



Transform The VA Into A Pro-Growth Model For First Rate Health Care

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The VA (Veterans Administration) scandals show why so many people have been so highly motivated for so long to fight against Obamacare. That is because of the perfectly rational fear that Obamacare will end up doing to the entire American health care system what the VA has done to health care for America's veterans.

Many have already commented that the VA system is actually pure socialized medicine. The government doesn't just pay for health care or health insurance under the system for our nation's veterans. The government actually builds and owns the hospitals and their clinics, and hires the doctors and nurses, who serve as government employees. The government then finances the operation of these facilities, actually providing the health care directly itself. Those eligible for VA benefits then go to these government facilities to get their health care.

This is basically how the notorious British National Health Service (NHS) operates. I say notorious because the National Health Service is famous for running a strict rationing system, with the government determining who gets what health care and when, and deciding who gets told when its time to go home and die. In my 2011 book, I suggested that Britain's National Health Service is probably responsible for the deaths of more British subjects than the Nazis and Adolf Hitler. But a thorough study would be necessary to document that.

The NHS does not do this out of malevolence. It does it because when the government is dispensing free health care, there must be some means to control costs. With no market prices, incentives, or competition to control costs, the only choice is for the government to decide when the money train stops at the station to let some off. Ironically, a system originally adopted supposedly so everyone could get health care becomes an institutionalized means for deciding when some shall be denied health care.

The British people accept the cold, calculating, health care rationing of the NHS because of a social belief that it is necessary for everyone to get health care. That is deluded because market competition and incentives will work in health care the same as for everything else. But when social mores prevent anyone from questioning the status quo, and alternatives from being considered, the people and the society suffer. That is essentially the same social process more

generally which left many societies around the world stagnant with no economic growth for centuries going back to the Dark Ages. British health care could ultimately be liberated by starting social experiments with Health Savings Accounts, which would teach eye opening social lessons.

America's VA, with all market prices, incentives and competition excluded from the system, operates with similar health care rationing. The VA is given a "global budget" each year that it can spend for health care for our nation's veterans and no more. With no prices or competition for anyone in the system to weigh costs against benefits, the only way total costs for essentially free health care can be kept within that budget is for the VA bureaucracy to deny health care through some form of rationing. That is primarily accomplished within America's social mores with long wait times for the free VA health care granted to veterans, effectively denying or at least stretching out health costs.

That is why Larry Kudlow is so right when he says in his May 23 column, "The VA problem is not Shinseki, it's socialism." That is why America's VA operates like the socialized medicine systems of Great Britain, Canada, and continental Europe, with long delays for the sick to obtain necessary health care, and other bureaucratic means of reducing access to quality care to control costs (again without consumer choice and market competition to control costs, there must be some means to control costs). These problems are so serious that at dozens of veterans are now documented to have suffered premature deaths due to lack of health care, and the full scope of the problem may involve the same for many more.

The problem is not inadequate spending on the VA, which socialist Democrats are trying to argue. As John Merline reported in Investor's Business Daily on May 20, from 2000 to 2013, VA spending nearly tripled while the population of veterans declined by 4.3 million. Moreover, as Michael Tanner of the Cato Institute reports, 344,000 veterans' care claims are now backed up and waiting to be processed. But it takes 160 days, almost half a year, for health benefits approval. For those who have to appeal a decision, the wait is 1,598 days, or more than four years.

Forbes' own Avik Roy in his thorough May 23 column explains how America fell into the VA experiment with socialized medicine. The roots of the VA go all the way back to 1827, before the modern American health care system had even developed. So the federal government itself had to establish homes for disabled military veterans, and facilities to provide the more rudimentary health care of the time.

By the end of World War II, the VA was responsible for a burgeoning veterans population including aging veterans from World War I as well. This population swamped the available health care at the time. So the VA undertook the burden of sharply expanding the supply of hospitals, clinics, and medical facilities. From 1930 to 1947, the number of VA hospitals more than doubled, from 54 to 120. Today, the VA maintains and operates 153 hospitals, and with 300,000 mostly medical employees, it is the second largest department of the federal government.

But America's private health care system is all grown up now, and the best in the world, by far in my opinion, in providing critical health care to the sick. Just consider premature babies, and the miracles America's health care system achieves with those born less than a foot long, and less than a pound in weight. No other country even really tries to save these most vulnerable newborns today. But in America they now almost routinely are saved to grow up and lead normal lives. Or compare the health care and survival and recovery rates of America's seniors with those of the same age in any other country.

America's veterans now would do far better participating in this same private health care system, along with everyone else. That can be achieved by dividing up the VA budget in equal shares for every veteran, and freeing them to use those sums to help purchase the private health insurance of their choice. That would include Health Savings Accounts (HSAs), which maximize the freedom of control and choice by patients over their own health care, and their own health care dollars. Such HSAs are also the only health policy innovation that have proven to control health costs in the real world, without a third party empowered to deny health care to the patient.

Similar reforms can and should be extended to liberate the poor on Medicaid to obtain better health coverage and care of their own choice. Block grants of federal Medicaid funds back to the states, which were so successful in reforming the old New Deal, Aid to Families with Dependent Children (AFDC) program in 1996, could be adopted while giving the states broad authority to reform Medicaid to best suit the poor in their state. Each state could then experiment with providing the poor with vouchers that could be used to help pay for the health insurance of their choice, including again HSAs. The voters of each state would then decide how much should be given in assistance at each income level to assure that the poor would be able to buy essential health insurance.

Some states might choose to reform their Medicaid programs primarily focusing on providing the poor on Medicaid with HSAs, like Indiana has recently done. Or they might focus more on covering the poor with managed care programs, like Rhode Island has recently done. Or they might leave the choice completely to each poor family. The important point is that broad opportunities exist for states to assure the poor much better access to essential health care than Medicaid currently does, like both Indiana and Rhode Island have done, even with more efficient control of Medicaid spending.

Such reforms should also be extended to replacing Obamacare, with much broader benefits. Because Obamacare is not only a serious threat to the quality and supply of American health care. It also is a major drag on the American economy, due primarily to the costly regulatory burdens imposed by the program, and the perverse, counterproductive incentives involved.

The employer mandate is the source of much of the problem. The mandate raises the cost of employment, and so results in less of it. This effect is exacerbated by the high cost of the health insurance the Obamacare law requires to satisfy the mandate. That is in the process of raising costs even for employers that already provide health insurance for their workers.

President Obama recognizes this, which is why he has unilaterally and without legal authority delayed implementation of the employer mandate required by the Obamacare law, for years now.

He knows, in fact, that the high costs of the Obamacare employer mandate will perversely and counterproductively cause millions to lose the employer provided health insurance they already have.

Because employers and the labor market plan ahead, we have already seen real world effects of this problem. Since the employer mandate only applies to full time employment involving 30 hours a week or more, millions of workers have already seen their hours cut back to part time work below the 30 hours a week threshold. And millions of others have already dropped out of the work force, because they have given up on finding work. This is all documented in the monthly Bureau of Labor Statistics reports. The real world effects can also be seen in the badly lagging U.S. economic growth we have now long suffered under Obama, as the economy never has fully recovered from the recession, which is now years overdue based on the American historical record.

This means that Obamacare can be replaced with reforms that would have major pro-growth effects, spurring the economy to return to the world leading economic growth and prosperity deeply ingrained in America's heritage. Such reforms are needed as well to prevent Obamacare from deteriorating into single payer, socialized medicine, similar to the VA, regardless of the foolish sentiments favoring precisely that we hear from Nancy Pelosi, Harry Reid, and other "Progressives." That can be done while more assuredly achieving the original supposed goal of Obamacare of health care for all.

Even the Congressional Budget Office, which we too easily forget is a bastion of the Washington establishment, has always foreseen that Obamacare would not achieve anywhere near universal coverage, estimating that 30 million would still be uninsured 10 years after full implementation! For careful, reasoned observers, it is not even clear whether Obamacare so far is reducing rather than increasing the number of uninsured, as millions have already lost their health insurance, with millions more to come once the employer mandate is implemented, especially apart from just expanding Medicaid, which adds even more to unmanageable, long term entitlement costs.

By extending similar reforms to those proposed above for both the VA and Medicaid to the replacement of Obamacare, we can, in fact, assure health care for all, with no individual mandate, no employer mandate, sharply reduced regulatory burdens more broadly, and trillions in reduced federal spending and taxes over the years. John Goodman, President of the National Center for Policy Analysis, has long advocated a universal health insurance tax credit for all, which everyone could use to help purchase the private health insurance of their choice. That would involve broadening out the tax preference currently provided only for employer provided health insurance to everyone. He is now advocating a credit of \$2,500 per person per year, which would not completely finance essential health insurance, but provide help and an incentive for it, just like the tax preference for employer provided health insurance does not completely finance, but does provide help and effective incentive for it.

That credit can be used by those on Medicaid to opt out of it for the private health insurance of their choice, including HSAs. Concomitantly, it can be used to opt into Medicaid, assuring coverage for any pre-existing condition is always available. Those with employer provided coverage can still use the credit for alternative private coverage of their choice if they prefer,

again including HSAs. This provides working people with a critical check and balance on their employers, assuring access to the health care of their choice, even when their employer plan does not. For any worker who does not use the credit to purchase private coverage, the \$2,500 for the year goes to indigent care facilities in the worker's local area.

Along with Medicaid block grants to the states, which states could use in part to finance uninsurable risk pools for the uninsured, such reforms would feasibly assure health care for everyone. At the same time, these reforms would be more broadly pro-growth. With no employer mandate requiring the purchase of very costly health insurance for every employee, the cost of employment would be substantially reduced, encouraging more jobs, and higher wages. There would be no longer be any incentive to cut working people back to part time hours. Eliminating the costly Obamacare regulatory requirements on insurance, along with the broader availability of cost reducing HSAs, would reduce unnecessary health costs, further boosting the economy with an effective tax cut for everyone. Reducing taxes and federal spending due to Obamacare by trillions over future years would further enhance economic growth and general prosperity for all. Republicans in Congress are presently drafting such an alternative to Obamacare.

All of this comprehensive health care liberation, from the VA, to Medicaid, to Obamacare, would mean ultimately better health care for all, along with helping to restore economic growth and prosperity, and the American Dream.