

# THE ECONOMIC CLUB

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O F W A S H I N G T O N, D. C.

**Excerpts from the Signature Event featuring The Honorable Peter R. Orszag, Director,  
U.S. Office of Management and Budget**

**April 8, 2010**

The only real solution to our long-term fiscal imbalance, because it's driven disproportionately by the rate at which healthcare costs grow, is to move towards a healthcare system that's based on quality and efficiency rather than quantity.

We have now put in place the levers or the infrastructure to move towards paying for quality over time. Everyone agrees that we can no longer afford to just pay for quantity – that is a fee for service system where doctors and hospitals are reimbursed based on volume. We need to pay for quality. But I would challenge everyone in this room, since I have spent years and years studying this, to tell me precisely how we should pay for quality, exactly what should bonus payments be for high-performing doctors, exactly what should the penalty be for hospitals that have high readmission rates, exactly what condition should be covered by bundled payments, exactly how should accountable care organizations work. There are lots of promising ideas, but the details are now yet known with enough precision to write them into law hardwired.

Healthcare is a dynamic market. It's always going to evolve. In that setting, the only sensible approach in my mind is an evolutionary one where you try lots of things, throw lots of thing up against the wall and have a mechanism in place to move to scale immediately on the most promising ideas, and that's exactly what the legislation does.

We have been aggressive in trying to identify programs to terminate any inefficiencies including by, frankly, just asking federal employees ways of improving our internal operations, . . . I think everyone acknowledges it's not going to be the primary determinant of how the budget gets back towards balance.

The reason it's hard to freeze overall spending is that the vast majority of spending is either net interest or Medicare, Medicaid, and Social Security.