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Taxing Drugs, Doc Visits and Even Surgery?

By MICHELLE HIRSCH, The Fiscal Times
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One of the major flaws in the nation's health care system is that most resources go to treating people with chronic diseases, while little goes to preventative care. So, what to do? One controversial idea being promoted by a team of health care experts is to impose a tax on every doctor visit, surgical procedure and prescription. That recommendation is contained in a recent report issued by The Institute of Medicine, a highly regarded organization of medical professionals and researchers. The study said that a medical transactions tax could be a key ingredient in bolstering public health care services enough to bring down long-term health costs.

The upside to this plan is that the cost of preventive public health care services would be built-in to the cost of receiving medical care; the downside is that consumers will fund that change in the form of steeper co-pays or deductibles, higher premiums, or higher amounts taken out of their paychecks for health insurance.

"As a country, we are paying twice as much as other countries for delivery of illness care, without the health outcomes they are able to achieve," said David Fleming, Seattle's director of public health and one of the report's authors. "So tapping a small portion of those expenditures as a source of revenue to invest instead in mechanisms to keep people healthy and out of the hospital in the first place makes good, logical financial sense."

The IOM does not propose a specific federal tax rate on medical care, but estimates that a half a percent transaction tax would raise $12 billion a year if levied on all medical transactions paid for through private insurance, Medicare, Medicaid, out of pocket, or otherwise.

A2 percent transaction tax, which Minnesota currently levies on all medical transactions to expand access to care in the state, could yield as much as $50 billion per year. But report authors who spoke with The Fiscal Times say they believe a rate closer to half a percentage point is more reasonable on a national scale.

The institute wants to use the money for expanded public health services focused on preventative care such as anti-smoking and anti-obesity programs, vaccinations against communicable diseases, and chronic disease screening. The report's authors argue that the U.S. under-invests in targeting these conditions, which they say are major culprits pushing overall U.S. health care expenditures up about 4 percent each year on top of inflation. Critics of the plan say that preventive health care is built into most plans and that incentives have not made dramatic differences. Michael Tanner, Senior Fellow at the Cato Institute said, "I assume they're going to put out more public-service ads that say, '"being fat is bad,'" but I can't see how that would make a dent. We've been telling people in this country that obesity is a bad thing for a long time, but we keep getting more obese. The lifestyle choices that are involved are not something that's amenable to 30-second ads on TV or even legislation."

The IOM has a track record on shifting the terms of debate on health care. In the early 2000s2000s, the quasi-independent agency flagged the nation's growing ranks of uninsured as detrimental to public health and the economy. "This is a case of the IOM telling us what we ought to paying attention to whether the political system is ready for it or not," said Len Nichols, a health economist at George Mason University. "At a minimum this idea could give an ambitious politician a starting point."

Others say the challenges of boosting preventive care don't run parallel to the new health care law's mandate to provide more people with health insurance. "There isn't a comprehensive health plan in the country that doesn't cover preventive health services, so slapping a tax on the health care system to fund that doesn't add up," said Joe Antos, a health policy expert at the American Enterprise Institute. "With the Affordable Care Act, the problem was people not having insurance period. But with this, people are going to ask, 'why should I pay more if I've already got this?'

Currently, the federal government provides about $11.6 billion annually to public health departments—about three percent of the $2.5 trillion it spends each year on all health care programs. The report argues that doubling annual spending to $24 billion could substantially slow the growth of health care spending in future years.

The report leaves it up to lawmakers to hammer out the exact details of how insurers, and by extension consumers, would shoulder the costs. But some of the panelists acknowledge that the cost of higher investment in public health will land on the consumer.

"Somebody has to pay for it," said George Isham, Chief Health Officer of HealthPartners, a nonprofit health care provider, and one of the report's authors. The panel arrived at the national medical transaction tax idea "reluctantly," Isham said. "There are a lot of inefficiencies in health care delivery and spending, and we certainly have the power to correct some of it and find some savings," he said. "But we also came to the conclusion that that wouldn't be enough to fund the investment in the public health and social services that the nation needs."

Isham, and two of the other report authors say a half a percentage point tax on medical transactions is small enough not to discourage Americans from visiting the doctor or taking their prescriptions, and could play an critical role in ultimately reducing medical bills for all Americans.

"While health care costs are increasing at an unsustainable rate, this very small, one-time increase is a drop in the bucket," said Fleming who claims that this tax won't deter consumers from seeking medical care since currently, the four percent annual rate of cost increase is a far bigger burden on Americans than a half percentage point tax. Marthe Gold, chair of the report, echoed Fleming. "The intent is not for the consumer to feel more money going into the medical care system," she said. "The reality of what this would feel like [for the consumer] would be kind of lost in the shuffle of the $2.6 trillion medical care budget."

In fact, if the extra revenue for public health were combined with a nationwide push to make health care delivery more efficient, "consumers could eventually end up with a net decrease in total premiums despite the $12 billion investment in public health," Isham said.