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**Arnold Kling**  
June 24, 2009 4:00 AM

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### The Non-Debate over Non-Reform

The Democrats' health-care proposals promise to entrench the status quo.

By Arnold Kling

As the discussion of health-care policy unfolds, what we are seeing is a non-debate over non-reform. The Democratic proposals promise to entrench the status quo, which does not fit with the principles of personal responsibility and fails to allocate resources sensibly.

To show what I mean, hold up ten fingers. Each finger represents 10 percent of health-care spending in the United States. Five fingers — half — represent what is paid for by government programs, such as Medicare and Medicaid. Four of the remaining fingers represent what is paid for by private health insurance. One finger represents what individuals pay out of their own pockets.

To move in the direction of personal responsibility, we have to make more of our health-care system look like the one finger — as was the case as recently as 1960, when the share of medical expenses paid for by individuals out of pocket was 50 percent. This is a radical idea for reform, and neither political party is talking about it. Instead, the Democrats are trying to incrementally make the system look more like the five fingers now represented by government. And in opposing the Democrats' reforms, the Republicans risk being put in the position of trying to protect the four fingers of private health insurance.

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Our health-care system is wasteful. We spend far too much money with relatively little to show for it. That would be of little concern if individuals were wasting their own money. However, because close to 90 percent of personal health-care spending is paid for by third parties, we are wasting each other's money. This approach has its attractions; as individuals, we all want unlimited access to medical services without having to pay for them.

However, this is not sustainable. Employer-provided health insurance is unraveling, as workers are getting less take-home pay while employers are shelling out more to compensate workers in the form of health care. Medicare is even less viable. It faces tens of trillions of dollars in unfunded liabilities, meaning the gap between what future beneficiaries have been promised

and the taxes that we expect to collect to fund those promises. Rather than make hard choices to restrain costs, the political mechanism works to satisfy existing constituencies now and pass the liability on to future generations.

Some form of restraint in our choice of medical procedures is going to be necessary. The debate we should be having is over whether restraint in our use of medical services should be initiated by government officials or left to consumers. The Democrats want to avoid that debate. Instead, they make it sound as if they can make excess health-care spending disappear by magic. But even if we were to stipulate for the sake of argument that all of the supposed savings from preventive care, electronic medical records, and eliminating the waste and greed supposedly inflicted by insurance companies and doctors will actually materialize, the excessive use of medical procedures would still be the main problem with our health-care system.

Both government rationing and consumer cost-sharing seem unpleasant. The debate between the two approaches would not be one-sided. But until Democrats are willing to stand up toe-to-toe and have that debate, we will not see any move toward cost-effective health-care reform.

Assuming such a debate took place, how might one advocate consumer-driven health care within it? I believe we need to do three things.

First, government assistance should take the form of vouchers, given to people based on need. Government must end the practice of reimbursing health-care providers for services. Instead, consumers with low incomes or expensive pre-existing conditions should be given vouchers that compensate for their disadvantages. Consumers can then decide which health-care services best meet their needs, based on what they can afford given their own resources and the vouchers.

Second, Medicare should be phased out — by gradually raising the age of eligibility — in favor of a system that encourages people to save for the health coverage they will need in their old age. This is the only way to fund health care for the elderly on a sustainable basis. People should be given savings targets and tax credits that help them meet those targets.

And third, private health insurance should be deregulated. Affordable health insurance requires radical changes to the way health-insurance policies are designed today. In order to get there, we need less regulation of health insurance, not more. My hope is that the industry would come up with plans that pay claims to only those who fall within the top 2 or 3 percent in terms of health-care needs; those who need basic care would pay out of pocket. Health insurance would look like fire insurance. Few of us would make claims, and premiums would be affordable.

I am under no illusion that my ideas for health-care policy are going to play a role in the debate this year. However, by the same token, the public ought to be under no illusion that what the politicians are calling health-care reform offers any hope for a real solution to the compounding cost of American health care.

— *Arnold Kling is the author of Crisis of Abundance: Rethinking How We Pay for Health Care, published by the Cato Institute. He writes for econlog.econlib.org.*

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