



## BARONE BLOG

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### **Bush's Healthcare Proposal**

George W. Bush's proposal, unveiled in his State of the Union address Tuesday night, to change the tax treatment of health insurance, is worthy of some serious consideration. Bush would make the value of employer-provided health insurance taxable to the employee but would grant a \$15,000 exemption for families and \$7,500 for individuals for all taxpayers regardless of whether they have employer-provided health insurance. Some 20 percent of those with employer-provided health insurance worth more than \$15,000 would have to pay tax on the amount over that figure, but of course they could avoid the tax by choosing a less expensive policy. This strikes at one of the roots of our healthcare dilemma: the decision, made during World War II, to declare the value of health insurance policies deductible for employers but not income taxable for employees. For some background on that decision and further discussion of the issue, see [Amity Shlaes's Bloomberg News column](#). For an argument that Democrats should support this initiative, see [Ruth Marcus's column](#) in the *Washington Post*. It's interesting that Shlaes, writing from the right, and Marcus, writing from the left, should both see merit in

Bush's proposal. But the disparity between the tax treatment of employer-provided health insurance and that of nonemployer-provided health insurance has been criticized by experts at think tanks like the Brookings Institution and the Urban Institute as well as by those at the American Enterprise Institute, the Cato Institute, the Heritage Foundation, and the **National Center for Policy Analysis**.

Yesterday I talked to **John Goodman of NCPA** about the Bush proposal. He says it has three basic advantages. First, fairness. Currently those without employer-provided health insurance are at a huge disadvantage compared with those who have it. Also, the nontaxability of employer-provided health insurance is worth more to those in the 35 percent income tax bracket than those in the 10 or 0 percent bracket. That's why Marcus says Democrats should look favorably on the proposal: It's progressive, and the current system is regressive. Second, the lump sum character of the deduction gives the insurance buyer an incentive to buy the policy best suited to him. He may prefer nonemployer-provided insurance to employer-provided insurance. This would produce more competition in the insurance market. Currently, it makes

no sense for an employee to buy insurance except from his employer. Third, the Bush plan uses the additional revenue the proposal produces to subsidize health insurance for those with very low incomes. That means it can provide universal health insurance with no additional cost.

Some Democrats would like to replace the employer-provided health insurance with government-provided health insurance. This would probably increase the cost of healthcare even more than the current system does. Bush's proposal moves us toward a more cost-conscious health insurance market. As we have seen with the Medicare Part D prescription drug benefit, the costs of insurance when people are given choices and markets are allowed to operate turned out to be lower than the experts' projections, while government command-and-control programs almost always turn out to have costs higher than experts' projections.

My guess is that the Democrats won't act on Bush's proposal. Some important Democrats—[John Dingell](#), [Henry Waxman](#)—want to move in the opposite direction. But Bush's proposal may help frame the debate and move it in the right direction.