

Universal, Effective and Affordable Health Insurance: An Economic Imperative

Jason Furman and Robert E. Rubin

THE HAMILTON PROJECT was founded to develop an economic strategy together with innovative policy ideas to promote three goals: growth, broad-based participation in growth, and economic security in a changing global economy. One important part of this strategy is achieving universal health insurance coverage that is both affordable and effective. Access to health care is not just a major social objective but also an economic imperative.

HEALTH CARE RECONSIDERED

Options for Change

In total 45 million Americans are uninsured and the Institute of Medicine estimates that 18,000 of them die prematurely each year as a result.¹ But the problems are much broader than just the uninsured. The typical insured family pays, directly and indirectly, more than one-sixth of its income for health care. And this expensive care is far less effective than it should be: Americans get too little preventive care when well, and only 55 percent of proven-effective therapies are administered when they are sick. At the same time, one-third or more of many major medical procedures are either inappropriate or of debatable value.²

Moreover, the problems of uninsurance and expensive or ineffective care are interrelated. More medically effective care could also be more affordable, reducing the number of uninsured. Conversely, it is impossible to address fully the problems of affordability and effectiveness without covering everyone. Much of the health care the uninsured do get is costly and inefficient with the costs passed on to others. Insuring everyone would not just eliminate these uncompensated cost shifts, it would also enable the health system to function better by expanding risk pooling and reducing the fragmentation of financing.

It is impossible to address fully the broader problems in the health care system without covering everyone.

Responding to these interrelated health challenges is also critical for economic performance more broadly for four reasons:

- 1. Rapidly rising premiums put a strain on businesses, wages and jobs.** When premiums jumped 52 percent from 2000 to 2005,³ the rising cost of compensating workers led businesses to cut jobs, particularly in sectors like manufacturing that tend to offer workers good health coverage.⁴ Over a longer period, workers generally bear the cost of higher premiums in the form of lower wages. Finally, rising premiums have led employers to drop coverage: the percentage of nonelderly Americans with employer-sponsored insurance has fallen from 70 percent in 1987 to 62 percent in 2005.⁵
- 2. Ineffective care results in a less productive workforce** that misses more days of work and performs less effectively on the job. The benefits

of better health care create a positive externality for other workers and other firms that is not captured by the individuals or employers paying for the health care, creating an important role for government in public health and other areas.

- 3. The rapid increase in public health spending is a central cause of the serious fiscal challenges** we face in the years and decades ahead, a challenge that represents a deep threat to our economic well-being if not addressed. Solving the long-run financing challenges facing Medicare and Medicaid requires addressing the similar growth in health spending taking place in the private sector.
- 4. Health care security is an important piece of the broader question of economic security.** America's patchwork, incomplete system of health insurance impedes the flexibility the economy needs to thrive and grow. Many workers are effectively locked into their jobs because they fear losing health insurance. According to one study, improvements in labor mobility would benefit both workers and firms by 25 percent.⁶ Moreover, the market-based economics and trade liberalization which are key to strong growth are more politically sustainable when workers have a greater sense of security and feel that they have more to gain and less to lose from the global economy.

New Approaches

The Hamilton Project has released two sets of discussion papers on how a combination of private markets and effective government policies can reform health care. The first set contains proposals intended to promote greater affordability and more effectiveness in the health care system. In the second set are proposals to achieve universal health care coverage. These discussion papers represent the views of their authors and do not reflect a specific position taken by The Hamilton Project. In some cases, the approaches are complementary. In other cases, they represent alternative approaches to achieve the Project's broad goals of promoting growth, broad-based participation, and economic security. In every case they are intended to be innovative ideas that will promote discussion and debate on one of the central economic challenges facing the United States.

1. Institute of Medicine (IOM). 2003. *Hidden Costs, Value Lost: Uninsurance in America*. IOM Committee on the Consequences of Uninsurance. Washington, DC: IOM.
2. McGlynn, Elizabeth A., Steven M. Asch, John Adams, Joan Keeseey, Jennifer Hicks, Alison DeCristofaro, and Eve A. Kerr. 2003. The quality of health care delivered to adults in the United States. *New England Journal of Medicine* 348 (26): 2635-2645 and McGlynn, Elizabeth A. 1998. Assessing the appropriateness of care: How much is too much?. RAND Research Brief, RB-4522. RAND, Santa Monica, CA. <www.rand.org/pubs/research_briefs/RB4522>.
3. In inflation-adjusted terms.
4. Kaiser Family Foundation and Health Research and Educational Trust. 2006. *Employer Health Benefits 2006: Annual Survey*. Washington DC: Kaiser Family Foundation. <www.kff.org/insurance/7527/upload/7527.pdf> and Reber, Sarah and Laura Tyson. 2004. Rising Health Insurance Costs Slow Job Growth and Reduce Wages and Job Quality. Working paper.
5. U.S. Census Bureau. 2006. Income, poverty, and health insurance coverage in the United States: 2005. *Current Population Reports* (August).
6. Madrian, Brigitte C. 1994. Employment-based health insurance and job mobility: is there evidence of job-lock? *Quarterly Journal of Economics* 109 (1): 27-51.

Achieving Universal Coverage

[Achieving Universal Coverage Through Medicare Part E\(veryone\)](#)

Gerard Anderson and **Hugh Waters** of the Johns Hopkins Bloomberg School of Public Health propose expanding a well-known public health insurance program—Medicare—to offer an affordable coverage option to all firms and individuals wishing to buy into it. The proposal achieves universal coverage using individual and employer mandates, with subsidies for low- and moderate-income families.

[Evolving Beyond Traditional Employer-Sponsored Health Insurance](#)

Stuart Butler of the Heritage Foundation proposes state-chartered health insurance exchanges to give workers access to portable coverage and effective insurance pools. Without requiring changes to the current system, the proposal would turn non-sponsoring employers into facilitators of coverage. The proposal also reforms the tax treatment of health care to make it fairer and more progressive.

[A Comprehensive Cure: Universal Health Care Vouchers](#)

Ezekiel Emanuel of the National Institutes of Health and **Victor Fuchs** of Stanford University propose government-provided vouchers that would entitle every American—regardless of income or health—to a comprehensive package of health benefits. The vouchers would be funded by a dedicated value-added tax. The proposal takes advantage of the private insurance market to promote efficiency and also includes a variety of cost containment mechanisms.

Forthcoming: [Achieving Universal Health Care Coverage through Nationwide Adoption of the “Massachusetts Model”](#)

Jonathan Gruber of the Massachusetts Institute of Technology will examine the feasibility, costs, and benefits of extending nationwide the “Massachusetts model,” which provides universal coverage through a combination of mandates, subsidies, and alternative insurance risk pools.

Enhancing Affordability and Effectiveness

[Mending the Medicare Prescription Drug Benefit: Improving Consumer Choices and Restructuring Purchasing](#)

Though the new Medicare Part D provides important drug benefits to the elderly, it suffers from a variety of problems. **Richard Frank** of Harvard Medical School and **Joseph Newhouse** of Harvard University propose a reform that would better utilize the forces of competition to improve health outcomes, reduce the financial risks faced by the elderly, and provide options for closing the gap in coverage (the donut hole).

[A Wellness Trust to Prioritize Disease Prevention](#)

America’s health infrastructure is ill-suited to deliver services that would reduce the largely preventable or manageable chronic diseases that now ac-

count for most of the deaths and costs in the health care system. **Jeanne Lambrew** of the Center for American Progress proposes the establishment of a Wellness Trust to prioritize, fund, and deliver preventive services, thereby contributing to a healthier and more productive nation.

[The Promise of Progressive Cost Consciousness in Health Care Reform](#)

The disconnect between what people pay out-of-pocket for health care and the full cost of that care has driven up the cost of health care without increasing the quality of care. In this paper, **Jason Furman** of The Hamilton Project shows that more effective forms of cost sharing, such as income-related cost sharing, could restrain health spending, improve the effectiveness of health spending, and insulate families from major financial risks.

The Hamilton Project seeks to advance America's promise of opportunity, prosperity, and growth. The Project's economic strategy reflects a judgment that long-term prosperity is best achieved by making economic growth broad-based, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments. Our strategy—strikingly different from the theories driving economic policy in recent years—calls for fiscal discipline and for increased



public investment in key growth-enhancing areas. The Project will put forward innovative policy ideas from leading economic thinkers throughout the United States—ideas based on experience and evidence, not ideology and doctrine—to introduce new, sometimes controversial, policy options into the national debate with the goal of improving our country's economic policy.

The Hamilton Project Update

A periodic newsletter from The Hamilton Project is available for e-mail delivery. Subscribe at www.hamiltonproject.org.

The Project is named after Alexander Hamilton, the nation's first treasury secretary, who laid the foundation for the modern American economy. Consistent with the guiding principles of the Project, Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that "prudent aids and encouragements on the part of government" are necessary to enhance and guide market forces.

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