

Long-Term Care Needs and the Government Response (Part 1 of 3)

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Among the most significant of the tax proposals put forward by President Clinton this year was a tax credit for expenses of long-term care. (See Tax Notes, [Jan. 11, 1999](#), p. 159.) For a variety of reasons, including the aging of the population, this nation faces rapidly increasing demands for long-term care—care that today cannot be afforded by most elderly individuals. Therefore, it may appear that the timing is perfect for this proposal. Indeed, some individuals have implied that it is impossible to oppose the administration's long-term care proposal without appearing insensitive and uncaring.

Unfortunately, good policy is not achieved simply by identifying some worthwhile need and then spending government revenues on it. Certainly the recognition of need is a required step. But much more is required. In particular, needs must be compared with one another because spending more on long-term care inevitably means that the same money cannot be spent on items such as education or environmental clean-up or housing. Another way to say this is that it is not absolute, but relative, needs that must be compared, and they must be compared at the margin for each additional dollar of spending under consideration.

Even then, it is only the first stage of policy development to decide that more should be spent on long-term care, that it has a higher claim for the next dollar than do other needs. How much should be spent in total? What are the short-range and long-range targets for this spending? Can the spending on long-term care effectively address the needs of the frail elderly who require the greatest support, or will many of the benefits inure to others—such as individuals with minor needs but substantial wealth, the stockholders of insurance companies, the owners of private nursing homes, or the providers of services, such as doctors and nurses?

And who should pay? Should it be financed out of general revenues? Or should a scheme of social insurance be devised? For example, should individuals be required to put aside during their working years at least a portion of the costs of the long-term care insurance that will be provided? How does the proposed new expenditure fit in with other government-provided support for long-term and other health care?

There are also issues of administration and organization. What is the best agency or department to administer the program? How should the budget process be set up so that different demands compete with each other on equal and fair terms? Should expenditures be treated differently if they go through the tax system rather than the expenditure system? Are there biases created that would lead expenditures to go through one system or the other even when more of the expenditures would be poorly spent that way? If so, how does one justify the resulting "waste" that reduces the program's effectiveness at tackling the problem of long-term care?

This column is the first in a series examining these questions in the context of the president's proposal to deal with long-term care. The focus will be less on the specific details of that particular proposal than with the type of analysis required to assess its overall merit. Without this analysis, the power and effectiveness of any proposal on long-term care, no matter how constructed, is likely to be significantly diluted.

To begin, the president's proposal must be placed in its political context. Like most proposals, its design was driven significantly by political considerations rather than pure health or tax policy concerns. That does not mean that the proposal is a bad or a good one, only that one's attitude toward it cannot depend solely on economic or social considerations. Based on experience, nonetheless, I can come close to describing what happened in the development of the proposal.

Put yourself, if you will, inside the administration as it starts to draft its budget proposals. It has become traditional at budget time for the president to try to set the legislative agenda. Sometimes these agendas are set by impending crises. While there may be a crisis of governing or a threatening international concern, short-term domestic policy is in a state of (perhaps misleading) contentment because of the length of the

current economic expansion. Long-term domestic agendas are hard to set without a short-term problem or crisis as an excuse. In recent years, this has led to a stage where each of the political parties has tended to define itself in no small part by opposition to what the other party may be doing. Sometimes it seems as if the first and last question asked in the development of policy is not, "What is good policy?" but "What is the other political party going to suggest, and how can we prevent them from achieving that goal?"

In this context, it is well known that many Republicans have been looking to the rising budget surpluses as an opportunity to offer significant tax reductions, and the administration opposes that goal. While the administration formally says that any surplus should be spent on social security reform, it is not sure that it can hold that line, especially in the face of the rising surpluses. It, too, has some items other than social security on which it would like to spend the surplus. And the administration does not want to be left out if a bidding war breaks out.

The consequence is a budget where a number of policy thrusts are suggested. None of them is all that expensive relative to the size of the total budget. On the tax side, most of the new expenditures would be offset by other tax increases. By keeping net costs under control, the administration can still claim credit for a conservative budget policy that would not spend much of the temporary budget surpluses anticipated before the baby boomers retire. Simultaneously, it maintains much leverage for its social security and Medicare proposals.

But why put the long-term care proposal out as a tax proposal rather than as a direct expenditure? From the tax perspective, it puts the administration into the tax debate. Whatever tax changes the Republicans propose, the administration can counter that it would favor spending the money on long-term care and other items. Here also one must remember that in Congress tax bills go on a separate track from most expenditures, so one can't really easily trade tax provisions for direct expenditures.

From an expenditure perspective, the Department of Health and Human Services probably used the budget process as a mechanism to remind the White House that long-term care will soon be a very significant problem. The difficulty is that Medicare and Medicaid are already facing extraordinary financing challenges. Putting more long-term care benefits into those systems would run into substantial objections from this financing standpoint, especially when the administration was already proposing a drug benefit that was to be financed vaguely out of some future reform of Medicare.

Along those same lines, it is politically more appealing to create one more new program than to add an incremental change to an existing program. Even if the two are identical in terms of cost and population served, the former gets the better press. While those worried about the increased complexity of the nation's laws may object, their concern is traditionally given little weight not only by many policymakers, but by the media and the public as well.

To summarize the political perspective, a long-term care tax credit proposal allowed the Clinton administration to show some sympathy for a rising social problem, gave it some chips in any tax bidding war, allowed it to announce a new program, and didn't show up in the budget as hurting a Medicare or Medicaid system already in substantial financial trouble.

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