Vol. 4, No. 4

Winter 1993

THE COMMUNITY LEADER'S LETTER

NEWS & VIEWS FOR SOUTH CAROLINA'S GRASSROOTS LEADERS

Trade-offs Among Access, Choice & Costs Unavoidable In Health Care Policy Debate

See page 3 for a chart on universal coverage provisions of the five health care policy bills now before the U.S. Congress.

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As Americans face the complicated issue of health care reform, the biggest problem is that we all want more from a national health policy than can be achieved. Former Surgeon-General C. Everett Koop has reduced the problem to its bare essentials. He says Americans want

1. everyone to have access to proper health care
2. choice of physicians and other care providers
3. low cost

The dilemma is that Americans can have two of the three, but cannot have all three. Trade-offs are unavoidable, but people do not agree on which two goals are most desirable. Some consensus exists that costs must be contained. If we agree that low cost is a necessity, then a trade-off must be made between universal access to care and choice of care providers.

So how do the five bills before Congress stack up? The Clinton administration's proposal (American Health Security Act of 1993-HR3600, S1757) emphasizes universal access and (potentially, but not assuredly) lower costs, but at some disguised sacrifice of choice. President Clinton's reasoning is simple: unless we are willing to turn away those who cannot afford to pay for health care, those who can pay will have to pick up the tab for those who cannot—that is, so-called "cost-shifting." And if those who cannot pay also have freedom of choice, they will choose expensive care that will drive costs through the roof. The president would probably deny it, but the Clinton health plan will constrain our choice. So, too, does the proposal of Sen. John Chafee, R-RI, (Health Equity and Access Reform Today-S1770).

The House Republican plan (Affordable Health Care Act of 1993-HR3080) and Sen. Jim Cooper's, D-TN, Managed Competition Act (HR3222) de-emphasize universal coverage. By allowing for a tax-free savings account to pay for health care costs, these two plans encourage choice and shopping around to hold down costs, trusting market forces to contain costs. But neither of these proposals faces up to the difficult ethical question of what happens to those who cannot (either because of misfortune or irresponsible behavior) pay. If they are not turned away, cost-shifting will remain a problem and make it difficult to contain health costs.

Yet universal coverage almost inevitably means an expanded government role in health care. Both experience and theory suggest that government agencies expand and expand, eating up more and more tax dollars while hampering private initiative with bureaucratic regulations and red tape. Rep. Jim McDermott's single payer plan (American Health Security Act of 1993-HR1200, S491), modeled after the Canadian system, is straightforward in accepting an expanded government role with all its attendant

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In furtherance of Clemson University's land-grant mission, the Community & Economic Development Program at Clemson provides access for community leaders in South Carolina to expertise in all branches of knowledge on the University campus.

ECONOMIC BRIEF NO. 14

Tax Incentives: A Mixed Blessing

It's difficult to design a tax break to reach the poor. Suppose South Carolina gave a $1,000 income tax deduction for disabled family members. A high-income family would save $70 while a low-income family might save $30 to $40. Families not filing—likely to include severely disabled persons—might not get any benefit at all.

Want to help the disabled? save the farmers? encourage small town merchants? reward people who hire welfare clients? lure new industry? Give them a tax break!

For the last decade or two, a tax break was the economic equivalent of "take two aspirin and call me in the morning." No matter what the complaint, it could be remedied with another exclusion, deduction, or tax credit on the income tax, sales tax or property tax.

When used properly, a tax break is an incentive to which taxpayers can choose to respond or not. An income tax deduction for mortgage interest, for example, has made owning a home more attractive than renting and investing in other assets. This tax break has given the United States one of the highest rates of home ownership in the world.

Tax credits and deductions are very attractive to those who place a high value on economic freedom and prefer choices to rules and private producers to government. Consider the tax deduction for contributions to charity. Studies show that this deduction is very effective in inducing citizens to support charities. Many charities provide services and activities that government might otherwise have to provide. The charitable deductions can be viewed as a matching grant program partly funded by government and partly by citizens. The key is voluntary choice and private production.

Tax breaks have some drawbacks, however. First, deductions, credits and exemptions make administering and complying with the tax law more complex. A relatively simple tax break, such as the exemption of Bibles from sales tax, can lead to difficult decisions for buyers, sellers, tax administrators, and the courts. Is a Bible calendar or a Bible tape covered? Does this exemption violate separation of church and state? Do sellers have to report Bible sales separately to claim the exemption? Multiply this example by hundreds or thousands and soon an army of tax administrators, accountants, and lawyers is interpreting and applying tax law.

Second, each tax break creates a revenue loss that must be made up by increasing taxes on everyone else or by cutting services. Property tax breaks for new firms mean higher property taxes on established firms and homeowners. The governor's proposal to give an income tax credit for preschool children means a loss of income tax revenue that will have to be made up by cutting state services and programs or raising taxes somewhere else.

Third, a tax break intended as an incentive will include people who would have taken the desired action anyway. Some families may enhance their homes to get a property tax rebate for beautification. Others would have enhanced their surroundings anyway, but now get a tax break bonus. The amount of revenue lost may be high relative to the increase in the desired activity.

Finally, unless a tax break is carefully crafted to reach the poor, it is likely to benefit the rich more than the poor. Income tax breaks benefit itemizers in higher tax brackets and don't benefit non-itemizers or nonfilers. It is possible to design tax breaks aimed at the poor, but usually they are more complicated to administer.

The poor are often used as an excuse to create tax breaks that go disproportionately to higher income families. Exempting food from sales tax is suggested as a way to reduce the tax burden on the poor. However, the very poor who buy food with food stamps already pay no sales tax. While such an exemption would bring some small improvement in the situation of the near-poor with incomes just above the food stamp level, the 85 percent of the population that is not poor would get most of the benefit. So the state revenue lost per dollar gained by the poor is very high.

Tax breaks have a role to play in the revenue structure, but overusing a good tool means eroding the tax base and complicating the tax system, often without reaching the intended people or objective.

Available from the Strom Thurmond Institute by subscription: *The Economic Situation.* Authored by Bruce Yandle, Senior Fellow of the Institute, this quarterly newsletter provides commentary on national, regional and state economic trends affecting South Carolinians. It is designed to help the reader make a personal economic forecast. Price: $10.00; make checks payable to Clemson University.

Health Care Policy Debate *(From p 1)*

risk of bureaucratic medicine.

Can our health care problems be solved by the free market? Perhaps. But most decisions we make in the market place do not involve matters of life or death. Because our material wealth may be of no consideration if we do not have life, health care providers are in a position to act much like the robber who sticks a gun to one's head and says: "Your money or your life." Or, as an old Clemson professor used to say: "The health care industry is rapidly reaching the point that it can keep all of us alive long enough to use up everything we have accumulated in our lifetimes."

That is not to say that the many dedicated men and women who spend their lives providing health care are only motivated by greed. But because costs are likely to be relatively less important in purchasing health care than in purchasing other goods and services, the usual concerns that business must face—whether a technology can be sold at a cost people are willing to pay—do not discipline health care costs. Unless there is keen competition imposing cost discipline in the health care industry, there will be few incentives for health care providers to be cost-conscious. And sick people are usually not inclined—perhaps are not even able—to shop around for bargain care.

Of course, one additional op-

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(For a six-page description of the coverage and standard benefits packages of the health care bills in Congress, send a stamped, self-addressed long envelope to the attention of Ada Lou Steirer at the Strom Thurmond Institute.)

UNIVERSAL COVERAGE FEATURES OF HEALTH CARE BILLS BEFORE U.S. CONGRESS

American Health Security Act of 1993 (President Clinton's Plan) (HR3600, S1757)-Americans assured universal coverage by 1998-Insurers required to provide coverage to everyone regardless of health status-Insurers forbidden to charge higher premiums for sick individuals-Americans guaranteed a package of benefits including free preventive care-Americans guaranteed choice of certified health plan, including the choice of a fee for service option-Low income Americans, including those Medicaid eligible, subsidized by government-Employers required to pay some of premium cost-Individuals required to acquire health insurance coverage-Health alliances established to negotiate with networks of providers to offer the lowest possible prices for coverage. Standard benefits package spelled out in the bill.

Affordable Health Care Act of 1993 (House Republican Plan) (HR3080) Robert Michel (R-IL)-Americans not assured universal coverage-Restrictions for preexisting conditions, for those who are continuously covered, prohibited-Employer health plans prohibited from being canceled or denied renewability-Employees offered access to lower cost group health insurance by requiring that all employers offer but do not necessarily pay for health insurance-Individuals allowed tax deductions from gross income for catastrophic health plan-Individuals allowed deductions to apply to medical savings account. Standard benefits package not specified in the bill.

Health Equity and Access Reform Today (Senate Republican Plan) (S1770) John Chafee (R-RI)-Americans assured universal coverage by 2000-Insurers required to provide coverage to everyone regardless of health status-Insurers forbidden to charge higher premiums to those who are sick-Individuals required to acquire health insurance coverage-Federal vouchers provided for those who still cannot afford coverage but are Medicaid or Medicare ineligible-Americans who change jobs provided coverage under the new employer's plan at the same price until they become eligible for coverage under another plan. Standard benefits package spelled out in the act.

American Health Security Act of 1993 (Single Payer Plan) (HR1200, S491) Jim McDermott (D-WA)-Americans assured universal coverage by 1995-Program state administered and primarily funded by federal taxes and funds formerly used for Medicare and Medicaid-Coverage beyond standard benefit package, provided by employer or purchased by individual, taxed or penalized-Private insurance, Medicare, CHAMPUS, and Medicaid no longer needed. Standard benefits package spelled out in act.

Managed Competition Act (HR 3222) Jim Cooper (D-TN)-Americans not assured universal coverage-Accountable Health Plans (AHPs) unable to charge higher rates for patients with a history of high medical bills-Health plan premium subsidies available under new federal program-Individuals and families with incomes below 100% of state-adjusted poverty level fully subsidized, those between 100% and 200% receive sliding scale subsidy-Provision for the division of the state into Health Purchasing Cooperatives (HPPCs) areas provided by state-Cost of very expensive health plans taxed for both employer and individuals. Standard benefits package not specified in bill.

The Community Leader's Letter ***is printed four times a year. It is the newsletter of the Community & Economic Development Program at Clemson University, a joint program of the Strom Thurmond Institute, the Cooperative Extension Service, the South Carolina Agricultural Experiment Station, the College of Commerce and Industry, and Office of Public Affairs. Program offices are in the Institute's facility on the Clemson University campus.***

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Health Care Policy Debate *(From p 3)*

tion is simply to leave the present system in place. Those who can afford to pay or who have good health insurance as a fringe benefit of their jobs may find this option attractive. But it leaves the growing cost-shifting problem, and without reform to hold down costs, there is almost no possibility that the federal budget deficit can be brought under control.

None of the five proposals now on the table is beyond criticism. Given that we want more from health care policy than it is possible to achieve, trade-offs must be made that few of us show much willingness to accept. If one gives priority to universal access while containing costs, some sacrifice of choice is essential; and the Clinton or Chafee plans, in broad outline form, are reasonable choices.

If one insists on choice and low costs and is willing to turn away at least some who cannot pay, the House Republican or Cooper plans are reasonable choices. If one does not worry about expansion of government and is willing to let government ration health care, the Single Payer plan is worth considering.

Of course, we could just opt for the status quo. But in doing so, we must understand that the federal deficit is likely to balloon out of control, cost-shifting will cause insurance to become increasingly unaffordable for individuals and businesses, some persons with existing health problems will be denied insurance altogether, and labor market flexibility will be compromised by persons opting to stay on an existing job rather than risk loss of health insurance in a job move.

How does South Carolina rank in public spending and taxes?

Revenue rankings:		**Expenditure rankings:**	
Federal aid	21	General expenditure	35
Own source general revenue	44	Elementary and secondary education	34
Tax revenue	44	Higher education	25
Property taxes	37	Public welfare	21
Individual income taxes	28	Health and hospitals	5
Corporate income taxes	43	Highways	50
General sales taxes	32	Corrections	16
Excise/selective sales taxes	39	Governmental administration	40
Tobacco	47	Interest on debt	41
Alcoholic beverages	4		

Rankings of the 50 states for per capita state and local revenues and spending in various categories in fiscal year 1991 are from **Significant Features of Fiscal Federalism** *(U.S. Advisory Commission on Intergovernmental Relations). Low rankings on revenue items reflect not only lower tax rates but also lower per capita income compared to many other states.*

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