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## A Fair Health Fix

By Michael Barone

Not many expected George W. Bush to advance a serious healthcare proposal in his State of the Union address, and few expect anyone in Congress to act in response to it. But Bush did, and at least one member of Congress seems interested. More ought to be paying attention.

Bush's proposal in a nutshell is to end the preferential tax treatment for employer-provided health insurance. In 1943, in the midst of World War II, when wage and price controls were in effect, the government decided that employers could deduct the cost of health insurance for their employees and that employees would not be taxed on the value of the policies. This decision has saddled us with a system in which health insurance has been tied to employment, with many perverse results. Healthcare is perceived as a free good, and consumers have no incentive to take costs into account.

Bush proposes to change this by giving every couple paying

taxes a standard \$15,000 deduction (\$7,500 for individuals) for the cost of health insurance. Those with employer-provided insurance worth more than \$15,000 (about 20 percent of the total) would be taxed on the additional amount; this would very likely discourage expensive policies.

**Penalizing the poor.** As a *Washington Post* editorial on the speech pointed out, this would be a progressive change. The biggest beneficiaries of the current system are high earners with employer-provided insurance. The biggest losers in the current system are low earners without employer-provided insurance. Health insurance experts on the left, right, and center have long called for ending the tax code's preference for employer-provided health insurance. But employers haven't wanted to lose the deduction, and politicians have flinched at the prospect of taxing voters on something they have been getting tax free. Bush has found a way out, by equalizing the tax

treatment of health insurance wherever it comes from.

Bush's point was not lost on Oregon's Democratic Sen. Ron Wyden, who over a long congressional career has specialized in assembling bipartisan coalitions for various reforms. He notes that government single-payer health insurance—the goal of some senior liberal Democrats in Congress—was rejected by the voters of his liberal state by a 4-to-1 margin. He notes that we don't have employer-provided auto insurance; we buy that out of after-tax earnings. He argues that people should be able to buy health insurance as members of Congress and federal employees do, from an array of choices offered by private insurers. He's looking to make something of a political deal. Republicans would get Bush's standard deduction and a private insurance market in which consumers would have incentives to hold down costs. In return, Democrats would get universal coverage, with subsidies for low earners to pay for coverage. **As John**

**Goodman of the free market National Center for Policy Analysis points out, additional revenues from those with policies worth more than \$15,000 could be used to subsidize low earners.**

Wyden has been talking with Republican senators, especially fellow members of the Finance Committee, and says he has been getting positive reactions. As for Democrats, those who seek more government provision of healthcare will probably be uninterested. But some may be affected by the

apparent success of the Medicare Part D prescription drug benefit. Many Democrats believed that seniors would have a hard time choosing policies from an array of choices and that they would end up being gouged by private insurers. But polls indicate that the vast majority of seniors are pleased with the results, and the cost of premiums-and costs to the government-have come in lower than experts predicted. One of the prime lessons of the last third of the 20th century has been proved once again: Markets work.

And more quickly than government mandates: It took 38 years to get a prescription drug benefit in Medicare. In contrast, in the parts of the healthcare sector where market forces are free to work, technology improvements can result in lower costs, as with Lasik eye surgery or cosmetic surgery. Bush's proposal, or Wyden's version, would give markets more room. This kind of major reform is a long shot in this Congress. But it does show a way forward.