Letter From Pittsburgh

by Ralph R. Reiland

The War on Medicine City

The bad news for Pennsylvania's economy is that the Clinton health care plan takes direct aim at the state's two biggest employers—the health care sector and the restaurant industry. Pittsburgh's single largest private employer is the University of Pittsburgh Medical Center, a world leader in cancer research and transplant surgery with a staff of 12,000. Overall, one out of eight Pittsburgh jobs is now in health care. Pittsburgh "may always be known as Steel Town, but Medicine City would more accurately describe its economy today," said a recent *New York Times* article. It should be the Pittsburgh Medics, not the Pittsburgh Steelers. "No other metropolitan area," reported the *Times*, "has such a high proportion of health workers."

The job threat in the Clinton health care plan comes from its emphasis on preventive treatment and its shift away from expensive new medical technologies and specialties. Pittsburgh's organ transplants will take a back seat to home visits from para-nurses. And the D.C. budget-cutters aren't likely to fit Pittsburgh's hefty supply of hospital beds (about 3,000 of Pittsburgh's 10,600 hospital beds are vacant on any given night) into a health care scheme that relies heavily on outpatient care. "It's clear that the health care sector here will not be a major source of growth in the future if the Clinton plan goes through," says Judith R. Lave, a professor of health economics at the University of Pittsburgh.

With politicians running a health care system while also running for office, there's the danger that spending for a glittery new community project with a short-run bang will take political precedence over allocating funds to long-term cancer research. This politicizing of health care promises to kill jobs in the health care industry. Already, the class warfare rhetoric about medical profiteering that's coming out of the Oval Office has produced a free-fall in the stock prices of insurance companies and pharmaceutical firms and an increase in layoffs. "In all, fearful investors have yanked roughly $200 billion in equity from companies that supply drugs, medical equipment and medical insurance," reports syndicated columnist Tony Snow. "Cash strapped firms have had to fire upward of 60,000 employees and suspend research on everything from drugs that treat AIDS to optic lasers capable of killing cancer cells."

The bottom line is that a dynamic, productive health care sector is being dismantled by a President who charges drug manufacturers with extracting "profits at the expense of children." While the rest of the world is pulling away from radical egalitarianism, statism, and the failures of central control, President Clinton is calling for a National Health Care Board that would have the power to set "global budgets," price controls on insurance premiums, and guidelines for "reasonable" prescription drug prices. There's no evidence, of course, that the resulting socialized system will be any more efficient or successful than public housing, busing, welfare, government job training, public high schools, or the vast array of other well-intended government programs that have wasted billions of tax dollars and delivered primarily negative consequences.

After health care, Pennsylvania's second largest employer is the restaurant industry, with 275,000 full-time jobs and a plethora of part-timers. Here, the White House insistence on employer-provided health insurance is particularly destructive of jobs because restaurants are one of the most labor-intensive businesses in the economy. A full-time employee in a grocery store, for instance, contributes annually an average of $160,000 in sales to his company. A gas station employee contributes $259,000 in average sales, and a financial consultant brings in sales of $890,000 per year. In contrast, the average full-time restaurant employee brings in $47,000 in yearly sales.

The average pre-tax income for a table-service restaurant is 4 percent of sales. With sales of $47,000, the typical restaurant employee is producing $1,880 in annual profits, before taxes. A new 7 percent payroll tax for health premiums for a $20,000 employee would pull $1,440 out of the bottom line and destroy 77 percent of the restaurant's profits. No matter how a restaurant owner tries to cope with this, the result is increased unemployment. If menu prices are raised, business drops off and fewer employees are needed. If prices aren't raised, the government takes a bigger piece of the pie and a money squeeze produces unemployment.

In the presidential campaign, candidate Clinton said, "I will not add new taxes on small business. I know that 85 percent of the new jobs in this country are generated by small business, and I am committed to helping them prosper." Mr. Clinton was right about the key role that small business now plays in the economy. Between 1980 and 1990, *Fortune* 500 companies cut over 400,000 jobs annually, while America's small businesses created 14.8 million new jobs, or 3.6 million more jobs than were created by Japan, Canada, and Western Europe combined in those same years.

Now, while campaigning for a mandated payroll tax on employers, Mr. Clinton says that it's *higher* taxes that will help small business prosper—and that a new federal bureaucracy will hold down health costs. In Hawaii, the only state that requires employers to buy health insurance for employees, total health care spending increased by 191 percent from 1980 to 1990, compared to a national increase of 163 percent. Hawaii also led the nation in the growth rate of business bankruptcies last year, due in large part to the explosion in mandated health benefits, says Sam Slom, president of Small Business Hawaii.

In his address to the nation last September 22, President Clinton promised a health plan "that does not cripple small business and low-wage workers." According to a recent National Restaurant Association survey, 67 percent of small restaurants (sales under $500,000 annually) don't provide health insurance to their employees, and it's because they can't afford it. With average restaurant profits at 4 percent of gross, $500,000 in sales produces $20,000 in profits, before taxes. Nationwide, more than three-quarters of all eating and drinking establishments, some 525,000 businesses, have sales under $500,000.

President Clinton's Council of Economic Advisors concludes that the job losses from the administration's health care plan will be at least 600,000. That estimate hasn't killed the plan—in Congress, the losses are "acceptable," a term reminiscent of how the government reported losses in Vietnam—"only" 600,000 jobs, or perhaps 800,000. A current study by the Employment Policies Institute in Washington, D.C., puts "the job loss under the current plan at 3.1 million." Carlos Bonilla, chief economist at the institute, says: "Ironically, the Clinton health care plan may ultimately hurt those it was designed to help, the low-income wage earner."

In the case of restaurants, that figure strikes directly at Pennsylvania's second-largest employment sector. Further, the employees who will lose their jobs in restaurants because of health mandates are the people candidate Clinton promised to help—"the ones who do the work and play by the rules"—a food service workforce that's disproportionately made up of first-time job-holders, women, people who need flexible hours, students, and minorities.

Worse, we're being asked to buy a health care plan that is dangerous to our health because of the kind of jobs it destroys. Dr. M. Harvey Brenner, Professor at the Johns Hopkins University's School of Hygiene and Public Health, reported to the Joint Economic Committee, U.S. Congress, that the "typical finding is that for every one percent increase in the unemployment rate, there is a two percent increase over a 6-10 year period in the mortality rate." In short, the Clinton health care plan will take its toll in cirrhosis of the liver, heart disease, infant mortality, motor vehicle accidents, lung cancer, homicide, and suicide.

It's clearly time for a new Clinton summit on health care and economics, this time with the small business innovators and risk-takers who are carrying this economy and with the physicians and other health care professionals who have created the world's best health care system. This time let's not stack the deck with Ivy League collectivists, dreamy policy wonks, old college roommates, and all those litigious elitists who want to wrap the rest of us up in red tape.

Ralph R. Reiland is a restaurateur and an assistant professor of economics at Robert Morris College in Pittsburgh.

Letter From Sarajevo

by Borisa Starovic, M.D.

Tour in Hell

I have just escaped from 15 months in a hell that I once knew as Sarajevo. Ours is the fourth generation of my family to claim this ancient, cosmopolitan, multiethnic city as our home. My family is classified as Eastern Orthodox Christian. In the context of the present war, that makes us Serbs. I have lived most of my life under the communist regime of Josip Broz Tito. We were all called Yugoslavs. The atheistic communists did not outlaw the practice of religion; they simply discouraged it. It was not politically or socially acceptable to attend church or to observe the rites of any religion.

Sarajevo is the capital city of Bosnia-Herzegovina. Our people are either Eastern Orthodox Christian Serbs, Roman Catholic Croats, or Muslims. But the same Slavic blood flows through all our veins. Our ethnic preferences were set by our ancestors for historic reasons, usually as a condition for survival. But when the Berlin Wall was razed and the Iron Curtain collapsed, ethnic walls were raised all over Eastern Europe, and so we can no longer be known as Yugoslavs.

Our civil war has been called by many a religious war. That is not quite true. It is a war for freedom and self-determination. Our religious heritage only determines the uniform the soldiers wear. The Serbian Republic along with the Republic of Montenegro form what remains of the Federal Yugoslav Republic. Article 13 of the Serbian constitution guarantees freedom of religion, just as the United States Constitution does. All citizens are considered equal in the eyes of the state. Serbs believe in the separation of church and state. This is not so in Croatia, where only Croats (Roman Catholics) are guaranteed the full rights of citizenship. Nor is it true in Bosnia-Herzegovina, where only Muslims can hold office, hold government jobs, teach in the schools, or otherwise benefit from full citizenship. In Muslim countries the church is the state. These basic differences in the rights of minority citizens are the true root of the conflict.

This difference is worsened by the borders of our breakaway republics. The new borders, the ones the breakaways of Croatia and Bosnia-Herzegovina now claim, are not the same borders that they brought to Yugoslavia when it was formed in 1919 by the Treaty of Versailles. They are "administrative borders," established by Tito for the sole purpose of better managing the internal affairs of the communist state. They have no historic significance. But they place thousands of Serbs, mostly farmers, in new republics that deny them full rights of citizenship because of the religious preference of their ancestors. Though only about 20 to 30 percent of former Yugoslavs actually practice the religion of their ancestors, they cannot escape the label or the consequences.

I have been the dean of the medical