

THE HERITAGE LECTURES

442

**Why
Conservatives
Need a National
Health Plan**

By Stuart M. Butler



The Heritage Foundation was established in 1973 as a non partisan, tax-exempt policy research institute dedicated to the principles of free competitive enterprise, limited government, individual liberty, and strong national defense. The Foundation's research and study programs are designed to make the voices of responsible conservatism heard in Washington, D.C., throughout the United States, and in the capitals of the world.

Heritage publishes its research in a variety of formats for the benefit of policy makers; the communications media; the academic, business, and financial communities; and the public at large. Over the past five years alone The Heritage Foundation has published some 1,500 books, monographs, and studies, ranging in size from the 927-page government blueprint, *Mandate for Leadership III: Policy Strategies for the 1990's*, to the more frequent "Critical Issues" monographs and the topical "Backgrounders," "Issue Bulletins," and "Talking Points" papers. Heritage's other regular publications include the *SDI Report*, *Business/Education Insider*, *Mexico Watch*, and *Policy Review*, a quarterly journal of analysis and opinion.

In addition to the printed word, Heritage regularly brings together national and international opinion leaders and policy makers to discuss issues and ideas in a continuing series of seminars, lectures, debated, briefings, and conferences.

Heritage is classified as a Section 501(c)(3) organization under the Internal Revenue Code of 1954, and is recognized as a publicly supported organization described in Section 509(a)(1) and 170(b)(1)(A)(vi) of the Code. Individuals, corporations, companies, associations, and foundations are eligible to support the work of The Heritage Foundation through tax-deductible gifts.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

The Heritage Foundation
214 Massachusetts Avenue, N.E.
Washington, D.C. 20002-4999
U.S.A.
202/546-4400

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-

Stuart M. Butler is Vice President of Domestic and Economic Policy Studies at The Heritage Foundation. He spoke at The Heritage Foundation on November 5, 1992, as part of the W.H. Brady Series on Defining Conservatism. ISSN 0272-1155. ©1993 by The Heritage Foundation.

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.

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

... A conservative [health care] proposal must change the political debate.... Anything short of this will mean that we shall merely lose slowly.

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

