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How to Fix the Health-Care ‘Wedge’

There is an alternative to ObamaCare.

By [ARTHUR B. LAFFER](#)

President Barack Obama is correct when he says that “soaring health-care costs make our current course unsustainable.” Many Americans agree: 55% of respondents to a recent CNN poll think the U.S. health-care system needs a great deal of reform. Yet 70% of Americans are satisfied with their current health-care arrangements, and for good reason—they work.

Consumers are receiving quality medical care at little direct cost to themselves. This creates runaway costs that have to be addressed. But ill-advised reforms can make things much worse.

An effective cure begins with an accurate diagnosis, which is sorely lacking in most policy circles. The proposals currently on offer fail to address the fundamental driver of health-care costs: the health-care wedge.

The health-care wedge is an economic term that reflects the difference between what health-care costs the specific provider and what the patient actually pays. When health care is subsidized, no one should be surprised that people demand more of it and that the costs to produce it increase. Mr. Obama’s health-care plan does nothing to address the gap between the price paid and the price received. Instead, it’s like a negative tax: Costs rise and people demand more than they need.

To pay for the subsidy that the administration and Congress propose, revenues have to come from somewhere. The Obama team has come to the conclusion that we should tax small businesses, large employers and the rich. That won’t work because the health-care recipients will lose their jobs as businesses can no longer afford their employees and the wealthy flee.

The bottom line is that when the government spends money on health care, the patient does not. The patient is then separated from the transaction in the sense that costs are no longer his concern. And when the patient doesn’t care about costs, only those who want higher costs—like doctors and drug companies—care.

Thus, health-care reform should be based on policies that diminish the health-care wedge rather than increase it. Mr. Obama’s reform principles—a public health-insurance option, mandated minimum coverage, mandated coverage of pre-existing conditions, and required purchase of health insurance—only increase the size of the wedge and thus health-care costs.

According to research I performed for the Texas Public Policy Foundation, a \$1 trillion increase in federal government health subsidies will accelerate health-care inflation, lead to continued growth in health-care expenditures, and diminish our economic growth even further. Despite these costs, some 30 million people will remain uninsured.

Implementing Mr. Obama’s reforms would literally be worse than doing nothing.

The president's camp is quick to claim that his critics have not offered a viable alternative and would prefer to do nothing. But that argument couldn't be further from the truth.

Rather than expanding the role of government in the health-care market, Congress should implement a patient-centered approach to health-care reform. A patient-centered approach focuses on the patient-doctor relationship and empowers the patient and the doctor to make effective and economical choices.

A patient-centered health-care reform begins with individual ownership of insurance policies and leverages Health Savings Accounts, a low-premium, high-deductible alternative to traditional insurance that includes a tax-advantaged savings account. It allows people to purchase insurance policies across state lines and reduces the number of mandated benefits insurers are required to cover. It reallocates the majority of Medicaid spending into a simple voucher for low-income individuals to purchase their own insurance. And it reduces the cost of medical procedures by reforming tort liability laws.

By empowering patients and doctors to manage health-care decisions, a patient-centered health-care reform will control costs, improve health outcomes, and improve the overall efficiency of the health-care system.

Congress needs to focus on reform that promotes what Americans want most: immediate, measurable ways to make health care more accessible and affordable without jeopardizing quality, individual choice, or personalized care.

Because Mr. Obama has incorrectly diagnosed the problems with our health-care system, any reform based on his priorities would worsen the current inefficiencies. Americans would pay even more for lower quality and less access to care. This doesn't sound like reform we can believe in.

Mr. Laffer is the chairman of Laffer Associates and co-author of "The End of Prosperity: How Higher Taxes Will Doom the Economy—If We Let It Happen" (Threshold, 2008). His research on health care can be viewed at www.lafferhealthcarereport.org.

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