

Observations

ATLANTIC CROSSING

Is the president's plan dead even before arrival?

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Bush's proposed health reforms would do little for the millions of low income, uninsured Americans

In his State of the Union address of 23 January, President Bush unveiled his much heralded health reform initiative to a perplexed nation. As is their wont, the television media swiftly unearthed staunch proponents and staunch opponents of the proposal, and unleashed the extremists upon one another, thus adding to the confusion. It did not help that the president delicately omitted from his speech an important but politically risqué feature of his proposal, most likely to enhance the public marketability of the policy (www.whitehouse.gov/stateoftheunion/2007/index.html).

The full proposal has three distinct facets.

Firstly, the president would make health insurance premiums paid by employers on behalf of employees—hitherto not included in the employees' taxable compensation—fully taxable with effect from 1 January 2009. The total loss to the US Treasury from this time hallowed tax preference has been estimated to range currently from \$200 to \$220bn (£102 to £112bn; €154 to €170bn) a year, more than twice the sum that would be needed to move the nation to full universal health insurance coverage. By itself, then, this facet of the proposal amounts to a sizeable tax increase. It is this facet of the president's proposal that he delicately omitted from his televised speech, although it is clearly set out in the associated fact sheet on the White House website (www.whitehouse.gov/stateoftheunion/2007/initiatives/healthcare.html).

Secondly, the president would allow Americans, regardless of insurance status, to deduct from taxable income \$7500 for individual tax payers or \$15 000 for a family. This is the felicitous facet of the proposal upon which Bush dwelt in his speech. On average, a standard health insurance policy for an American family now costs about \$12 000, although by 2009, the onset of the president's plan, that figure is bound to be closer to \$14 000. Americans whose employer in 2009 spent more on health insurance premiums than the standard deductions would, of course, pay added taxes on the excess. Because the standard deductions would be indexed over time only to general price inflation and not the much higher rate of inflation for health care, more and more Americans would find themselves in that position as time goes on.

Thirdly, the president would redirect funds the federal government already spends on health care to the budgets of state governors, who could use these funds to help their citizens gain access to health insurance. Neither Bush nor the White House fact sheet identifies which money already being spent would be redirected towards state government budgets, nor what the total sum of those funds might be. Everyone's best guess is that the president has in mind the so called disproportionate share (DSH) funds now paid to hospitals that treat a disproportionate share of uninsured patients or patients covered by the federal-state Medicaid programme for the poor. In many states these funds pay hospitals far less than it costs them to treat Medicaid patients. Mentioning such specifics in a televised speech would have triggered an immediate outcry from the hospital industry and the champions of the poor.

Economists of all political stripes have remarked favourably upon the proposed changes in the tax code. However, the president's plan perpetuates the regressive nature of tax deductions. The huge tax savings triggered by the proposed standard tax deductions continue to accrue disproportionately to high income families least in need of public subsidies for their health care. Worse still, in addition to these standard deductions, the president apparently would continue to allow individuals or families to deduct from their

taxable incomes annual deposits into a personal health savings account, as long as the family chose a health insurance policy with a high deductible.¹

At the same time, Bush would do little for the millions of low income, uninsured Americans who would not much benefit from the standard tax deductions, especially if their income is so low that they do not pay federal income taxes and who lack the income to procure health insurance on their own. Simply to redirect federal funds from safety net hospitals catering disproportionately to the poor towards general state budgets, without any guarantee of full universal health insurance coverage, is a morally dubious, empty gesture—especially in light of the unwarranted public subsidies the proposal would continue to steer towards high income families.

As it happens, all of these musings are moot. The Democratic Congress already has signaled that the president's plan is not only "dead on arrival" but "dead even before arrival." And thus, after all the fanfare over the president's proposal has died down, American health policy continues to march according to Churchill's dictum that "you can always count on Americans to do the right thing—after they've tried everything else."

¹ Added to the BMJ piece: I would have preferred means tested tax credits totaling about \$100 billion a year (about half the total current value of the tax preference now extended to employment based health insurance) instead of the standard tax deductions. Alternatively, the standard deductions could have been made a function in income, to diminish as income rises, and phased out altogether at very high incomes. In any even, it is not difficult to think of less regressive approaches. High income people do not need public subsidies toward their health care, especially as hard-working waitresses and waiters, cab drivers, gas station attendants, and so on go without health insurance.