A Better Way to Spread the Health -- and the Wealth

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President Bush's health care proposal gets it half right.

Moving the country toward "catastrophic"-type insurance policies is indeed the way to go, a necessary step in getting Americans to be more value-conscious in their consumption of health care services. We know that Americans spend too much on health care and get too few results and that over-insurance is a contributing factor. Having well-informed patients with some "skin in the game," even if only for non-emergency care, is part of the solution.

Where Bush goes off the rails is arguing that health care savings accounts are the best way to move the country toward a consumer-driven health care system based on catastrophic insurance. In truth, they are an expensive, inefficient and regressive way to accomplish that goal.

Let's consider the two issues as they should be -- separately.

Don't give too much credence to those dire warnings that any move away from comprehensive health care coverage will result in widespread death and disease. We know from John Wennberg and his associates at Dartmouth College that as much as half of all health care consumed in some regions is medically unnecessary. And we know from a definitive Rand Corp. study that cost-sharing by patients can eliminate waste without affecting health outcomes -- except, perhaps, for those who are both sick and poor.

Will there be some people who choose not to get care under a "catastrophic" insurance plan because they don't want to pay a share of the cost? Sure. But that "bad" can't be considered in a vacuum. It has to be weighed against the "good" that would come from being able to offer more affordable policies to 45 million uninsured Americans and their employers, at prices 25 percent

I should add here that my preference would be to require all employers to offer a catastrophic policy to all employees and pay at least half the premium. But that is a politically charged discussion, one best left for another day.

Now, on to health care savings accounts.

One of the driving principles behind the Bush plan is to eliminate the heavy bias in the tax code in favor of those who get employer-paid health insurance. This amounts to a whopping $175 billion-a-year subsidy for the 170 million Americans with private insurance, tilted heavily to those in the upper half of the income bracket.

Any economist would tell you that the right policy is to eliminate this subsidy, or at least cap it, as the president's own tax revision commission recommended. But instead, the president went in exactly the opposite direction, proposing to "level the playing field" by offering the same or even larger tax breaks to anyone who sets up a health care savings account and purchases high-deductible insurance.

What he should have proposed is as economically elegant as it is politically risky: Replace the deduction for health insurance premiums with a tax credit that would rebate the same $175 billion to policyholders in a more progressive manner. This sliding scale might work out to a $2,500 per-person refundable credit for those in impoverished households and nothing for those in the wealthiest 10 percent of households. As an additional backstop for the poor and sick, there could be additional tax credits for out-of-pocket health care spending, including premiums, in excess of 10 percent of income.

While these ideas may seem radical, it turns out they have broad support among health care economists and policy experts. Some go back decades to a proposal made by Harvard University's conservative economist Martin Feldstein.

Others, such as the refundable tax credit, are included in more modest amounts in the fine print of the Bush program. There are even faint echoes of the "managed competition" of the Clinton health care plan.

Taken together, they represent a sensible approach to health care reform -- a uniquely American strategy for socializing the health insurance market without socializing health care.

Steven Pearlstein will host a web discussion at 11 a.m. today athttp://washingtonpost.com. He can be reached atpearlsteins@washpost.com.