

A Paradigm Shift for Health Care

The manner in which people receive their health insurance in America is changing. In the past sixty years employers provided the majority of Americans with health insurance and in return employers received a tax deduction for doing so. Employer sponsored insurance (ESI) was the norm during a period after World War II when American corporations were huge employers and American industry was dominant. By the end of the 1940s close to two-thirds of those insured received their health insurance from their employers.

Today the statistics are quite different. Only 54 percent of Americans receive insurance from their employers and another 26 percent receive health insurance from government programs. An additional 16 percent of all Americans are uninsured and only about 5 percent pay for coverage as individuals, according to data from the Kaiser Family Foundation.

The decline of ESI insurance and the growing importance of government sponsored health insurance has been one of the bigger stories dominating the debate about health care. If government now insures, through Medicare and Medicaid, more than 25 percent of the population and if large employers such as General Motors, are struggling to pay health insurance costs (about \$1,500 of every GM vehicle sold goes to health care costs for retirees), then, some say, we need national health insurance in order to be competitive in a global marketplace.

There is another way. The cost of government funded health care is on the rise and expected to consume 19 percent of Gross Domestic Product (GDP) by 2082 (federal spending on health care currently is 4 percent of GDP). Total spending on health care already amounts to 16 percent of GDP. If Americans want to have higher taxes and cuts in spending on other priorities, such as defense, to pay for health care, then we can continue on such a path. If we want government to spend on other priorities and keep taxes low, we cannot take such a path.

How about a new paradigm altogether? If big employers continue to slash workforces and small businesses continue to have difficulties paying for health insurance, why not empower individuals to pay for their own health care and increase the numbers of those who pay for health insurance on their own? In time such practices would encourage the recipients of government assistance to purchase health insurance in the marketplace. What this new paradigm would constitute is the creation of a true market for health care, something which doesn't exist now.

The easy criticism of such a plan is that it costs too much. Individuals have to pay for what their employer would have kicked in for their insurance. They also do not receive the tax deduction for doing so. How could an individual with a family afford health insurance?

The easy answer to this is to restack the decks in a way which favors individual consumers of health care rather than the providers of health insurance and the

providers of health care (doctors and hospitals). Give a tax deduction comparable to ESI-based insurance to those who pay individually. Maximize the existing laws which favor the creation of Health Savings Accounts (HSAs) and provide needed incentives for individuals to subscribe to them.

Make health insurance actual insurance. It used to operate this way; most individuals had insurance to protect them from accident, surgeries, hospitalization and other catastrophes. The typical health policy did not pay for doctor visits or routine expenses. If an individual paid for routine health expenses themselves rather than have a third party payer (government or an insurance company) pay for them, they might use their health care more responsibly, take better care of themselves and make healthier choices when it comes to diet, exercise, and smoking cessation, for example.

How do we know this? When something is individually owned it is better cared for than when something is shared in common. Think about it. When you pay for something yourself, whether it is a car, shelter or something else, you will take care of how you use it since it is a personal investment. When you don't own something you don't take care of it. This is called the tragedy of the commons and while it is a theory which has been applied mainly to the difference between individual landowning vs. the exploitation of lands held in common by the public, it fits health care well. Incentives matter and if a market existed in health care which empowered individuals to take better care of themselves, receive benefits for doing so and lessen the cost of health care, wouldn't that be worth pursuing?

If we sought the above reforms we would create a huge paradigm shift in health care in America. Costs would go down, health care would be controlled by individuals rather than by third parties, and a market would be created. This might reverse the above percentages of those who receive their health care from employers and government—wouldn't it be great if those numbers were 5 percent rather than 75 percent as they are now? Government funded care would be saved for the truly needy and for those individuals who have no ability to care for themselves.

Paradigm shifts are not wishful thinking. They can and do occur. It is high time we start thinking and applying such a shift to health care.

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