

## Health Care: Free Markets vs Government

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The debate over healthcare reform is in full swing, with forces aligning on all sides. From our perch, House Speaker Paul Ryan’s health care bill has some appeal. It eliminates roughly \$900 billion of Obamacare taxes over the next 10 years, including the extra 3.8% tax on dividends and long-term capital gains, as well as an extra 0.9% tax on high earners.

In addition, mainly through reforms to Medicaid, (which saw large increases in enrollment due to Obamacare), it reduces spending by roughly \$1.2 trillion. These reforms rearrange a dysfunctional financial arrangement where states chose what gets covered by Medicaid, but the federal government picks up most of the tab. As a result, states have little incentive to find more efficient ways to deliver health care to the poor.

Ryan’s plan also raises the contribution limit on health savings accounts, to make them work better when paired with catastrophic insurance. In general, the Ryan plan reduces spending, cuts taxes, and brings more market forces to bear.

But no matter how many Republicans say so, it’s not a true free-market reform of the health care system. It basically codifies the Obamacare philosophy of healthcare as a “right” for Americans, while changing the methods of financing it, and attempting to reduce its overall cost.

Much of this is based on the idea that Obamacare “worked.” Many people who had no insurance, and went to emergency rooms, now have insurance.

But Obamacare isn’t a smartphone. It isn’t magic, making better health care descend from heaven. It’s just redistribution. Through a politically-complicated transfer scheme of taxes, fines, subsidies, and support to insurance companies, it taxes one group of people to pay for another group of people.

Those who receive the transfers get insurance, while those who pay for it have less after-tax income. The Ryan plan reduces and shifts the redistribution, but the heart of the system stays.

The reason the Ryan plan leaves the system mostly intact is because the budget process of the US Senate won’t allow (without 60 votes) a move to a true free market plan. Moreover, while the Ryan plan cuts spending and taxes, a future Congress could reverse those moves. It’s this potential

for future Congresses to just boost the size of Medicaid payments to the states that has some politicians thinking of ways to change it. Senator Ted Cruz has an intriguing proposal that could allow true free market healthcare to be adopted; it would overcome filibusters and the 60 vote rule.

Normally, bills that deal with taxes and spending, like Ryan’s bill, have to stick within the narrow confines of budget-related issues. If they do, they can pass the Senate with only a simple majority. But if part of a bill isn’t really budget-related any Senator can object, by appealing to the Senate parliamentarian, who would then require 60 votes to keep that part of the bill. That’s a very high hurdle, which means free market reform legislation can’t pass the Senate.

However, Senate rules also allow Vice President Mike Pence, as “president” of the Senate to overrule the parliamentarian. If the Senate chose this path, a GOP majority could do pretty much anything it wanted with 51 votes.

To say this proposal is controversial would be a massive understatement. Democrats would accuse the GOP of “going nuclear.” In effect, the 60-vote filibuster would be dead and some GOP lawmakers say this would lead to both sides taking advantage of this maneuver whenever they controlled the House, Senate, and White House at the same time.

This is a hugely controversial proposal. But Senator Cruz makes the point that once an entitlement becomes entrenched, current budget rules make it nearly impossible to reverse – no matter how inefficient and costly it becomes. This is one key reason government never shrinks and free market plans are never truly implemented.

Cruz’s point is that if the GOP really believes Obamacare is a disaster and that true free market healthcare would be cheaper and better than government healthcare, then it should also believe that once voters get a taste of their system, support for a single-payer system would dwindle.

We doubt this road will be taken, but it does exist. For good or bad, depending on what side of the political spectrum you reside, choosing not to take it codifies government’s role in healthcare for a very long time, maybe forever.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-22 / 9:00 am	Existing Home Sales – Feb	5.560 Mil	<b>5.430 Mil</b>		5.690 Mil
3-23 / 7:30 am	Initial Claims Mar 18	240K	<b>237K</b>		241K
9:00 am	New Home Sales – Feb	0.565 Mil	<b>0.572 Mil</b>		0.555 Mil
3-24 / 7:30 am	Durable Goods – Feb	+1.3%	<b>+2.4%</b>		+2.0%
7:30 am	Durable Goods (Ex-Trans) – Feb	+0.6%	<b>+0.7%</b>		0.0%