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Public Sector Reports

Michigan **COMMENTARY**

Governor Engler and Health Care Reform in Michigan

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A NARROW VISION OF HEALTH CARE REFORM

Perhaps because of the interminable battles over medical liability reform and no-fault automobile insurance reform, Michigan government's health policy leaders have not embarked on comprehensive health care reform, as states such as Florida, Minnesota, and Vermont have. In the last legislative session, before Bill Clinton was a force in national electoral politics, Senate Republicans introduced and passed their "Affordable Health Care Plan," which included medical liability reform, pilot projects for certain physician specialists willing to follow practice guidelines, and a low-cost limited benefits policy for small businesses and their employees with tax credits as incentives to purchase the policy. The House would have little to do with this package, in whole or in part, and it died. For their part, the House Democrats introduced a single-payer universal health insurance plan that did not even emerge from committee.

Gridlock may have its virtues. The single-payer proposal was doomed from the outset and the Senate package, if passed, would have addressed only a small fraction of our health care problems while appearing to do something meaningful for the one million persons in Michigan without health insurance. It would not have.

ENGLER MAKES HIS VIEWS CLEAR

No one, including Governor Engler, is talking about low-cost limited benefits packages anymore. The governor sent a lengthy letter to Hillary Rodham Clinton on the eve of her visit to Dearborn. This was his first public expression of his views on current health care reform proposals.

Engler has come down firmly in support of managed competition, at least as it has been articulated by Alain Enthoven. Universal access is a "moral imperative," the governor explains in the letter, and the insurance industry must be consolidated to reduce administrative costs. Engler is high on integrated regional health care systems, which should not startle many, as his senior policy advisor Dennis Schornack has stated publicly that the state will look seriously at defining and licensing such systems, perhaps even giving them some relief from antitrust and certificate of need regulations.

Engler's preference for universal access and the acknowledgement that the insurance industry is not meeting the health care needs of the populace suggest that he has left the camp of Bush-style health care reform (incremental steps with incentives, not mandates) for a version of the Clinton rapprochement between conservatives and liberals. (It must be noted that Bush did favor small market insurance reform to make it easier for small businesses to obtain and keep insurance at reasonable rates.) When Engler, a conservative, calls universal access a moral imperative, he surely risks provoking the ire of many small businesses who can see only extraordinary financial hardship in a mandate to cover their employees.

One can argue, however, that Engler recognizes that the public's demand for universal access—revealed in poll after poll and forum after forum—has made the hardship of small businesses less important. There *has* been a remarkable shift in the reform debate, in Washington and in Michigan: Just about everyone believes in mandatory universal access, and the old arguments about many small businesses' inability to cover their employees are no longer audible. When I asked Alain Enthoven if he had been criticized by small business organizations, he answered flatly: "Yes. And I tell them that there can no longer be any free riders

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in the health care system. Other businesses are paying for their [small businesses that don't offer health insurance] employees' health care and that is unfair." While Engler may not agree with this blunt assessment, he probably understands that many people do.

The governor's letter to Hillary Rodham Clinton makes it clear that, for him, "competition" is more important than "managed," and this is hardly surprising. He strongly opposes global budgets and price controls, believing (as does Enthoven) that such measures will be unnecessary to control costs once true competition among health systems has been established. Still, Engler will have to wrestle with shaping a regulatory framework that simultaneously encourages fair competition and promotes needed consolidation of the health care system. How will competition work in rural areas? How does the state promote antitrust relief so that hospitals can merge without creating behemoths that will drive out all competition in a region? These are not unanswerable questions, but they challenge the balance between regulation and the "free" market that is the hallmark of managed competition.

MEDICAID: ENGLER TIPS HIS HAND

It is difficult to state unequivocally that Governor Engler has changed his stand on health care reform, as he has never made any public statement on managed competition before last week. Given his ideological bent, however, observers can be surprised that he has embraced some aspects of managed competition. But maybe it was not such a surprise given the proposal in his FY 1994 executive budget to extend Medicaid coverage to children under the age of 15 living in households with annual incomes below 150 percent of the poverty level. This expansion comes at a time when states, including Michigan, are reeling under huge annual increases in Medicaid spending. The amazing fact is that this expansion of Medicaid will cost the state only $24.4 million. And providers will not have to suffer through battles over cuts in reimbursement, as they have in the past. For the moment, at least, Medicaid may be as free of controversy as it has been in years. Now that Engler seems to have weathered the storm surrounding the termination of General Assistance—every now and then there is a day of outrage followed by months of silence—he has begun building programs that almost everyone can like.

The stability of Medicaid exists in large part because Department of Management and Budget analyst Paul Reinhart's shrewd sleight-of-hand (that is, he found a loophole in a new federal law) allows the state to recoup even more money from the feds than it lost when they halted the hospital voluntary contribution program.

ENGLER AND CLINTON

Strange as it may seem, there are reasons to predict that the health care views of President Clinton and Governor Engler would converge. They share a governor's perspective on the burden that Medicaid places on state budgets and a belief that managed care is a promising avenue for controlling costs without sacrificing quality. (Certainly Medicaid's expansion of managed care has been aggressive under Engler, Jerry Miller, and Vern Smith.) We know that Clinton is a moderate, and many political pundits figured Engler for a consensus builder before he took office and hewed the ideological straight and narrow. Now, the consensus builder emerges, which will come in handy when the states have to go about the business of implementing Clinton's health care reform later this year or early next year.