The Genocidal Policy behind the Creation of the HMOs

by Richard Freeman

A Wall Street-directed team of budget-cutters and genocidalists inside the Nixon administration authored and developed the Health Maintenance Organization Act of 1971, which passed in 1973. This team was led by Daniel Patrick Moynihan, Elliot Richardson, Caspar Weinberger, and Dr. Paul Ellwood. They then worked with Sen. Edward Kennedy (D-Mass.) to get Congress to approve the Act.

The HMO Act inaugurated the murderous system of HMOs, which have imposed Nazi medical standards, destroyed America's health system, closed hospitals, and led to unnecessary suffering and death, as *EIR* has documented in recent issues. A multitude of disease pandemics and resulting deaths will emerge unless HMOs are abolished.

Knowledge of this history is necessary to understand how America moved from a medical system based on the preservation of human life, to one based on "shareholder value." The hijacking of government policy by insurance companies and financiers, was the prerequisite for the HMO movement to grow.

The Act was a critical element that emerged from a common policy matrix, that advanced an ordered set of policies of ferocious austerity. They were all advanced in 1971, in which year the oligarchy imposed a paradigm shift, away from America's tradition of scientific progress in manufacturing and agriculture, and the cognitive development of the labor force. The new paradigm included HMOs; the Family Assistance Acts of 1971-72, which called for slave-labor workfare for welfare recipients, and constituted the policy content of the "Welfare Reform Act," which Al Gore pushed through in 1996; the 1971-72 imposition of draconian austerity-based controls, known as Phases I, II, and III; and the takedown of the Bretton Woods monetary system on Aug. 15, 1971, which set the basis for the destruction of the productive economy and of the world financial system.

We first look at how the HMO Act was developed, and then, at its emergence from this common austerity matrix.

Attack on Medicaid and Medicare

In 1969, Richard M. Nixon hired Daniel Patrick Moynihan as a Presidential counselor. Moynihan was a key leader of the Wall Street team. A right-wing social democrat, who had worked at the International Rescue Committee under intelligence spook Leo Cherne, Moynihan was then working as an urban planner at Harvard University. His outlook was sharply represented in a 1970 memo to President Nixon recommending a policy of "benign neglect" on "the issue of race."

The overall gameplan was to call health expenditures, especially those of the U.S. government, presumably upon which the government could take action, as "too costly." This would lead to fascist cost-cutting.

Setting the tone, Moynihan attacked the costs of Medicaid, which is the state-run, but Federal- and state-funded program for medical assistance to the poor, and Medicare, which is the Federal-run and -funded program for medical assistance to the elderly and some disabled. Both of these programs were established in 1965, under President Lyndon Johnson. Though Medicaid and Medicare were part of Johnson's otherwise misguided "Great Society" programs, they meet real needs, important for maintaining the level of health care in America. Without them, many tens of millions of people would not have access to health care.

It is true that costs of Medicaid and Medicare were rising, but an important part of that was because, since the programs were established in 1965, the number of people who were enrolling and using the program for the first time, was growing.

In a July 1969 communication to President Nixon, Moynihan wrote:

"I fear that the pressure from [the Democratic-controlled] Congress will be nigh irresistible to use up what extra [budget] resources you have on a sort of 10% across-the-board increase in all the Great Society programs each year [particularly Medicaid and Medicare]. This is the natural instinct of the Congress, and it is hard for the President to resist. If your extra money goes down that drain, I fear in four years' time you really won't have a single distinctive Nixon program to show for it all."

As he was attacking medical spending, Moynihan was also, as we shall see, drawing up plans to put welfare recipients to work in slave-labor jobs (see box).

At the same time, at the offices of the U.S. Department of

The Wall Street team that pushed through the Health Maintenance Organization Act of 1971, left to right: Daniel Patrick Moynihan, Elliot Richardson, and Caspar Weinberger.

Health Education and Welfare (HEW), and of the Office of Management and Budget (OMB), teams of people were working on ways to cut Medicaid and Medicare. As the U.S. government agency responsible for health, HEW took the lead. One alternative was to cut benefits. HMOs would be offered as an "efficient" alternative.

HMO Austerity

A turning point came on Feb. 5, 1970, when top HEW officials, led by Undersecretary John Veneman, held a small, closed-door meeting at Washington, D.C.'s Dupont Plaza Hotel. The featured speaker was Dr. Paul Ellwood of Minneapolis, Minnesota, the father of the HMO movement, who coined the term "health maintenance organization." An HMO is an institution or organization that offers medical service, at a fixed prepaid fee; often insurance companies own and run HMOs. HMOs have a few distinctive features, which lead to fascist cost-cutting. Though not all HMOs have the features that are here cited, most have many or similar features. These include:

1. Many HMOs pay a capitation fee to the doctor, which is a fixed amount for each patient (per capita) for the year. The doctor is told that if he can keep the yearly cost of seeing a patient below the capitation fee that the HMO pays, then the doctor can pocket the difference. If the yearly cost of seeing a patient is above the capitation fee, the doctor must absorb that as a loss to his practice. The HMO intends the capitation fee, especially if it is set low enough, as an incentive to get the doctor to keep costs down.

2. Several HMOs attempt to reduce what they call "unnecessary resources utilization." They put aside some money in a "pool." If the doctor can keep the patient's hospital stay below a certain number of days, or limit the patient's use of specialists or costly technological procedures, the doctor "wins" the money in the pool. But, if the doctor lets a patient go above the specified number of hospital days, or fails to limit the use of specialists, the doctor forfeits the money in the pool.

3. HMOs often limit a patient's access to medicine, and deny services in other ways, such as by setting a limit on in-patient days of hospital care. HMO chiselling can lead to permanent injury or death.

While talking about extending medical service to more people, Ellwood was fanatical about cost-cutting. He also opposed government regulation. Instead, he said that "market forces" could drive down health costs. He attacked the traditional doctor-patient relationship, in which a doctor provides whatever services he deems the patient needs. Whatever he claimed, he was against the General Welfare clause of the U.S. Constitution. An historian who interviewed Ellwood, about what Ellwood said at the Feb. 5, 1970 meeting with HEW officials, summarized his presentation in this way: "The [HMOs'] innate economic logic would keep them cost-conscious. . . . Moreover, the economies realized by these [HMOs] would put competitive pressure on indemnity plans and revitalize market processes throughout the health service industry." That means, that if HMOs took over a sufficient portion of U.S. health care, they would be able to dictate terms to health providers. Should other plans, like the traditional indemnity plans such as Blue Cross/Blue Shield not adopt these methods, they would be driven out of business.

In order to sell this to Nixon, the Wall Street insiders at HEW told him that, in terms of new U.S. government budget expense, HMOs would cost practically nothing.

To direct the drive to implement these policies, in June 1970, the banker forces made Elliot Richardson Secretary of HEW. Richardson had been a member and then partner in the Boston law firm of Roper, Gray, Coolidge, and Rugg, which represented the interests of the Boston "Vault" and the "Boston Brahmin" families, especially the Coolidge family, which owned United Fruit and the Bank of Boston; Richardson also had held political positions in Massachusetts, on behalf of these interests. Richardson coordinated the push for HMOs inside the administration. As an example, in December 1970, when Richardson saw that legislation to get HMOs started on a mass scale was not going fast enough, he set up a special grant project, which he shielded and ran from his own office, whose purpose, in the words of one historian, was "to identify provisions of existing law that might be used to promote the development of HMOs."

The building of the HMO project required working closely with the Office of Management and Budget. In this case, Richardson coordinated with Caspar Weinberger (now, "Sir" Caspar Weinberger). During 1970-72, Weinberger was the deputy director of OMB, then in 1972, he became full director, and then in winter 1973, he took over as HEW Secretary. Weinberger earned the nickname "Cap the Knife," because he fiercely cut budgets, especially those affecting the poor and sick.

Richardson and Weinberger's next move was to get Nixon to deliver a Presidential address on Feb. 18, 1971 endorsing HMOs, which was billed as the administration's most important speech of the year on health policy. Richardson and a few associates wrote the main points of the speech. In it, Nixon attacked "runaway health costs." He added, "We *cannot* simply *buy* our way to better medicine, we have already been trying that too long" (emphasis in original). "The most important advantage" of HMOs, Nixon argued, is that "they increase the value of services a consumer receives for each health dollar." Reading from his script, Nixon then attacked the fee-for-service system, in which a doctor provided such medical service, including technology, that a patient may need, as "subsidizing inefficiency."

Richardson's administration plan was to create, on a crash basis, 1,700 HMO systems around the country within five years. This required financing. The Richardson-Nixon plan called for the U.S. government to extend $45 million in grants and loans, and an additional $300 million in the equivalent amount of loan guarantees, to make HMOs grow and become the dominant system. *Richardson and Wall Street had provided a government subsidy for HMOs.*

The Nixon plan was then pushed to the Congress. Sen. Edward Kennedy, chairman of the Labor and Health Committee, had developed his own health-care proposal, seeking to expand the number of people covered by health systems; he also spoke of improving the quality of health care. However, Kennedy now made HMOs the centerpiece of his plan, and, whatever he may have said his objectives were, with HMOs as the method, it was inevitable that fascist cost-cutting and health rationing, including denial of service, would result. It took two years for the differences between the two plans to be worked out.

In February 1973, Weinberger took over as Secretary of HEW, replacing Richardson. A compromise bill with Kennedy was reached: the Health Maintenance Organization Act. It passed, and was signed into law in December 1973. It authorized, in the period 1974-78, a total of $355 million in grants, loans, and guarantees for studies, planning, and initial development of HMOs. In 1970, there were 33 HMOs operating in the United States; as a result of the law, by 1975, that number swelled to 166, with nearly 6 million people enrolled.

The Broader Policy Matrix

The oligarchy did not implement the HMO policy as a stand-alone measure. Instead, the HMO policy became the front-end of an entire set of integrated policies, a new policy matrix driven by entirely new axioms. During periods of great U.S. advances in the 18th and 19th centuries, and during the Franklin D. Roosevelt administration, and in a more diluted, but still effective form, in the post-World War II period, the United States was guided by the paradigm of scientific advances in manufacturing, agriculture, and infrastructure, and the cognitive development of the labor force. But the British financier oligarchy had begun a shift in the opposite direction during the 1960s: a radical break toward a "post-industrial society" policy, which took down manufacturing and agriculture, and built a gigantic speculative bubble. This shift intensified in 1971, under circumstances of intense domestic and international economic crisis, which required deeper levels of looting-austerity, from the standpoint of the financier faction. This culminated in the Aug. 15, 1971 City of London-Wall Street policy to take apart the Bretton Woods monetary system.

Thus, the February 1971 health-policy address by President Nixon, pushing HMO fascist austerity, and making HMOs official U.S. policy, is best conceptualized from the standpoint of this larger historical process.

During the time that he was attacking the costs of Medicaid and Medicare, Moynihan was finalizing a plan to put welfare recipients to work. Nixon, in his January 1971 State of the Union address, after calling the existing welfare system a "demoralizing disgrace," set the highest priority on "welfare reform." This was the Moynihan-drafted "Family Assistance Plan," which was incorporated in a House bill, unveiled in May 1971. H. 1 had two parts. The first was a plan for those poor families with an income of $1,600 or less per year. According to a summary of the bill, the second part was labelled the Opportunities for Families Program, which specified, "All persons whose families received benefits under the program would be required to register for work or training"—a plan called "workfare." In a word: slave labor for welfare recipients. The bill encountered difficulty in Congress, but the real difficulty was outside Congress. During 1973-75, the political movement of Lyndon H. LaRouche, Jr. mobilized throughout America to destroy the workfare scheme. After that defeat, it would be another 20 years before there would be another attempt to seriously promote the Moynihan plan: this was the content of the "Welfare Reform Act of 1996," which Al Gore pushed, and which President Clinton signed into law.

Then, the Nixon administration delivered another blow. The international financial system was on the edge of a blowout in 1971, and the U.S. economy was undergoing growing difficulties, including a balance-of-payments deficit for the second quarter of 1971, that if annualized, would hit $23 billion a year. On Aug. 15, 1971, Nixon announced a destructive package that was the handiwork of the City of London-Wall Street officials in the Nixon White House: Treasury Secretary John Connally; Treasury Assistant Secretary for International Affairs Paul Volcker; Caspar Weinberger, Elliot Richardson, and others.

The so-called New Economic Policy had both a domestic and an international aspect. The domestic policy intensified the austerity already embodied in the expansion of HMOs and the welfare recipient slave-labor program. Nixon ordered a 90-day freeze on wages and prices. He also announced a $4.7 billion cut in the Federal budget, including a 10% cut in foreign aid and a 5% reduction in Federal employment. This became known as Phase I.

On Oct. 7, 1971, Nixon put into effect Phase II, which set up a Cost-of-Living Council, first headed by Treasury Secretary Connally (who was one of the originators of the idea of the Council), and then by Donald Rumsfeld. Beneath this were two other councils, the Pay Board and the Price Commission, whose purpose was supposedly to fight inflation. The Pay Board began rolling back wage increases and/or holding down new ones. Phase II's authority was extended until April 30, 1973.

On the international side, the Wall Street-City of London forces directed Nixon to sever the dollar from the gold reserve system on Aug. 15, thus ending the Bretton Woods system and introducing floating exchange rates. On Dec. 14, this policy took a complementary decisive step: After President Nixon met with French President Georges Pompidou, he announced that the dollar had been devalued by 8.7%, which changed the price of gold from $35 to $38 per ounce. Soon, the dollar would float.

Who Is Moynihan?

Daniel Patrick Moynihan, who played a pivotal role in both the medical and welfare slave-labor policy of the Nixon Administration, made his mark, by writing a 1970 memorandum calling for a policy toward minorities of "benign neglect." While U.S. Ambassador to India from 1973-75, Moynihan lorded it over citizens of India, sporting a bowler hat and carrying an umbrella, in imitation of his British imperial mentors.

Moynihan is a notorious enemy of Lyndon LaRouche. After leaving the Nixon Administration, Moynihan ran for U.S. Senate from New York. In 1982, he faced a tough primary challenge from LaRouche Democrat Mel Klenetsky, who beat him in many Jewish precincts, despite Moynihan's slander that LaRouche was anti-Semitic.

On April 1, 1986, Moynihan wrote in the *New York Times* that LaRouche Democrats campaigning for office are "fascists" and must be kept out of the party. On June 11, 1986, Moynihan held a press conference in Albany, New York, with Democratic Party head Charles Manatt and state Gov. Mario Cuomo, vowing to keep LaRouche candidates off primary ballots by any means necessary. They distributed a scurrilous report on LaRouche, produced by the Anti-Defamation League, entitled, "The Politics of Extremism."

Severing the dollar from the gold-reserve standard and fixed exchange rates set up the basis for a surge in international speculation, as financial flows were separated from production. The growth in speculative financial assets would be undergirded by increased austerity/looting. The domestic and international aspects of the Aug. 15, 1971 package expressed the same postulates, and derived from precisely the same City of London-Wall Street policy axiom-matrix that created the HMOs.

This was a complete shift in U.S. policymaking, from which the nation has never recovered.

In an article, "Nixon Pulls the Plug: Why It Happened," which was the lead story in the Aug. 30-Sept. 3, 1971 issue of *New Solidarity,* the newspaper of the LaRouche movement, Lyndon LaRouche put his finger on why the crisis happened. Uniquely among economists or heads of state, LaRouche had forecast what would happen, starting in autumn 1956. During 1971, LaRouche identified Nixon's path as that of *Schachtian* fascism—the financiers' looting of a nation's productive capacity, including especially its labor power, that Nazi Economics Minister Hjalmar Schacht implemented, ending in the death camps.