

## The Patriots News from the citizen advocates..

February 28, 2008

### **The Power of Choice: Health Care**

*By Gregory L. Schneider*

The presidential candidates in both parties have devised reform plans for health care. In many polls health care tops the list as the most significant problem among voters in the country so it is crucial that the candidates address this issue as primary season begins. However, which plans are best? Which plans will contribute to lower costs and better efficiencies?

From a philosophical and economic perspective the plans which focus on empowering the consumer and developing a true market in health care are the best. **The plans which focus on creating more government bureaucracy and impediments to market based reforms are the worst.** Why would this be the case?

The biggest stumbling block in health care is the fact that a true marketplace for health services does not exist. In fact one can argue that since the creation of employer-sponsored health insurance during World War II, such a market has never existed. As a result of favorable tax rulings the employer who provides health insurance receives the tax benefit for doing so. If you are fortunate (and most Americans were until recently) to receive such insurance from an employer, it was a good benefit for you and a terrific tax benefit for your employer.

However the changing nature of the economy has left fewer Americans working for large corporations which provide health insurance. The growing costs of insuring employees has forced many firms—especially small businesses employing twenty or fewer employees—to stop providing insurance to their employees. Individual contract employees and the self-employed market also are hurt by rising costs of insurance coverage. When individuals purchase insurance they do not receive any tax benefit for doing so. The entire cost of their health insurance is borne by them without any tax deductibility.

Meanwhile, unrelated to the market for insurance, health care costs have grown tremendously over the past thirty years. Part of the explanation for this lies in the fact that technological changes in health care have led to some major advances in the treatment and curing of disease. The United States has the best health care system in the world and technological advances are a big reason why.

But another cost driver has been government entering the health care system. Much like **government support for education, government entry into health care with the creation of Medicare and Medicaid in 1965 has led to staggering inflation in medical costs.** Medicare and Medicaid replaced charitable health care, in many situations, with government funded care. Medicare's reimbursement rate for doctors has also impacted the private insurance market.

What we have is not a market system at all. We have a government system which funds nearly half of all health care in the country and which some politicians, sensing the mood which grips the electorate this year over growing health care costs, wish to expand. What certain politicians believe we need is a universal health insurance system funded by government. They say this would solve all our problems.

Private insurance based on an employer-funded model is no better when it comes to market forces. This

insurance model is dying. Similar in many ways to Social Security, it was predicated on an industrial economic model no longer prevalent in American life. One can see this most aptly in the Detroit automakers' desire to eschew their "corporate responsibility" to continue paying for the costly health insurance of workers, and especially pensioners. The bigger corporations favor a universal government model since they would benefit by having government take this responsibility from them. However, most Americans today work for small firms or are self-employed. The old model of employer-based health insurance is not long sustainable.

The best solution for health care is to create a true marketplace for health care insurance and services. Some reforms have already been enacted, such as Health Savings Accounts, individually owned insurance accounts which place the control of health care spending back in the hands of the consumer rather than a third party payer. While HSAs have grown in recent years few insurance companies market them as much as they should. They offer the best hope for small businesses to be able to provide insurance to their employees while reducing the costs of insurance and the costs of health care as well.

Other ways of reforming health care include tax code changes which allow individuals (and families) to deduct the costs of their health care insurance under federal tax law. President Bush recommended this in his State of the Union address in 2006 yet nothing has come of this in Congress. Finally, allow health insurance to be portable from job to job and from state to state. Auto and life insurance are portable—why is health insurance so heavily regulated? Reforms of the insurance market including ending community rating and guaranteed issue would also contribute to a stronger marketplace for health care.

**The old governmental solutions have failed everywhere they have been tried.** Yet in America we seem to be rushing headlong towards such a model. What we need in health care, as we need in elementary and secondary education, is a true marketplace, the power of choice which will improve health care, lower costs and improve efficiencies.

*{Gregory L. Schneider is a Senior Fellow with the Kansas-based Flint Hills Center for Public Policy. He can be reached at [greg.schneider@flinthills.org](mailto:greg.schneider@flinthills.org). - Ed}*