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Editorial

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Iraq aside, the most important debate in Congress this year may be the one unfolding over health care. The immediate battle concerns the Democratic attempt to expand the State Children's Health Insurance Program, or Schip. Its larger significance is as a prelude to the philosophical fight between private and government health care that is likely in 2008.

Schip expansion has become the consensus Democratic strategy for quietly growing the government's share of health spending. Schip was created in 1997 as a way to cover children from lower-income families who make too much to qualify for Medicaid. But Democrats, both in Washington and in many states, are trying to make it a new middle-class entitlement.

About a quarter of the states already use their Schip grants to cover families at or above 200% of the federal poverty line – even 400%, or \$82,600 for a family of four, as New York has in the works. Some 45% of American children are on public assistance through Medicaid or Schip. The Bush Administration wants to increase the \$25 billion Schip budget by \$5 billion over the next five years; Democrats want to bump it up by \$60 billion and make it easier to cover even many affluent families. This is HillaryCare on the installment plan, and Senate Democrats have scheduled a truncated debate to whip it through with little public attention.

Many Republicans, meanwhile, seem oblivious or too afraid to oppose a program sold in the name of "children." They're falling into the traditional, pre-Reagan GOP trap of proposing a somewhat cheaper version of what Democrats want. This mentality was on display last week at the Senate Finance Committee, where Chuck Grassley and other Republicans agreed to an increase of 61 cents per pack in the cigarette tax to pay for a \$35 billion Schip expansion. They also rigged the funding to conceal an additional \$30 billion in Schip spending. These Republicans are prepared to settle once again for being tax collectors for the welfare state.

What the Senate, and the country, need instead is a bigger debate over whether Americans really want this stealthy, slow-motion socialism. And that means that Republicans ought to use the Schip debate to pose a reform alternative that moves health care toward a system based on market principles and more consumer choice. President Bush has done precisely that by offering changes to the tax code as part of his Schip proposal, and GOP Senators would be smart to rally around some version of it.

While there are many problems with American health care – the market is fragmented into 50 state regulatory fiefdoms, the tort lottery drives up costs – the tax code is the heart of the matter. The current employer-based insurance system is a vestige of World War II: Companies couldn't compete on wages (which were controlled) for scarce labor, so they competed on such benefits as health care. The feds then codified the trend by making employer health expenditures tax deductible, while failing to do the same for individuals.

Liberals prefer to see health care mainly as an issue of the uninsured – and thus an opportunity for more government largesse – but the current market is distorted for those who are insured as well. The "third-party payment" system insulates people from the cost of their treatment decisions and makes it expensive for those without employer coverage to buy in. It increases risk and uncertainty when individuals change jobs, and burdens employers with increasing medical costs.

Restoring the tax parity of health dollars would go a long way to improving the system and increasing access and affordability for everyone, including the 16% or so who are uninsured. It would allow individuals to buy policies themselves rather than rely on their employers, and take those policies with them wherever they work.

We prefer the tax change Mr. Bush proposed in his 2007 State of the Union – a standard family tax deduction of \$15,000 for health insurance. About 80% of all Americans would do better than they do now, while the other 20% are those who currently have the most gold-plated employer coverage. They'd still have more than enough insurance options.

Some Republicans are leaning toward a universal tax credit, which would be "refundable," meaning you'd receive it regardless of tax liability. We think a deduction is cleaner as tax policy, introducing fewer distortions. But the tax credit "scores" better for covering the uninsured, so some Members of Congress think it is an easier political sell.

In any event, the specific tax proposal is less important than the larger philosophical debate. Democrats run Congress and aren't about to let the President's plan become law – notwithstanding some notable backbench interest from the likes of Oregon's Ron Wyden. Meanwhile, President Bush has promised to veto any large expansion of Schip, and we hope enough Republican Senators will filibuster it so he doesn't need to.

The immediate policy goal should be to prevent any further expansion of Schip, but the larger political opportunity is to begin educating Americans that there are better ways to provide health insurance than through a government takeover.