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What Now? Four Guiding Principles for Health Care

by [Dan Mitchell](#)

So where do we go from here now that Obama has succeeded in pushing through a [corrupt](#) and [bloated](#) healthcare bill?

Let's start with some good news. This is not the end of the world. If this was 1920, Obamacare would be a paradigm-shifting expansion in the size and scope of Washington. But we do not have a free-market healthcare system today. Government already directly finances nearly one-half of all health expenditures, and the ostensibly private part of our healthcare system is immensely distorted by regulations and tax policy (particularly the exclusion of fringe benefits in the tax code).



Source: CATO Institute

We have deviated so far from a free market that [only 12 percent](#) of healthcare costs are paid for out-of-pocket by consumers. And health insurance, rather than being based on risk and protecting against catastrophic expenses, has morphed into a grossly inefficient form of pre-paid health care.

So what does this mean? The way to think of Obamacare is that we are shifting from a healthcare system 68 percent controlled/directed by government to one that (when all the bad policies are phased in) is 79 percent controlled/directed by government. Those numbers are just vague estimates, to be sure, but they underscore why Obamacare is just a continuation of a terrible trend, not a profound paradigm shift. Yes, it is very bad news. Yes, it will [cost more](#) than politicians claimed. Yes, it will reduce the quality of care. All those things are true, but we are going 79 mph in the wrong direction instead of 68 mph.

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By the way, the 2008 elections did not make that much difference.

Republicans often are just as bad as Democrats when it comes to feckless vote buying. Our healthcare system took a big step in the wrong direction with the passage of the Medicare prescription drug entitlement under Bush. This horrible piece of legislation had the support of almost all the congressional Republicans who were railing against Obamacare last night (where was John Boehner's "Hell no" speech in 2003?). And Senator McCain's healthcare plan would have expanded the role of government, so if he won (and then did one of his infamous "bipartisan" compromises) we probably would have wound up with a healthcare system 73 percent controlled/directed by government.

What matters now is our next steps. There is no magic formula, but we should be guided by these principles:

1. Promote genuine free market principles. The only way to fix healthcare is to [restore the free market](#). That means going back to a system where people pay out-of-pocket for most healthcare and use insurance to protect against genuine risk and catastrophic expenses. The time has come to reduce the size and scope of government.
2. Say no to RINO-style compassionate conservatism. When Republicans do the wrong thing, they are usually [motivated by political fear](#) ("if we don't pass a new prescription drug entitlement, the Democrats will accuse us of not caring about seniors"). This approach ultimately fails. The Democrats take power and have an easier time expanding the burden of government because Republicans have already done much of the work for them.
3. Change Medicare into a system based on personal health accounts and shift all means-tested spending to the states. Congressman Paul Ryan's [Roadmap](#) plan has some good components, but check out Michael Cannon's [work](#) at Cato to get the details.
4. Adopt a flat tax. There are many reasons to implement real tax reform, but the flat tax is ideal from a healthcare perspective since it gets rid of the healthcare exclusion in the tax code as part of a shift to a tax system with low rates and no double taxation.