

The Washington Post

Tuesday, July 28, 2009

Obama's Plan Isn't the Answer

By Martin Feldstein

For the 85 percent of Americans who already have health insurance, the Obama health plan is bad news. It means higher taxes, less health care and no protection if they lose their current insurance because of unemployment or early retirement.

President Obama's primary goal is to extend formal health insurance to those low-income individuals who are currently uninsured despite the nearly \$300-billion-a-year Medicaid program. Doing so the Obama way would cost more than \$1 trillion over the next 10 years. There surely must be better and less costly ways to improve the health and health care of that low-income group.

Although the president claims he can finance the enormous increase in costs by raising taxes only on high-income individuals, tax experts know that this won't work. Experience shows that raising the top income-tax rate from 35 percent today to more than 45 percent -- the effect of adding the proposed health surcharge to the increase resulting from letting the Bush tax cuts expire for high-income taxpayers -- would change the behavior of high-income individuals in ways that would shrink their taxable incomes and therefore produce less revenue. The result would be larger deficits and higher taxes on the middle class. Because of the unprecedented deficits forecast for the next decade, this is definitely not a time to start a major new spending program.

A second key goal of the Obama health plan is to slow the growth of health-care spending. The president's budget calls explicitly for cutting Medicare to help pay for the expanded benefits for low-income individuals. But the administration's goal is bigger than that. It is to cut dramatically the amount of health care that we all consume.

A recent report by the White House Council of Economic Advisers claims that the government can cut the projected level of health spending by 15 percent over the next decade and by 30 percent over the next 20 years. Although the reduced spending would result from fewer services rather than lower payments to providers, we are told that this can be done without lowering the quality of care or diminishing our health. I don't believe it.

To support their claim that costs can be radically reduced without adverse effects, the health planners point to the fact that about half of all hospital costs are for patients in the last year of life. I don't find that persuasive. Do doctors really know which of their very ill patients will benefit from expensive care and which will die regardless of the care they receive? In a world of uncertainty, many of us will want to hope that care will help.

We are also often told that patients in Minnesota receive many fewer dollars of care per capita than patients in New York and California without adverse health effects. When I hear that, I wonder whether we should cut back on care, as these experts advocate, move to Minnesota, or wish we had the genetic stock of Minnesotans.

The administration's health planners believe that the new "cost effectiveness research" will allow officials to eliminate wasteful spending by defining the "appropriate" care that will be paid for by the government and by private insurance. Such a constrained, one-size-fits-all form of medicine may be necessary in some European health programs in which the government pays all the bills. But Americans have shown that we prefer to retain a diversity of options and the ability to choose among doctors, hospitals and standards of care.

At a time when medical science offers the hope of major improvements in the treatment of a wide range of dread diseases, should Washington be limiting the available care and, in the process, discouraging medical researchers from developing new procedures and products? Although health care is much more expensive than it was 30 years ago, who today would settle for the health care of the 1970s?

Obama has said that he would favor a British-style "single payer" system in which the government owns the hospitals and the doctors are salaried but that he recognizes that such a shift would be too disruptive to the health-care industry. The Obama plan to have a government insurance provider that can undercut the premiums charged by private insurers would undoubtedly speed the arrival of such a single-payer plan. It is hard to think of any other reason for the administration to want a government insurer when there is already a very competitive private insurance market that could be made more so by removing government restrictions on interstate competition.

There is much that can be done to improve our health-care system, but the Obama plan is not the way to do it. One helpful change that could be made right away is fixing the COBRA system so that middle-income households that lose their insurance because of early retirement or a permanent layoff are not deterred by the cost of continuing their previous coverage.

Now that congressional leaders have made it clear that Obama will not see health legislation until at least the end of the year, the president should look beyond health policy and turn his attention to the problems that are impeding our economic recovery.

Martin Feldstein, a professor of economics at Harvard University and president emeritus of the nonprofit National Bureau of Economic Research, was chairman of the Council of Economic Advisers from 1982 to 1984.