

DRAFT

Comments on Fuchs & Shoven "Funding Health Care for All Americans: An Economic Perspective"

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I find myself completely comfortable and at home with Fuchs and Shoven's economic perspective on the challenge of funding universal health care.

The authors' description of who is uninsured and why (the poor, the sick and disabled, the difficult to reach, the low users, the gamblers, and the free riders) succinctly makes the case for the necessity of multiple solutions (subsidies *and* mandates *and* collective purchasing mechanisms).

In discussing the myths of "shared responsibility" and of "government assistance to the middle class", Fuchs and Shoven spell out clearly why we cannot shift the collective costs of our health care to someone other than our collective selves. As Pogo might have said: "We have met the bill payer, and he is us."

That this seems so obvious to so many of us but still is not accepted in the political dialogue is a sad comment on our political process. More optimistically, it could be a political opportunity *if* members of Congress would take the time to generate greater awareness of these illusions (that someone else pays) and lay the ground work for subsequent reform.

Illusion busting is a fertile ground for congressional hearings and can be an important precondition for reform legislation. It is worth noting, for example, that while the deregulation of large parts of our economy is today recalled as a legacy of President Reagan, much of the credit belongs, among others, to Senator Kennedy in the late 1970s, (supported by now-Justice Breyer, then on Kennedy's staff), and then-Congressman Wirth in the early 1980s, who spent years generating political (and media) consensus around the perverse incentives and inefficiencies of our regulation of both price and supply in our transportation (trucking and airlines) and telecommunications industries, respectively, long before legislation was even proposed.

To fund health care and expanded coverage, Fuchs and Shoven persuade me that we would be better off with a dedicated tax (to provide a tighter link between benefit and cost) and that a consumption-based tax (federal VAT or retail sales tax) would be a good candidate. But there are two problems. First, I am too easily persuaded because I like the idea of a tighter link and I like the idea of consumption-based taxes. But the second problem is that, as a political forecast, I don't think we are likely to get both a dedicated tax and a consumption-based tax at the same time.

If the political will can be generated to enact a broad, federal consumption tax, I highly doubt that Congress will be able to resist the temptation to use the revenues for other purposes. First, there is much to commend consumption taxes that fall on both labor and capital, as Fuchs and Shoven explain. Second, in our wealthy and aging society, consumption will be "where the money is". Third, if history is a guide, once a good revenue source is identified Congress will find a way to use it for other purposes. Indeed, in the only clear fault I can find with the paper, I have hard time accepting the idea that, *in economic terms*, the federal payroll tax is actually a "dedicated" one, given the support it has been providing the general account for lo these many years

Finally, let me make the too-obvious point that there will be transition costs that should be discussed when addressing the welfare gains and losses in a new regime - at least to consider on whom they would fall and how their incident might help or retard the process of reform.

For example, any clean break with employer-sponsored health benefits will create an opportunity for both shareholders and employees to try to grab back "benefit-related" compensation. I share the authors' optimism that labor markets are, in general, efficient and that employees should eventually be able to capture most of their prior real income (or enjoy more leisure). Corporate managers, however, on behalf of shareholders, are likely to try to do this as slowly as labor markets permit. But in terms of helping the reform agenda along, this may be a "good thing" in that it may provide an inducement for employers to support reforms that would include a significant change in the funding process.