The Government We Deserve
GENE STEUERLE

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The Individual Mandate and the Math-less Health Reform Debate

Regardless of how the Supreme Court decides the constitutionality of the individual mandate, the health care debate is now reignited. If the mandate is sustained, the Accountable Care Act enacted under President Obama still has too many kinks to remain unaltered. If it's thrown out, a return to the unsustainable system with growing numbers of uninsured is not a solution. Yet no fix is possible as long as elected officials dodge the basic arithmetic of health care.

As for the individual mandate, ignore the constitutional briefs for the moment. Ignore also how a mandate helps address problems that arise if insurance companies must offer coverage regardless of prior conditions and people otherwise are tempted to wait until they are sick to buy it. Instead, let's see how a mandate fits it into the broader arithmetic of paying for health care.

Here are the numbers: The United States spends about 18 percent of its economic output (GDP) on health care each year. That comes to about $23,000 of health care spending per household. The CBO estimates that in 2016 a family of four with $60,000 in total income and benefits would spend, or have spent on its behalf by employers or government, about a third of that amount on health care. If all federal and state government health spending and subsidies were covered with a flat tax on total adjusted gross income nationwide, the required rate for its health policies alone would be about 18 percent. If the government were to cover all health costs, that rate would climb to 32 percent. With all this in mind, lawmakers determined under health reform that the maximum a family should pay for health insurance when bought from an exchange is about 10 percent of its income.

Of course, we are already spending much more on health care than what politicians say we can afford to pay, so where does all the extra money come from? Medicare taxes and income taxes pay to cover those on Medicare, Medicaid, and other government programs. Workers get significantly less cash compensation when working for employers providing health insurance. We borrow a lot from China and other foreign countries, and, more recently, from the Federal Reserve.

The system is cracking from this simple disconnection between what we pay and what we think is the most we should pay. And no recent health reform effort can be understood without seeing how that disconnection drives the policy choices.

No one, Democrat or Republican, is willing to collect enough taxes to cover even the government's current costs—much less the costs that would arise with greater government provision. No politician will level with the public about the true cost required to support our existing health programs and tax subsidies. More taxes have limited sway for other reasons as well: while we do need to start paying more of our bills for broad budgetary reasons, why should additional tax dollars be spent on such an expensive health system rather than other social priorities?

The Affordable Care Act attempted to cover new costs without adding significantly to tax burdens. The individual mandate was one way it tried to force us to pay, at least for ourselves. The law also included an employer mandate designed to prevent employers from dropping employee health insurance (since many employees' tax subsidies are worth far less than the new exchange subsidies that cover insurance costs above 10 percent of family income). Congress also tried to box in states to contribute as much or more than they already do to Medicaid, another part of the constitutional debate.

None of those efforts, however, tackle the original sin driving health costs. Whether dealing with the old or the young, the government's health programs are open-ended. Both we as customers of health care and our doctors, drug companies, and other providers are empowered to spend more on our care and, as a result, increase taxes on others or impose costs on others within our insurance plans. Both political parties are afraid to take this power away from us or health providers. Only very tentatively has Congress tried to empower boards to constrain costs, or to convert Medicare to more of a premium support or voucher system—and only with an outcry from one political party whenever the other is the first to suggest that anyone anywhere might get less. The political contradictions abound: Democrats want premium support for the young and oppose it for the old; Republicans want premium support for the old and oppose it for the young.

Meanwhile, as costs keep rising, more people either can't or won't pay for their health care and turn to others for their support—either through government programs or just showing up at the emergency room and letting the insured cover those costs.

Extend the arithmetic beyond health care, and other budget problems reveal themselves as well: a dramatic reduction in the share of government spending for children, education, and investment; limited growth in take-home pay of middle-income workers as employer-provided health insurance costs rise rapidly; and a decline in government's flexibility to respond to the next emergency, attack, or recession.

The Supreme Court may well throw some balls back into the air, but how much will it resolve? For the most part, very little. It remains a math-less debate.

The Government We Deserve is a periodic column on public policy by Eugene Steuerle, an Institute fellow and the Richard B. Fisher Chair at the nonpartisan Urban Institute. Steuerle is also a former deputy assistant secretary of the Treasury. The opinions are those of the author and do not necessarily reflect those of the Urban Institute, its trustees, or its sponsors.