

Can We Buy Our Way to Health Reform?

By Gene Steuerle

No issue has stumped policymakers more than how to provide healthcare to its citizens in an efficient and fair manner. Healthcare costs spiral out of control, usurping other vital government functions. Those rising costs also lead to increased numbers of uninsured, as employers and employees both decide to avoid costs simply by neglecting health insurance altogether. Every recent health “fix” has involved trying to buy health reform by devoting even more dollars to it. Do we lack adequate drug care? Then spend more through a drug bill. Do tax breaks tend to discourage consumer involvement in their healthcare? Then spend more on health savings accounts. Yet each of those enactments adds cost to a system that already is unsustainable. Yes, they might get at some particular imbalance in the system — removing some bias against drugs or against spending out of pocket — but in simply throwing more money into the system, they add to, rather than subtract from, the fundamental problem that someone, somewhere, somehow has to decide what health spending is worthwhile and what is not.

No failure of political nerve stands out more than the unwillingness to tackle the tax break for employer-provided insurance. It is worth the most to higher-income households, which often receive \$3,000 or more in reduced taxes for buying health insurance, while many moderate-income taxpayers get no tax break at all. The existing tax break is also most valuable to those who buy the most expensive insurance: The more one buys, the more subsidy one receives.

Even worse, the subsidy — like many health subsidies — is open-ended. Every year billions more are spent, without a vote by Congress or the public to spend money this way rather than some other way. Within a few years, the subsidies’ cost will grow by an extra \$100 billion on top of the \$200 billion in income and Social Security tax breaks already being spent.

This extra \$100 billion not only won’t buy more insurance coverage, but it most likely is increasing the number of uninsured. The subsidy encourages people to buy more insurance, which encourages more use of high-cost healthcare, which helps drive up health costs, which, in turn, leads to a decline in insurance coverage. Many individuals and employers simply decline to pay those high insurance costs.

No politician would propose spending more in this extremely regressive manner to increase the number of uninsured and encourage the excessive use of healthcare and health insurance. Yet that is exactly what the current system offers — only it takes place automatically and without a vote by Congress.

None of this suggests that how to spend federal dollars on health is easy. One can sometimes hide choices in a socialized bureaucracy so that they aren’t so open to the public, but that doesn’t make choices any easier. The primary problem is not that choices are hard; it’s that automatic growth in healthcare spending programs prevents the hard choices from being made well. Regarding the open-ended tax break for employer-provided health insurance, it is the largest of tax breaks for anything, and it is also the largest health subsidy in the tax or expenditure systems for the nonelderly and nondisabled. Those facts alone make it worthy of attention.

Capping this health tax break has been proposed numerous times to finance deficit reduction, to finance tax rate reduction in tax reform, and to finance alternative ways of subsidizing health. The recent tax commission also suggested reforming the health tax break. Yes, there are technical issues involved in implementing a cap or gradually converting this exclusion to some other form of subsidy. Among them is the transition back toward an insurance system that charges each household for its health insurance policy in much the same way that housing or automobile insurance is charged. That those calculations can be made is proven by several decades of the Federal Employee Health Benefits Program, which already charges each employee for the excess over some cap.

Unfortunately, this issue gets politicized so quickly that it is difficult to separate the wheat from the chaff. On one side, some argue that reforming the tax break is a cure-all for what ails us. That it is not doesn’t mean that spending foolishly an extra \$100 billion every year should be considered a minor matter. Then there are those who argue that complexity in deciding winners and losers makes reform impossible. That the differential between winners and losers now is often \$3,000 versus nothing — with the losers often being the more deserving — doesn’t seem to faze them at all.

As long as we can’t reform the tax break for health insurance — among the most broken of government programs — the hope for broader health reform is small indeed.