TORRS, Conn. — Surrounding last week's Congressional debate over Medicare was a blizzard of budget figures, insurance statistics and cost projections — an illustration of how deeply and confusingly intertwined economics and medicine have become. However, economic measures can clarify the health care picture as well as cloud it. One way for Americans to judge more easily the effectiveness of the new legislation, and of our health care system as a whole, is to adapt a leading tool of political economics: the misery index.

Most people are familiar with the economic misery index, which is calculated by adding the percentage of Americans out of work to the general inflation rate. It was devised by Arthur Okun, an adviser to Jimmy Carter during the 1976 presidential election campaign, and was used to demonstrate how troubled the economy had become under President Gerald Ford. Okun felt that presenting inflation and unemployment figures separately did not give a very broad picture of the economy, because one indicator can rise while the other falls. Jointly rising unemployment and inflation, however, definitely make all people miserable.
In a similar fashion, I have compiled a misery index for health care, going back to 1960. As the measure, I took the percentage of Americans without health insurance and added to it the "excess" health care inflation rate — that is, the percentage by which annual increases in medical costs have exceeded general price inflation. As with combined inflation and unemployment, when both of these health care evils simultaneously increase, people are collectively made worse off.

In compiling the index, I got the insurance figures using past enrollment lists from the Health Insurance Association of America, figures from Medicare and Medicaid, and the Census Bureau's published data on the ranks of the uninsured (making careful adjustments to eliminate possible double-counting). Annual numbers from the Bureau of Labor Statistics supplied the figures on medical price inflation.

The resulting chart shows the fluctuations in health care misery over the last 43 years, and helps us put today's figures in historical perspective. Clearly, in the early 1960's the index was excessively high. While costs of medical care were largely contained in those days, the problem was that many poor and elderly Americans lacked health insurance (Medicaid and Medicare had yet to be enacted).

From the mid-60's through the 70's the index consistently declined, and for several reasons. In addition to the new government entitlement programs, the percentage of Americans with private insurance rose. This was largely because, as personal income tax rates increased, tax-exempt, employer-sponsored health insurance became more attractive to workers. Also, many commercial insurers that had shunned health insurance markets entered them. They were enticed by a relatively new innovation called "experience rating" — which allowed them to calculate an individualized per-person rate for a company or a small group rather than basing each person's rates on society as a whole. Experience rating allowed these companies to offer consumers lower premiums than the historically dominant carrier, Blue Cross.

The health care misery index bottomed out in 1979 at 5.6 percent. Stagflation may have cost Jimmy Carter the presidency, but it did have one useful byproduct: declining real prices for medical care at a time when a relatively small number of people lacked insurance.

Throughout the Reagan boom, however, the health care misery index rose continually. First, the costs of medical care were rising more rapidly than general price inflation. Second, private enrollment in health insurance plans declined relative to population, in part because President Ronald Reagan slashed marginal tax rates, giving employees and employers less incentive to participate in tax-exempt, employer-sponsored insurance. People began to take on themselves the risks of high medical costs. By 1986, the misery index stood at its highest level since 1969.

Since 1988 the index has become less volatile, ranging from 15 percent to 19 percent annually. The number of Americans lacking insurance has stayed at 13 percent to 16 percent, and the "excess" costs of medical care, while high in most people's estimation, have stayed stable.

What do we learn from looking at the index over time? For one thing, it explodes some myths in the current health-care debate. For example, critics of the system often imply that we were better off 40 years ago because medical spending was the equivalent of only about 5 percent of the gross domestic product, whereas today it is some 14 percent. Yes, health care has gotten more expensive, but the facts are that more people are insured today and those insured have more comprehensive coverage. Thus in 2002 the index stood at 17.9 percent, less than half of the misery observed in 1960.

Still, I think most people would agree that today's misery index is still too high, especially when compared to the late 1970's. How do we make health insurance more accessible without significantly fueling medical price inflation? I think the Bush administration proposal to offer people and families a tax credit for purchasing private health insurance appears to be a step in the right direction, as it would give a fairer shake to those without employer-sponsored insurance.

There will probably never be agreement — between Republicans and Democrats, consumers and employers, health care providers and insurers — as to the "acceptable" misery level. But at least we'll have a better informed debate if
we look at the historical big picture.

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