

Beyond Health-Care Band-Aids

By Ezekiel J. Emanuel and Victor R. Fuchs
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It seems everyone has ideas for health-care reform. President Bush has proposed tax breaks to encourage the uninsured to buy coverage. Massachusetts has approved and California has proposed individual mandates with state subsidies to allow people with low incomes to buy coverage. Maryland wants to raise cigarette taxes to pay for coverage for the working uninsured. John Edwards wants to require employers to provide insurance or pay into a fund that would help individuals buy insurance. Sen. Hillary Clinton has proposed increasing the income eligibility limits for the State Children's Health Insurance Program. And the list goes on.

This profusion of proposals means that health care is getting more attention, and this makes reform more likely. But these proposals are like band-aids and fall far short of what our sick health-care system needs.

They build on what everyone agrees is a broken system. Ultimately, they prop up the sagging employment-based insurance system, with all its inefficiencies and inequities, and preserve the second-class income-tested programs such as Medicaid. By focusing on covering the uninsured, they fail to address either administrative inefficiency or long-term cost control. Consequently, in the short run they require ever more money to cover the uninsured, and in the long run the unabated rise in health costs will quickly revive the problem of the uninsured.

At \$2 trillion per year, the U.S. health-care system suffers much more from inefficiency than lack of funds. The system wastes money on administration, unnecessary tests and marginal medicines that cost a lot for little health benefit. It also provides strong financial incentives to preserve such inefficiency.

By building on the existing health-care system, these reform proposals entrench the perverse incentives.

Moreover, even plans that reduce the number of uninsured today may find that those gains will disappear in a few years if costs continue to grow much faster than gross domestic product. As costs rise, many companies will drop insurance and pay the modest taxes or fees that have been proposed. States will find that costs exceed revenue and that cuts will have to be made.

The State Children's Health Insurance Program (SCHIP) provides a good example of the toxic interactions between public and private coverage. When it was enacted in 1997, SCHIP filled a hole, offering insurance to children whose parents earned too much to be covered by Medicaid but not enough to buy private health insurance. By 2005, 6 million children received health coverage through SCHIP. But SCHIP has had only a small impact on the overall number of uninsured children. In 2006, there were nearly 9 million uninsured children, compared with 10 million uninsured in 1997. Why? As costs rose, some companies stopped offering insurance, others dropped coverage for dependents, and others raised employee contributions to the point where some workers preferred covering their children through SCHIP.

Band-aids are not enough. The country needs comprehensive reform. Here are five essential changes:

- Get businesses out of health care. Health care is not part of their core competencies but something they use as a part of labor relations. It creates job lock and distorts employers' hiring and firing decisions.
- Guarantee every American an essential benefits package. This package -- modeled on what members of Congress get -- should be provided by qualified plans that would receive a risk-adjusted payment for each enrollee. Americans could choose their health plans, with guaranteed enrollment and renewability; "cherry-picking" and "lemon-dropping" would be minimized.
- The universal basic package should be financed by a dedicated tax that everyone pays, such as a value-added tax.

- Administer the program through an independent National Health Board and regional boards modeled on the Federal Reserve System. They would oversee health plans, define the benefits packages and, through strong incentives, facilitate adoption of patient safety measures and electronic management of medical records.
- Establish an independent Institute for Technology and Outcomes Assessment to systematically evaluate new technologies and quantify their health benefits in relation to their costs. These evaluations would be used by the National Health Board and health plans.

Reform based on these measures would eliminate job lock, increase workers' wages and make labor markets more efficient. It would also give Americans -- rather than their employers -- their choice of health plans, doctors and hospitals. And it would eliminate the \$200 billion business tax deduction for providing health coverage.

Most important, such measures would improve efficiency and provide cost control for the health-care system. Eliminating employers' vetting of insurance companies and all associated costs would save tens of billions of dollars. Since all Americans would be guaranteed coverage, means testing and determination of subsidies necessary for Medicaid and SCHIP would be eliminated. Finally, the expected consolidation of the health insurance industry would also increase efficiency.

Only comprehensive change of our broken system can provide universal, portable coverage, reduce inefficiency, control costs and secure health care for all Americans long into the future.

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