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**Why
Conservatives
Need a National
Health Plan**

By Stuart M. Butler



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Why Conservatives Need a National Health Plan

By Stuart M. Butler

I have been interested in the issue of health care, and the idea of a national health care system, for many years. During the first thirty years of my life, which I spent under the British National Health Service, I learned a great deal about the way in which a government-run system operates, and about what you have to do to obtain adequate service. My mother still lives under that system. And I spend a good deal of my time on the telephone to Britain trying to get her the health care she needs. She is lucky. I still have reasonably good political connections there.

Despite my frustrating—and typical—experience with national health care in Britain, I want to talk to you not only about why we conservatives should discuss the issue of health care, but why in principle we should support the idea of a universal health care system—although one based on very different foundations than the British NHS or the Canadian system.

Now it may seem a bit strange to some people that a conservative like me is talking about the idea of a universal, or national, health system. Why should conservatives discuss this? How does it fit in to the broad conservative agenda? Isn't the primary political function of conservatives to stop things like that? Well, there are several reasons why conservatives should be actively involved in the discussion of health care policy in this country, and in devising some kind of national system.

Demands of Society. One reason derives from the simple fact that, as a society evolves, its citizens tend to feel that certain things should be a normal attribute of citizenship in that society. As a society gets richer, for example, the notion tends to spread that all of its citizens should have at least a reasonable level of food, of clothing, or of housing. This is something that people expect, and invariably they demand that government or private institutions assure that these levels are achieved.

As conservatives, we have to recognize and understand that phenomenon, whether we think it sensible or not. For us simply to deny that people do clamor for certain basic goods or services is to ignore the tide of history, and we will be overwhelmed by that tide. Conservatives should in most instances try to convince individuals that they are wrong to expect these things, or that it is wrong to expect most of us—involuntarily through government, or perhaps even voluntarily through charity—to assure all citizens of a basic level. But if an overwhelming majority of citizens are emphatic that all citizens—not just themselves, but all citizens—should have a legal right to a basic supply of a good or service, then conservatives must take a different tack. They must explore ways of allowing people to be provided with these things in accordance with certain principles. One is that the basic level should be provided in an efficient manner. And another is that there should be the least probability of government intervening extensively in people's lives.

I believe that Americans have reached the conclusion that an adequate level health care is something that people in a rich, industrial society should be able to expect to obtain in some way or other. That does not mean that Americans are “right” or “wrong” to feel this way. They just do.

To argue against that is simply to deny what the vast majority of Americans feel. And if conservatives do not accept that reality, and engage in the debate on how to achieve adequate health care, then in a sense we are off the political field when it comes to any discussion about what should hap-

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pen. That means leaving the political field to the liberals. So if we refuse to engage constructively in a debate over how to assure at least a basic level of health care for

all Americans, then the proposals to do so that are put forward to the American people will be only from the Left. We may be able to stop some liberal ideas. We may be able to delay some. We may be able to reform other liberal ideas and slightly change them. But ultimately it will be the Left's health care agenda that will shape the system for this country.

Conservatives must instead counterattack with proposals that achieve the goals of society, but do so according to conservative principles. If a team plays only defense, the best it can hope for is a scoreless draw. More likely, no matter how good the defense is, it will lose the game.

Thus if conservatives do not actively and positively engage in the health care discussion, we will simply end up with the worst excesses of a socialist health care system in this country. That would be very damaging to the American people. But Americans will support such a system if we conservatives offer no real alternative.

Left's Agenda Dominates. And let us realize that the Left already has made enormous gains because we have not offered the country a comprehensive alternative. We have, for instance, explicit and widespread price controls in Medicare. The most recent version of these price controls applies to physicians. These are based on the notion that the objective value of a physician's service can be looked up in a handbook from Washington. That principle is at the heart of regulations now being put into place to pay physicians in the Medicare system. Washington figures out payments by supposedly calculating the objective value of a physician's labor. Those of you who have any background in the history of economic thought will recognize that the ideas of "objective value" and "labor theory of value" are among the foundations of Marxist economics. I do not exaggerate. This is how far we have descended by not counterattacking—only challenging details.

I believe that the next step will be similar wage and price controls, and fixed budgets, applied to the private sector—it is already beginning to be supported by some in the insurance industry and in corporate boardrooms, as well as among the Clinton team. Unless we as conservatives actively and aggressively join the debate, we will see more of this. And Americans will agree to it if conservatives do not offer a comprehensive, alternative way of assuring affordable basic medical care.

As conservatives, we all look to the great philosophers of America when we think about important issues. I myself am guided by one of the greatest American philosophers—Yogi Berra. Yogi always used to say that if you don't know where you are going, you may end up somewhere else. In the case of health care, I think Americans generally do not know where they are going. They will indeed end up somewhere else—and it will be a very different kind of health care system than they really want. We as conservatives must prevent that from happening—to do that we need to provide Americans with a clear alternative road.

That conservative road must be a national health care system based on the principles of consumer choice, of markets, and of fierce competition in the health care system. A national system based on those principles will meet the demands of the American people. But unlike the proposals from the Left, it will do so in a way that does not mean health care with the vast bureaucracy, the escalating costs, the shortages, the rationing, and the denial of choice that I experienced in Britain and that Americans will discover in the national health systems the Left is trying to foist on us.

It was this line of thinking that led us at The Heritage Foundation, about four years ago, to publish a book entitled *A National Health System for America*. Its premise was that, as an institution,

Heritage must be actively involved in the national health care debate. The Heritage plan seeks to create a universal system in this country that meets conservative principles, which in turn are the principles American people really want in any health care system.

Three Conservative Principles. What should be the principles undergirding a conservative approach to the health care debate? I feel there are three such core principles.

First, a conservative proposal must change the political debate. It must put the liberals on the defensive, by grabbing the initiative and forcing the debate down a very different path from that preferred by the Left. Anything short of this will mean that we shall merely lose slowly.

The second principle is that the conservative alternative system must be based solidly on the foundations of a market economy—consumer choice, competition, private contracts, and market prices. The function of government—if anything at all—should only be to set broad rules of the “game,” and maybe to finance the minimum health care services of those who cannot afford to obtain these by any other means.

The third principle is that we should create a system which does not on balance increase government, either in scale or degree of intrusion. Ideally it should decrease both.

I believe that The Heritage Foundation proposal achieves each of these principles. Let me discuss some of the elements of the Heritage proposal and explain why I think that it does meet these tests.

The key reform in The Heritage Foundation’s proposal is a change in the tax system. Right now, we have a health system in America where in general the only way a working family can obtain any government assistance to obtain health care is to have an insurance plan as part of that family’s compensation package at the place of work. If you are elderly or if you are poor, then there are other systems for you. Some others also have special help, such as veterans. But for the vast majority of Americans, the only way they can get any assistance, in the form of tax relief for part of their income, is to persuade their employer to provide them with a medical insurance plan.

This has many unfortunate implications for ordinary Americans. It means for one thing that if they move their place of work, then in most

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instances they either lose or must change their health coverage. That gives rise to what is called the “portability” problem that features strongly in all surveys of Americans’ concerns about their health care. That fear of losing health insurance when they switch jobs is one of the major factors behind the demand by Americans for some kind of universal system.

Because of the way in which people obtain health care through their place of work, and because of the tax-free status of those company-based plans, the current system also is a very inequitable way of helping people afford medical care. The people who do best under an employment-based system, where employer-sponsored benefits are tax-free, are rich hypochondriacs. The reason: the higher your income tax bracket, the bigger the tax break you get. But if you are at the bottom end of the income scale, you get very little help. In fact, households with an income of over \$75,000, on average, get a tax break for a company-based plan worth approximately \$1,500 per year. If you are below \$10,000 a year and you have a company plan (which is not so common for such families) then the amount of help that you get through tax relief from the government at the end of the year is about \$50. This is the exact opposite of what you would do if you were really trying to help, through government, only those people who needed financial help to obtain health care. That is why we have very high levels of uninsurance among lower-paid people, particularly those working for smaller

firms without plans. If such workers want to buy medical care or insurance themselves, they must pay with after-tax dollars.

We also have experienced because of this employment-based tax-supported system an explosion in the cost of health care. This is another reason why people are so concerned and demand some kind of government intervention in health care. They see their out-of-pocket costs rising. Employers see their share of medical costs rising rapidly, too.

One of the main reasons for this phenomenon is that if people don't experience the actual cost of an item—or service or benefit—they tend to want as much as is available. And most Americans are not aware of the real cost of the plans that are provided through their employer, even though these are part of their compensation. So they tend to demand as much as possible. This drives up the cost. Thus, because we have a breakdown of the normal price relationship between consumers and providers in the health care system, because of the “third party” role of employer-sponsored insurance, the market effectively breaks down and costs soar. That in turn is provoking further demands from employers for government intervention and price controls.

It is interesting to note that today's employment-based system did not come about because of any national debate in Congress or anywhere else. It came about by historical accident. In World War II, a system of wage and price controls was instituted by President Roosevelt. One way employers got around the wage controls was simply to give higher fringe benefits—including health care. The IRS, after World War II, ruled that these could be tax-free without limit. That is why we have a very different system from most other countries.

The Heritage Tax Reform. The central reform in The Heritage Foundation's proposal is a change in the basic tax treatment of health care that today creates the inequities and perverse incentives, and leads to the problems that encourage so many people to press for the socialist “solutions” offered by the Left.

Our proposal would change the existing tax treatment of health care plans provided as part of a worker's total compensation. We would phase out the tax-free status of these company-based health care plans. The value of those benefits no longer would be tax-free income. The cash value instead would appear on your W-2 at the end of the year. So if you had a \$3,000 health care plan, it would appear on your W-2 as a taxable item, just like any other element of your compensation. That is the bad news. The good news is that we would use the tax revenues generated from removing that exclusion to finance instead a system of refundable tax credits not only for the purchase of health insurance but also for out-of-pocket health expenditures. Today a family normally receives no tax break for out-of-pocket medical costs. We have designed this to be budget neutral. The “cost” to the Treasury of the refundable credit system would be exactly equal to the cost of today's exclusion.

In other words, instead of having a tax break only if you obtained health insurance through your place of work, the Heritage proposal means you would have a tax break wherever you obtained the plan, as well as for your direct medical payments. And the tax credit system would give rather more tax assistance to those at the bottom end of the income scale, with rather less at the top end.

Moreover, companies now providing health care benefits would, normally after a majority vote of their employees, “cash out” the value of existing benefits and add that to each paycheck. Thus workers who today have their health plans chosen for them by their employer—even though the money actually comes out of their compensation package—would gain real control over that money themselves, enabling them to pick the plan *they* wanted.

In addition, those working Americans below the tax threshold effectively would receive a medical voucher, by virtue of the refundability of the credit. This change has a very important implication in the way ordinary Americans would obtain health care. It means that they would shop around for

health care services and insurance plans, just like they shop around for a car or for life insurance or for homeowner's insurance, and get exactly the same structure of tax relief wherever they obtained a plan or care. This in turn means that Americans could go to organizations other than their employers to purchase a health plan meeting their needs, and receive the same tax relief. They cannot do that today.

We envision that with this important and fundamental tax change, Americans would look to organizations which currently play an important part in their life as a sponsor of their basic health care plan. In some cases these would be labor unions. Unions today support legislation to make all firms provide health insurance out of their employees' compensation. We say to the unions, "Why don't you simply get into the business of providing health care benefits to people directly? Why don't you market those benefits directly and let people who think the union is the best organization to provide them with health care buy a plan from you?" If they did that today, the buyers would receive no tax relief at all. Under the Heritage proposal they would.

We think many Americans would choose to buy health coverage from a union. About a third of enrollees in the Federal Employee Health Benefits Program—in which federal workers can obtain a plan from any organization that is in the system—actually choose union-sponsored plans. Many of these workers are generally opposed to unions. But they think the union plans are the best deal.

I think we would find Americans turning to other organizations as well. I can imagine that in Utah the Mormon Church would be a very attractive organization from which to obtain a health care plan, if tax relief were available. Under our proposal a family could go to the Mormon Church and obtain a plan, and receive the same tax relief as if they obtained a plan through their employer. Other attractive organizations might include farm bureaus in rural areas, or maybe inner-city churches for minority Americans.

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Let's say you joined the Mormon plan, or the United Auto Worker's plan. If you moved jobs, you would be able to keep the Mormon or UAW health plan. Workers today worry how they are going to get coverage for that heart problem or their child's health problems if they are laid off by GM—or simply move to another job—because they will lose their GM health coverage.

Our proposal solves that problem by enabling people to keep their health plan when they move from place to place, and from job to job—in the same way that they keep their life insurance or their car insurance. We would put health care in exactly the same situation as other forms of insurance. No longer would tax relief be in any way related to where you obtained your plan, or whether you chose a large deductible rather than first-dollar insurance. Out-of-pocket medical expenses, in other words, would be eligible for the same tax relief as insurance. This would encourage people to insure themselves only for larger, unanticipated medical costs. Today, families want minor routine items such as dental checkups included in their insurance coverage merely to get a tax break. Under our proposal, you could pay in cash and still claim tax relief.

We feel this fundamental change in the tax system would encourage Americans to shop around for both health insurance and routine medical care, looking for good value for money and being aware of the cost of different plans and services. We feel that that is a much more effective method of keeping cost under control than the central planning/price control approach. The latter has proven a failure for forty centuries, and is not likely to work any better today in health care. The record of

cost control through consumer choice and competition, with people shopping around and looking at value for money, outperforms any other system of cost control we know of. That is at the heart of the Heritage proposal. The key to cost control is simply giving people the power to seek out the best value for their money.

A Basic Health Plan. The second element in our proposal is a requirement on Americans to obtain at least a basic package of health care insurance for themselves and their dependents. You can appreciate that this is something which we as conservatives thought about long and hard. We are not exactly inclined to put legal requirements on people.

The reason we decided to include this is to protect society from citizens who would try to exploit the good nature of ordinary Americans. We are a decent, humane people. The fact is that if somebody with the means to do so does not protect himself with insurance against the huge costs of a medical calamity we still make sure that he or she is treated and the rest of us pick up the tab. So if this person chooses to spend money on a vacation instead of on insuring the health of their kids, and the child has a serious illness, we take the child into a hospital and we treat him. If the family can't afford the cost, somebody else pays for it.

Thus, the insurance requirement is a protection for the rest of us against those who would exploit our good nature, forcing us to carry the risk that they should be responsible for as citizens in a society. So our mandate is not designed to micro-manage people's lives. It is designed to make sure that we, who do take responsibility for our lives, are not stuck with a tab for those who refuse to do so.

Taking all these elements together, the Heritage proposal clearly meets the criteria of a conservative approach to health care reform.

The insurance requirement is a protection for the rest of us against those who would exploit our good nature, forcing us to carry the risk that they should be responsible for as citizens in a society.

First, the Heritage proposal captures the political initiative. Some other, more limited proposals conservatives have put forward do not do so—even if they may deal with one part of the

health care problem. The Heritage plan takes the initiative by dealing with all the major concerns expressed about the current system. It is universal, in that it covers everybody without access or protection today; it would bring costs under control; and it assures portability. To do less than that means that you are continuously on the defensive in the debate over health care. Other proposals, such as voluntary medisave accounts, are quite good ideas but they are far from a comprehensive solution. That is why they are inferior to the Heritage proposal.

Second, the Heritage plan uses the free market as the essential ingredient of achieving the objectives Americans want. It uses a market system through consumer choice, through incentives for individuals, and through more intense competition in the provision of health care. This will achieve the objectives at the least cost, in the most efficient way, and with the maximum amount of individual freedom.

And third, the Heritage proposal achieves these objectives without increasing government involvement. In fact, there would be less government involvement than in most sectors of the health care system, because we would replace price controllers and regulators with consumer choice as the driving force to control the health care system on behalf of individual consumers. And our tax proposal is budget neutral. We take the revenue from one tax break and turn it into another form of tax break; it is not a net increase in government taxation. Unlike advocates of any other conservative proposals, I am aware of, we have actually run the budget numbers on our plan and we are happy to share them with anyone.

Risk-Taking in Politics. Many conservatives do rightly fear that once you engage in the debate over how to assure everyone adequate health care, you risk being sucked into a political morass. You risk your proposal being incorporated into an unacceptable proposal. That is politics. And political entrepreneurship, like economic entrepreneurship, involves risk. If conservatives are not prepared to take risks in addressing big issues like this, and to deal with the realities of politics, then we shouldn't be in the business of policy and trying to effect change. There are no guaranteed outcomes with our proposal—or anyone else's. But we will not get hijacked if we are aggressive and if we are shrewd. We are more likely to be hijacked only if we just do the minimum and let the liberals make all the running.

Let me conclude by looking at today's political environment, and reflect on why I think the Heritage proposal represents the most likely policy vehicle to obtain the results we are all seeking.

My first observation is that, despite what happened in the election, there is no electoral mandate for any particular health care proposal. The electoral mandate was to "do something" about health care. But there is no mandate for a Canadian

health care system, or for Clinton's plan. Indeed, if you look at opinion polling on attitudes to health care, one thing comes through very clearly. It is that people are very concerned and dissatisfied about the medical system as a whole, yet in most cases they are satisfied about their own experiences. And to the extent they want major reform, but they don't know what to do, they are confused. They are bewildered. That is why we have a great opportunity to change the terms of the entire debate and to give a better sense of direction to the American people.

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Another thing that comes through very loudly when people are asked about their feelings on health care also will work in our favor. Rationing is extremely unpopular among the American people. The American people do not want anybody—particularly the government, health insurance companies, hospitals, or employers—deciding who gets what in the health care system. They want themselves and their doctor to make those decisions.

Now, our proposal says that individuals will have the right to choose what kind of health coverage they want, who is going to provide it, and what the services should be. So we are in line with public opinion. Compare this with the liberal approach, which says, "We have got a great health system for you. Just trust us to set up a board to decide what should be spent on your health and what services you will receive." The American people do not want this.

Another thing to bear in mind is that Congress is petrified about doing the wrong thing on health care. The 1988 Medicare Catastrophic legislation, which blew up in the faces of Congressmen, still haunts them. You need only spend five minutes talking to a Congressman today about health care before he brings up what happened in 1988. That is why I believe our proposal, which allows individual choice rather than requiring Congress to micromanage health care, is inherently a more attractive political option for a Member of Congress.

The Heritage proposal also is more in line with the public's feelings about health care than is the Clinton proposal. If you look at Clinton's proposal, you will see that it is essentially a campaign proposal. It is a mixture of hot-buttons that on the surface appeal to the American people—a very sensible thing to do if your purpose is merely to get elected. But it is unworkable, technically and politically, because it combines two completely contradictory strategies: central planning, with price controls, and a fixed budget—and a semi-market consumer system. Like oil and water, these two basic systems do not mix.

We have taken on the comprehensive health plans of the Left with a comprehensive plan from conservatives. Because of that strategic decision, we will prevail.

A battle already is taking place in the Clinton Administration as to which of those two approaches is going to prevail in its final plan. That is going to be a tough fight. Part of our campaign is to engage in that

fight. We will be pointing out that half of the Clinton proposal—price controls and fixed budgets—is in itself unworkable. It will mean rationing. It is bad medicine, and it will not keep costs under control. We will explain to politicians that when this does fail, the American people will be angry and will take out their anger on Congress, just as they did in 1988 with the Medicare expansion. Mr. Clinton's supporters on the Hill, many of whom are up for re-election in two years' time, are very anxious about angry voters in 1994.

Will we win? Well, as I said, we have to take risks. Conservatives should be willing to do that if they want to engage in the policy debate on health care. So we cannot be certain. But I think we will win, ultimately. People who support the notion of setting prices and budgets throughout the entire medical system will not be able to hold their ground in Congress and around the country. Once it is explained to them, Americans will not accept the implications of that approach, and Congress knows it.

A fixed budget in health care only works if you are prepared to slam the door in somebody's face in a hospital or a waiting room. If you do not do that, a fixed budget is meaningless. The more Americans are told that, the more nervous politicians get about supporting the idea. No politician wants to stand at the hospital door, like a latter-day George Wallace, stopping people from coming in.

Senator Orrin Hatch has incorporated the Heritage consumer choice proposal into legislation. The more I and my colleagues travel around the country discussing that bill and our broad proposal, the more support we find for the general principles of consumer choice, and for our approach in particular. The more people know that every Member of Congress can choose his or her health plan once a year, and has the incentive to pick the best value for money, and the more they are told by The Heritage Foundation and others that ordinary Americans cannot have the same kind of choice that their Congressman has, the more they support our consumer proposal. They begin to accept that they, too, are capable of choosing a health plan.

So the debate is moving in our direction. It is moving in our direction because we have taken the risk of trying to capture the initiative on health care. We have taken on the comprehensive health plans of the Left with a comprehensive plan from conservatives. Because of that strategic decision, we will prevail.

