

Seriously, Some Consensus About Health Care

By N. GREGORY MANKIWI

WE are entering the season of polarization. With various Republicans vying to replace Barack Obama, the president eager to keep his job, and both the House and the Senate up for grabs, candidates from both sides of the aisle will spend the next year and a half stressing their differences.

But beneath this veneer of partisanship lie a few fundamental agreements. Consider health care, which will be at the center of the political debate. Here are four aspects of the issue in which Republicans and Democrats have stumbled into consensus.

THE VALUE OF COMPETITION Representative Paul D. Ryan, Republican of Wisconsin, has attracted much attention with his plan to reform Medicare. He proposes replacing the current fee-for-service program, in which the government picks up the bill for medical expenses, with a “premium-support” system in which seniors use federal dollars to choose among competing private insurance plans.

Democratic critics of the plan suggest that enacting it would be akin to pushing Grandma over a cliff. But they rarely point out that the premium-support model is in some ways similar to the system set up under President Obama’s health care law. If choosing among competing private plans on a government-regulated exchange is a good idea for someone at age 50, why is it so horrific for someone who is 70?

Republicans, meanwhile, are eager to repeal Obamacare and so are also reluctant to point out its parallels with Ryancare. We can take heart, however, in the kernel of agreement about the value of private competition.

THE INSURANCE MANDATE Perhaps the most controversial piece of the Obama plan is the mandate for individuals to have health insurance. But think for a moment about what this really means. No one has proposed putting the uninsured in jail. Instead, those without insurance will be fined. A mandate is just a financial incentive to have insurance.

What is the Republican alternative for having more people insured? It is unclear what the Republicans would do if they ever succeeded in repealing the health care reform law. However, their last presidential nominee — Senator John McCain — proposed a tax credit for buying health insurance. That may seem more palatable than a mandate, because it uses a carrot rather than a stick.

But consider who would pay for that tax credit. The answer is all taxpayers. This tax burden would be particularly hard on the uninsured, who would face higher taxes without enjoying the credit's benefit. In other words, giving a tax credit to those who buy insurance is a back-door way to impose fines on those who don't.

TAXING THE RICH Democrats want to increase taxes on the rich to fund the looming fiscal gap, which is driven largely by soaring health costs. Republicans object, saying higher taxes create economic distortions, discourage work and impede growth. Last month, John A. Boehner, the House speaker, said that we should instead consider means-testing Medicare. But what does that mean?

Here is how means-testing might work. We could start by choosing some income threshold — say, \$250,000 — and then require people over 65 with higher annual income to pay more in Medicare premiums than they do now. For example, for every \$1,000 of income beyond the threshold, they might have to pay an extra \$10 in annual premiums.

Sounds good, right? But notice that the economic effects of means-testing are much the same as a tax increase. This particular plan is like increasing the income tax rate by one percentage point for high-income seniors. It is only semantics as to whether the \$10 is called a “tax” or a “premium.”

Indeed, means-testing could create more economic distortions than would broad-based tax increases. Seniors have more flexibility in how much they work than do typical Americans. In particular, for many people, the timing of retirement is discretionary. The higher marginal tax rates implicit in means-testing will induce people to leave the labor force earlier than they

otherwise would. This would deprive the economy of some of its most experienced and productive workers.

BLINKERED OPTIMISM Democrats and Republicans generally have different approaches to controlling the growth of health care spending. Democrats often favor a top-down approach: a panel of experts set up by the recent health care law will decide which medical procedures are cost-effective and which are wasteful. Republicans tend to prefer a bottom-up approach: empower consumers to make their own choices, they say, and the power of competition among private providers will keep costs down.

One thing that the two parties share, however, is the belief that controlling health care costs is possible. Yet many economists believe that the rise in health spending is largely the result of medical advances, which prolong and enhance life at a high cost. Perhaps health spending will inevitably, and even should, keep rising as a share of national income.

This possibility raises a question: If health care becomes an increasing share of the economy, how will we allocate it, and how will we pay for it? That is, if controlling the cost of health care fails, what is Plan B?

That is a question that candidates from both political parties agree on as well: they all seem determined to avoid it.