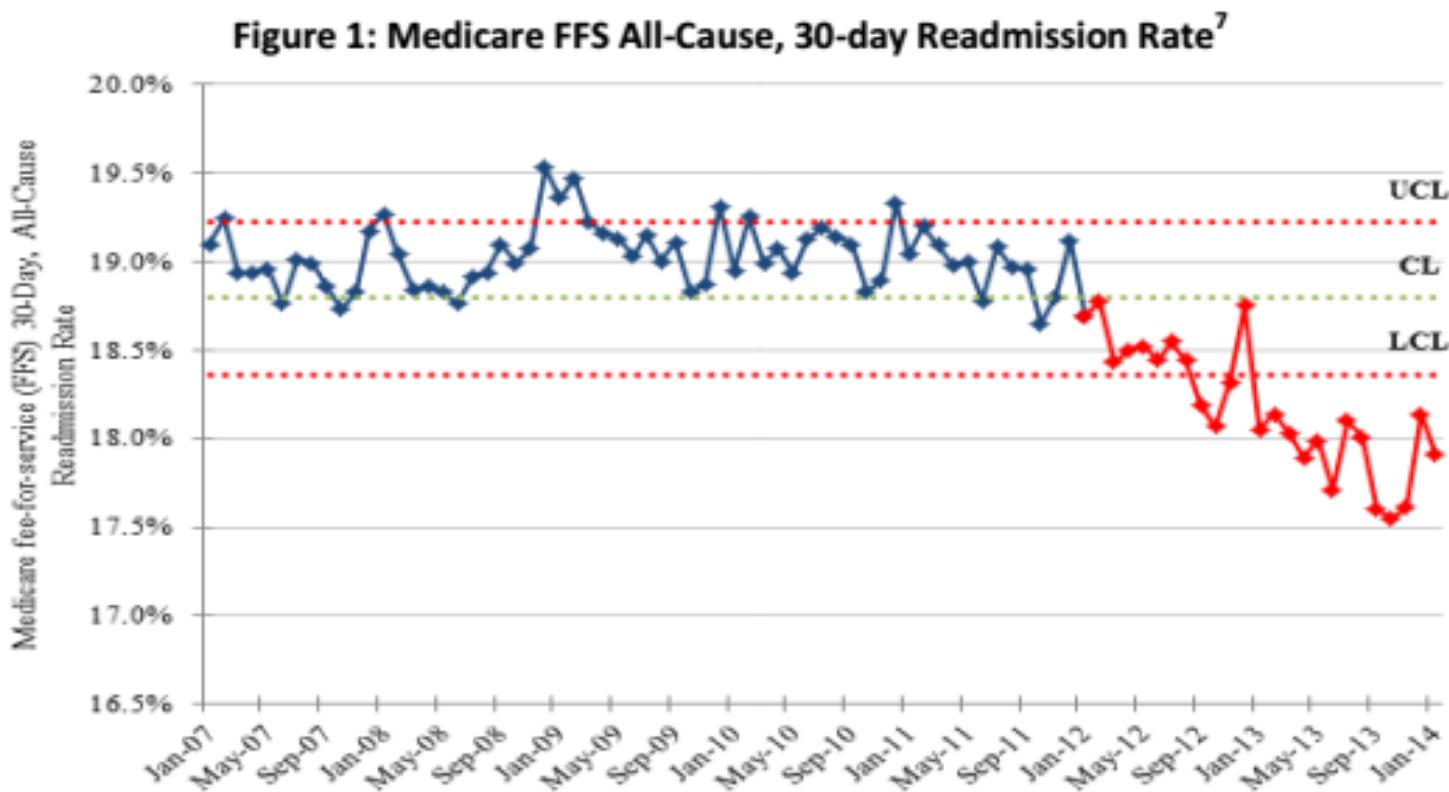
Figure 4-6
Recent CBO Projections of Medicare and Medicaid Outlays



Notes: Medicare outlays reflect spending net of offsetting receipts. Medicaid spending reflects Federal spending only.

Sources: Congressional Budget Office, Budget and Economic Outlook; CEA calculations.

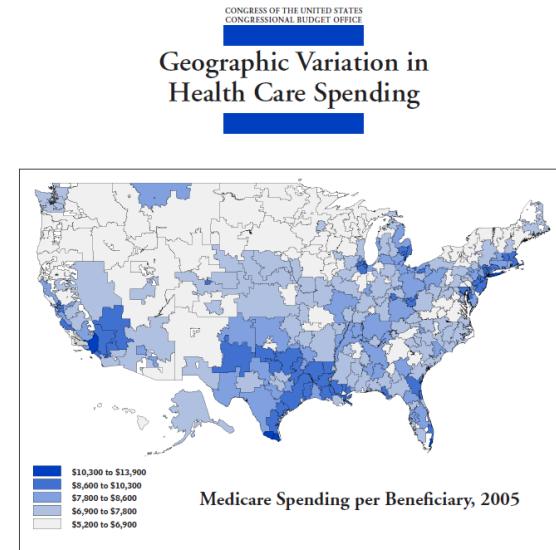
Why were people surprised?



Explanation 1: CBO doesn't pick up the gray area of literature

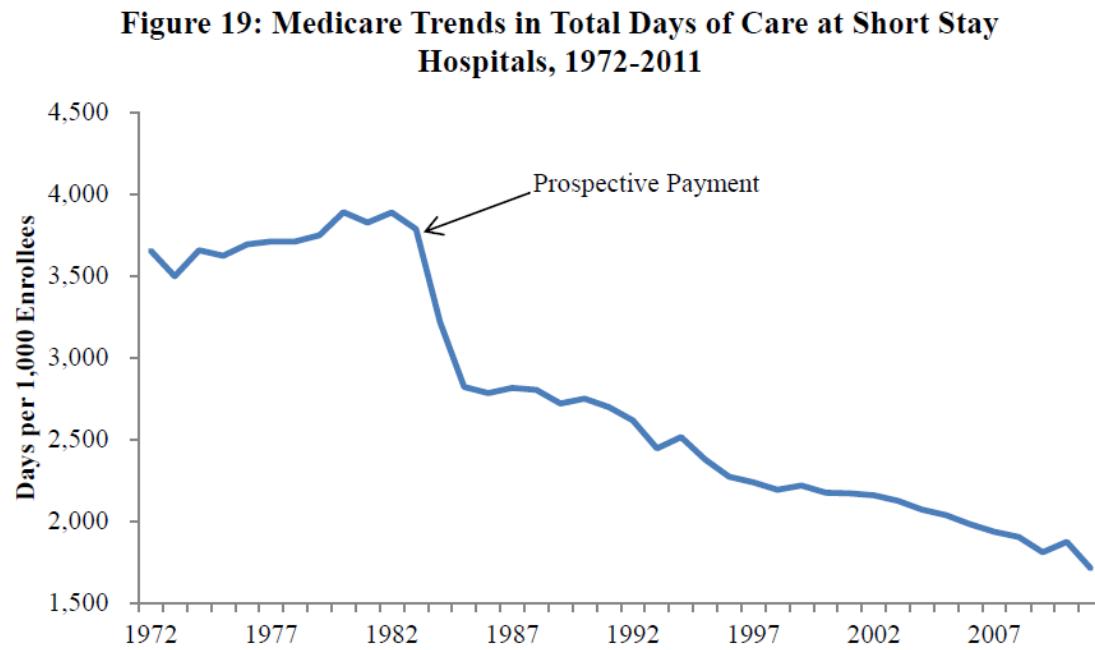
I don't think this is right.

- 2008 report picks up much of this.
- “The evidence suggests that efficiency gains in the health system are possible: spending in high spending regions could be reduced without producing worse outcomes, on average, or reductions in the quality of care.”



Explanation 2: CBO needs more health economics

1. The most important thing that health economics has learned in the past decade is that supply elasticities are really big.
 - Payment matters a lot.



Explanation 3: CBO doesn't understand firms

- 2009 Letter to Conrad
 - Good detail is on health promotion / disease prevention
 - No detail on efficiency measures



CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

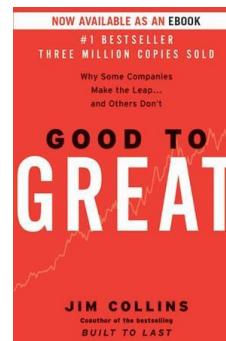
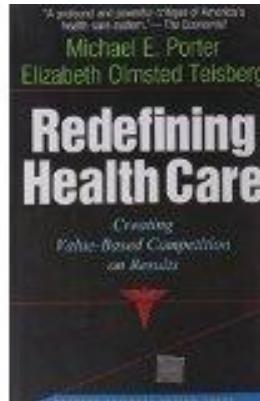
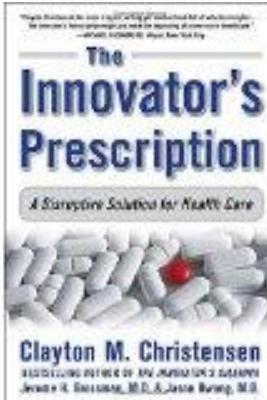
Douglas W. Elmendorf, Director

June 16, 2009

Honorable Kent Conrad
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510

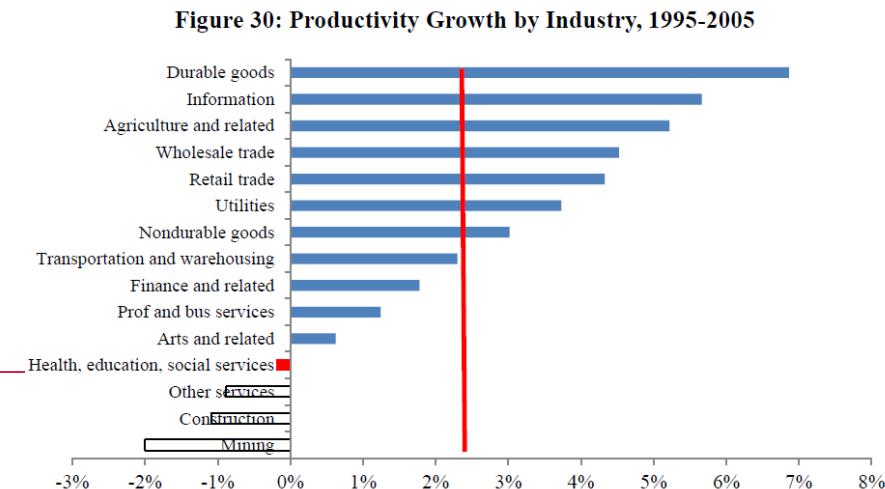
Dear Mr. Chairman:

Works never mentioned in CBO documents



Market interventions are not like pills

- There is not a single effect averaging over cases that respond and not. Rather, there are processes, and firms learn how to take advantage of process improvements (Wal-Mart changed all of retailing)
- The best performers may be the guide to what is feasible.
- Effects growth over time.



Explanation 4: Don't be the bearer of bad news

- The consequence of more favorable revisions is small.
- The consequence of unfavorable revisions is that CBO gets yelled at.
- If a program doesn't get enacted because of it, well... there is always later.

Examples

- Rick Foster as the goat/hero



- CBO and OACT ignored warnings that their Pharma estimates were too high

Prescription Drug Spending Trends In The United States: Looking Beyond The Turning Point

The drug spending trends observed in the 1980s, 1990s, and the first few years of this decade have changed dramatically in the past five years—bringing both opportunity and threat.

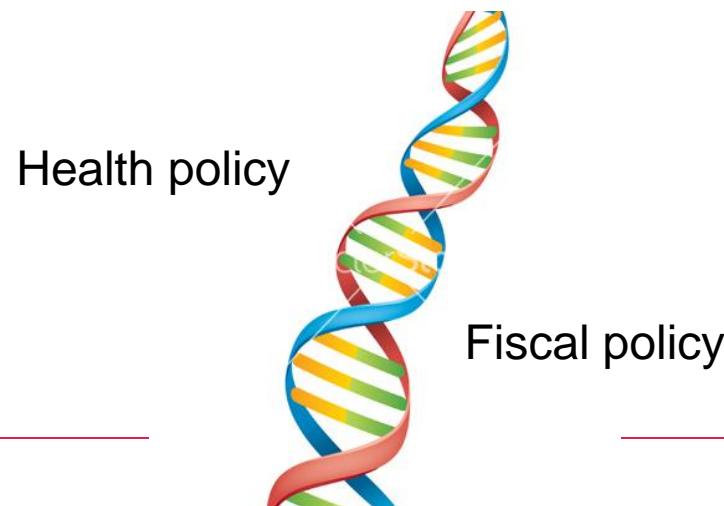
by Murray Aitken, Ernst R. Berndt, and David M. Cutler

Explanation 5: The CBO is a Very Serious Person

- By 2009, VSP were concerned about the deficit.
- CBO argument (2009, ltr to Conrad):
 - Yes, there are savings to be had
 - But, they require hard work.
 - We don't trust Congress to do the hard work (SGR).
 - The spending is sure to occur.

Explanation 5: The CBO is a Very Serious Person

- Therefore:
 - Our score will be bad.
 - Really, you should get savings first, then expand coverage.



Some observations

- This is not what CBO is supposed to do.
- It is wrong as a matter of political economy: governments save more money when they are more involved in health coverage, not less.

Spending controls lag coverage

