Confessions of a Corporate Insider: Why Big Business Opposes Market-Based Medical Care

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In 1955, the president of General Motors, Charles Wilson, made this famous remark at a Senate hearing: "What's good for the country is good for General Motors, and vice versa."

Now, 51 years later, what's good for General Motors is not good for the country. That's because what's good for GM in the short term is to offload its pension liabilities on the public and to nationalize its medical costs. If national health care were enacted tomorrow, there is no doubt that GM executives would be dancing on their desks in Detroit.

It would be better for the country if GM's employees were responsible for their own retirement and medical care. But that would require rescinding thousands of pages of the tax code and such laws as ERISA. Before that happens, GM will be bankrupt or bought out by another company.

Modern Mercantilism

Many large American companies now embrace a modern form of mercantilism. Mercantilism, which came to predominance in Europe near the end of feudalism, was an economic system in which the government regulated the economy and foreign trade with the objective of limiting imports and maximizing exports. This benefited rent seekers—those who use the government to restrict free trade and competition in order to gain a monopolistic advantage. Mercantilism was based on the belief that economic competition is a zero-sum game.

Thanks to Adam Smith and other classical economists, mercantilism was supplanted in America by free markets. Today, about half of the economy is regulated by the government, so in that sense, we are half mercantilist.

As a result, many companies are dependent on the government for their existence and use government regulations to gain a competitive advantage over smaller upstarts. Accordingly, they spend a lot of time and money paying homage to their overlords in Washington. At the same time, a large number of corporate employees have become de facto agents of the government.

I was one of them.

Enlightenment Strikes

Like physicians who walk away from Medicare money because they can no longer endure being an agent of the government, I walked away from a lucrative corporate career more than 10 years ago, for the same reason.

Unfortunately, many of my former peers not only tolerate being government agents, but also relish the big salaries they make as *apparatchiks* who interpret and enforce government regulations in the workplace.

Unlike physicians, my expertise is not in fixing people; it is in fixing organizations. I know how to make organizations more efficient, more productive, more competitive, and more motivating places to work.

As the years went on during my corporate career, I found myself doing less of what I enjoyed and was skilled at doing, and doing more things that I disliked and that required little intelligence—namely, administering government-mandated paperwork and complying with government regulations, especially with respect to medical insurance.

To physicians, the story should sound familiar.

The last straw came in the form of a phone call from the president of one of the 10 business units of the large corporation where I was a vice-president overseeing human resources, employee benefits, employee safety, and other functions. The call was typical of how I spent much of my day.

The division president called to complain about how medical costs were devouring his profits and making his division uncompetitive. I explained what I had done and was planning to do to reduce the costs: such as analyzing claims data to see where most of the money was being spent, eliminating certain covered procedures, increasing co-pays and deductibles, requiring employees to pay more of the premium, requiring second opinions and peer reviews, and shifting to managed care—all in a way that wouldn't trigger a union-organizing attempt.

Of course, all of those Band-Aids wouldn't overcome the fatal flaw in employer-provided insurance—namely, that it leads employees to believe that they are spending other people's money, thus making them insensitive to cost.

As if to prove the point, the division president called me back a week later, once again wanting to talk about the medical plan. This time, however, he was angry that his wife's $200 insurance claim for cosmetic surgery had been rejected. I explained that cosmetic surgery wasn't covered by the insurance plan, but that if he felt so strongly about the matter, I would take his request to the benefits review committee, where I knew it would be rejected.

Being a corporate politician, I didn't say what I wanted to say. I wanted to ask him whether he suffered from cognitive dissonance and didn't realize that he was holding two conflicting beliefs: one, that medical costs were killing his division and should be reduced; and two, that he shouldn't pay for his wife's cosmetic surgery out of his own pocket, although he earned a quarter of a million dollars a year. I wanted to tell him that psychiatric disorders were covered by the medical plan.

Years later, after I had published my management book and started my consulting business, I had a similar experience when I made a keynote address to the chief executive officers of large manufacturing companies at an industry conference. The theme of my talk was that it was a lose-lose for employers to continue being third-party providers of medical insurance, and that they needed to lobby Congress to jump-start a true consumer market in medical insurance and medical care.

One of the CEOs jumped out of his chair, and with his face turning red, pointed his finger at me and said, "I had triple bypass surgery last year and didn't have to pay a dime. You're not taking my company medical insurance from me."

I feared that the man might have a heart attack.

But I digress. Let me go back to the last phone call with the division president years earlier.

After that phone call, I began asking myself questions I had never asked before: Why is it any of my business if someone's wife has cosmetic surgery? Why should I know which employees have AIDS or some other disease? Why am I coming between employees and their physicians? Why should someone like me, who knows nothing about medicine, dictate what doctors can and can't do? And why do employers provide medical insurance when they don't provide auto and homeowner's insurance to their employees?

Why the Resistance to Change?

My slowness in asking obvious questions about company-provided medical insurance shows how people's thinking is molded by the status quo. Employers have always provided medical insurance, so why question the arrangement?

Of course, as I found out, employers provide medical insurance only because of a shortsighted government policy during the Second World War, a policy that killed a consumer market in medical insurance and medical care. Later, a stake was driven through the heart of the dead consumer market with Medicare, thus ensuring that the market could never be fully resurrected.

Corporate executives in high tax brackets benefit the most from getting employer-provided medical insurance with pre-tax dollars. But millions of lower-paid rent seekers also benefit from employer-provided medical insurance, including employee benefits managers and administrators, benefit consultants, tax consultants, actuaries, ERISA attorneys, producers of record-keeping software, and publishers of benefit forms and booklets.

Many of these rent seekers are Republicans who rail against big government. But in the privacy of the voting booth, they would never vote to give up their regulatory rice bowl, which keeps them in Gucci loafers and Lexus automobiles. Many others are Democrats who bemoan the plight of the uninsured and deplore the growing wage gap. But in the privacy of the voting booth, they would never vote to give up their regulatory rice bowl, which drives up the cost of medical insurance and lowers wages by substituting medical insurance for wages.

They remind me of what Euripides said in 413 B.C.: "Often a noble face hides filthy ways."

One of my *Wall Street Journal* articles, "The Case Against Employee Benefits," published in 1997, gave statistics on the shift from cash compensation to benefits, especially medical insurance. Here's an excerpt:

> From 1971 to 1991, the cost of medical care rose almost 70% faster than inflation…. [As a result] the cost of all fringe benefits has soared to 40% of total compensation, compared with 17% in 1955. Corporations spend almost 12% of total revenues on employee benefits, vs. 4.4% in the 1950s. The average employee's benefit program (including payroll taxes) costs just under $15,000.

The article went on to explain how medical benefits corrupt the employer-employee relationship:

> Company-sponsored medical insurance creates a paternalistic relationship. The employer plays the role of the munificent parent, who protects the employee-child from the vagaries of life—a role at odds with the economic decisions of running a business. It also gives employers reasons to intrude on the most personal aspects of their employees' lives, from a family's medical history to a worker's sexual orientation (in the case of domestic partner coverage).
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> Once involved with such personal matters, it seems perfectly natural for employers to devote precious time and energy to matters of health and lifestyle, by offering smoking cessation programs, stress reduction classes, cholesterol screenings, health awareness lectures and newsletters about diet and nutrition. But whatever goodwill such nannyism might generate, it evaporates as soon as the employer increases premiums, switches managed care networks or denies a claim.

The reaction to that article and to a companion piece I had written two years earlier was telling.

After the earlier piece, I was lambasted by the president of the Society for Human Resources Management, a professional association with nearly 150,000 members, most of whom are de facto agents of the government in the administration of medical insurance regulations and other employment regulations.

After the later piece, only one company contacted me to express agreement with what I had written and to share ideas. Think of that: The *Wall Street Journal* has a paid circulation of about one million and a total readership of probably two million, but only one company liked the article enough to contact me.

That company was perhaps the most vilified company in America, and one that has a well-designed medical plan that insures more employees than probably any company in the country.

Yes, that company was Wal-Mart. Now, even Wal-Mart has begun to pay homage to Washington, and has hugely increased its spending on public relations, including with the government.

Coziness between big business and big government is hardly new. For example, in 1917, under President Woodrow Wilson, a coalition of business and government executives formed the War Industries Board and began to take control of the economy. President Franklin Delano Roosevelt tightened the control during World War II, instituting the wage and price controls in 1942 that led to employer-provided medical insurance.

A year later, in 1943, the man most responsible for big government came up with the idea that would forever transform the nation into a kleptocracy. Without him, the 16^{th} Amendment would be toothless.

This man was Federal Reserve Chairman Beardsley Ruml. As former treasurer of Macy's, Ruml was familiar with the retail practice of installment payments. He applied this practice to income taxes, thus giving birth to withholding—the immoral policy of confiscating workers' wages before they can even receive them.

In 1943, a Gallup poll showed that only 5 million of the 34 million people subject to higher wartime income taxes were saving to make their annual tax payment on March 15, which was then the income tax filing date. Treasury Secretary Henry Morgenthau asked how the government was going to arrest millions of people for nonpayment of taxes. Ruml's idea turned every employer into a tax-collection agency.

When I'm asked to suggest one change that would frighten the political class more than anything else, and return the country to its constitutional roots of limited government, my answer is to rescind Beardsley Ruml's withholding and go back to the pre-1943 system of Americans writing a check for their income taxes. It should be easy to sell the idea to the public. After all, it's only fair that Americans pocket their earnings before the government takes them.

No doubt big business would fight the change, including companies that are touted as great places to work. Imagine that. Employers who say they care about their employees would side with the government in confiscating workers' wages.

That's no surprise if you look at the kinds of foundations supported by large companies. The August edition of *Foundation Watch* analyzed contributions to nonprofit foundations by Fortune 100 companies. It found that donations to left-leaning foundations outstripped those to right-leaning ones by a ratio of 5.8 to 1.

To summarize, it's not so much that big businesses actively oppose market-based health care, as it is that relatively few companies will endorse it, for four reasons:

1. Executives like the favorable tax treatment of their employer-provided insurance.
2. Many lower-level employees want to keep their regulatory rice bowl.
3. Companies want to be seen as "progressive" employers.
4. Companies don't want to upset their government handlers.

This doesn't mean that AAPS should stop trying to influence business. Rather, it suggests that physicians will have better success trying to influence small business than big business.

A Parthian Shot

In conclusion, let me tell you how the story about the division president ended. One of my last acts before resigning from the company was to get the board of directors to approve a policy of neutralizing the favorable tax treatment that high-paid executives received for their medical insurance. The policy required them to pay higher premiums than lower-paid employees, or I should say, the same out-of-pocket cost as lower-paid employees.

I would have preferred doing away with the income tax code entirely, but my little act of sabotage was a fitting end to my career as a government agent—and a fitting payback to one of the rent-seeking beneficiaries of the system that has destroyed the American medical market.

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