A Perfect Opportunity for Health Reform

A confluence of forces provides an almost perfect opportunity for health reform this year. Not the perfect reform, perhaps, but one that would significantly improve a sadly flagging system. The only obstacle—a big one—is politics.

Right now, congressional Democrats are pressing to reauthorize and expand children's health insurance as a way to jump-start a better system. This expansion has already incurred a veto threat, partly because of costs. Separately, some congressional Republicans have indicated serious interest in reforming the way the tax system subsidizes health insurance. The Democrats, in their turn, have reacted with a yawn.

So far both attempts are flawed, but only partially. Put them together, remove some warts, and a combination package could boost the number of insured children and adults well beyond what either proposal in its current form could do. The whole would be much more efficient and fair than the two parts. In addition, the combo could easily avoid any negative impact on the budget, especially in the long term. It's as close to a perfect win-win situation as Washington permits.

Here are the ground rules. Congress must make some important health care decisions over the next two years. They include reauthorizing and expanding SCHIP (the State Children's Health Insurance Program) but without reducing the demand for private health insurance, resetting the physicians' payment structure within Medicare, and reforming Medicare in other ways to keep its costs and the overall budget within some reasonable bounds.

The president's FY 2008 budget provided a good opening gambit for a separate health policy reform: tackling the tax break for buying health insurance that only applies to policies purchased through an employer. This tax advantage is broadly recognized as inefficient and inequitable. Among other problems, it most favors those with the highest incomes and those who buy the most expensive health insurance policies with excessive use of health procedures and drugs.

The president's proposed replacement tax subsidy tackles some of these problems, but it still favors those with the highest incomes (although less so than under current law) and deals inadequately with protecting people with high health risks.

Alas, any health push must deal with the reality of the budget. Admittedly, the rhetoric surpasses the substance, but both sides seem to be pushing harder today than in the past few years to deal with the budget. There's a nearly universal pledge from Democratic and Republican officials to move toward budget balance within a few years. Meanwhile, the president has at least put on the table an option for slowing the swift Medicare growth rate—the budget's biggest long-term headache. Plus, Democrats in Congress have pledged, at least for now, to stay with "pay as you go" rules that require changes in taxes and entitlements to be balanced by not increasing the deficit. Political translation: real reforms must also identify budget losers.

Mixing and matching health initiatives within a limited budget might be politically difficult, but economically it can operate to enhance the effectiveness of reform—producing more daring health initiatives that almost assuredly advance the cause of greater health insurance for all.

Here are the two sides of a win-win health reform compromise:

To expand health insurance coverage,

• provide a more universal credit to assist with the purchase of health insurance
• tilt the credit significantly toward children;
• offer states money either to integrate a credit with reform of SCHIP and Medicaid or to otherwise expand SCHIP; and
• provide subsidies for high-risk people through health insurance pools.

To pay for these health insurance expansions,

• cap or otherwise limit existing tax breaks for health insurance purchase;
• place at least some minimal mandates on individuals that they must buy health insurance or else lose other tax breaks, such as personal and dependent deductions and child credits (following the lead of Massachusetts and California);
• if the mandate is extended to child credits, increase the size of those credits; and
• place stricter limits on the exorbitant and unsustainable growth in Medicare costs, perhaps through more effective triggers.

Each of these options has merit, adding to the probability that a compromise package would significantly improve the fairness and efficiency of government-subsidized health insurance.

The obstacles are many. Proposals that change the status quo inevitably create controversy. Many congressional leaders seem to be biding their time, waiting for the next presidential election to sort things out. I suggest, however, that the forces for good health reform will seldom be as aligned as they are right now.
*The Government We Deserve* is a periodic column on public policy by Eugene Steuerle, a senior fellow at the nonpartisan Urban Institute and a former deputy assistant secretary of the Treasury. To subscribe or unsubscribe to *The Government We Deserve*, click [here](#), or simply reply to this e-mail with a request to be removed.

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