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## The American Right-Wing Policy Agenda

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## Review Essay

# The American right-wing policy agenda

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## Healthy Competition: What's Holding Back Health Care and How to Free It

M. Cannon and M. Tanner

*Washington: Cato Institute, 2005*

## Healthy, Wealthy, and Wise: Five Steps to a Better Health Care System

J. Cogan, R.G. Hubbard and D.P. Kessler

*Washington and Stanford, AEI Press and Hoover Institution, 2005*

Right-wing health policy is alive and well in the United States. Pro-business and libertarian health policy advocacy groups, generously funded by right-wing foundations (and, in some instances, by the health care industry), produce a continuous stream of press releases, policy-statements, books, articles, and symposia, as well as testimony before legislative and administrative bodies. Their positions are taken very seriously by the American media, who make certain that right-wing policy experts are represented in any discussion of current health policy issues.

Right-wing health policy advocates have found an ardent supporter in President George W. Bush, who has actively pushed their agenda. They have also found a sympathetic ear in federal agencies such as the Federal Trade Commission (FTC/DOJ 2004) and the Center for Medicare and Medicaid Services. Even the United States Congress (at least until the 2006 elections) has been quite receptive to their message. The 2003 Medicare 'Modernization' Act was a triumph for conservative health policy, finally making widely available federal tax subsidies for health savings accounts, the cornerstone of the right's health policy agenda. Other countries also have their right-wing policy advocates – the Fraser Institute in Canada and the Institute of Economic Affairs in the UK, but nowhere else do they enjoy the power they hold in the United States.

Michael Cannon and Michael Tanner's *Healthy Competition* and John F. Cogan, R. Glenn Hubbard, and Daniel P. Kessler's *Healthy, Wealthy, and Wise* should be read by anyone who wants to understand this movement and the challenge it poses to liberal orthodoxy in health policy. These books are of particular interest because, although they offer similar critiques of the current United States

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health care system and both endorse market solutions to its problems, their specific prescriptions are quite distinct, representing different perspectives within the American right. They are, therefore, useful not just for understanding the right-wing American health policy movement, but also for observing nuances within that movement.

The authors of *Healthy, Wealthy, and Wise: Five Steps to a Better Health Care System* are all economists. The book is published by the American Enterprise Institute and the Hoover Institution, two middle-of-the road free-market advocacy organizations. Cogan and Kessler are fellows at the Hoover Institution, and have appointments at Stanford University. Hubbard is a visiting scholar at the American Enterprise Institute and the Dean of the Graduate School of Business at Columbia. The authors do not just write about health policy; they have played an active role in making it. Hubbard was the Chairman President Bush's Council of Economic Advisors from 2001 to 2003. Cogan was an economic advisor to President Bush during the 2000 electoral campaign and served as the director of Bush's budget transition team.

*Healthy, Wealthy, and Wise*, as its subtitle signals, presents a five plank platform for health policy reform. It is of modest length, 88 pages (small pages with large print), plus appendices and notes. It consists of an introduction and three chapters. Chapter 1 diagnoses the problems that plague the United States health care system, chapter 2 presents the five step agenda (with one extra suggestion, studying the tax preferences afforded nonprofit hospitals), and chapter 3 discusses the projected impact of the proposals on health-care spending, on the uninsured, on the federal budget, and on the distribution of tax benefits.

Parts of the agenda are quite familiar to anyone who has followed the politics of American health care in recent years. Specifically, the authors call for federal preemption of state health insurance regulation and caps on damages for pain and suffering and other non-compensatory damages in malpractice litigation. Medical malpractice has been a political battleground in the United States for years, with Republicans supporting organized medicine in its call for limiting damages and with Democrats playing to trial lawyers who oppose legislation in the area. Opposition to state health insurance coverage mandates has also become a vital issue for the insurance industry and their supporters in Congress. The authors also call for expanded and improved health care report cards and practice guidelines (a position that essentially spans the political spectrum) and for more rigorous enforcement of the antitrust laws, including heightened scrutiny of hospital mergers and of physician boycotts.

The most innovative proposal of *Healthy, Wealthy, and Wise*, indeed the real focus of the book, is the author's proposal to provide full tax deductibility of all health care expenditures for persons who purchase at least catastrophic health insurance. The cost of employment-based health insurance has for at least a half a century been tax free in the United States. Employers can exclude the cost of employee health insurance as a business expense, while employees pay neither income nor payroll tax on the value of health insurance or on insurance benefits. Premiums for non-employment-based health insurance are not tax subsidized (except, recently, for the self-employed) and out-of-pocket health care expenses

are only deductible once they exceed 7.5% of income. The favored tax status of employment-based insurance is certainly one of the reasons (though also certainly not the only reason) why employment-based health insurance has become the foundation of health coverage for the non-elderly in the United States.

Right-wing advocacy groups have for at least three decades vehemently criticized the tax subsidy for employment-related insurance. They point out that it is unfair, providing a much more generous subsidy for the wealthy, who pay higher tax rates, than for low-income workers, who pay little or no income tax in the United States (although they do pay payroll taxes, and thus receive some benefit from the tax deduction). The author's biggest concern, however, is that the subsidy encourages excessive insurance coverage (since a dollar's worth of insurance coverage is worth more than a dollar in wages), which in turn encourages excessive consumption of health care through moral hazard. A foundational belief of right-wing policy advocates in the United States is that Americans have too much health insurance, and that this is the primary reason why the United States spends so much on health care. Moral hazard is the central problem of health care policy.

*Healthy, Wealthy, and Wise* is heretical, therefore, in its call for expanding the health insurance tax subsidy rather than abolishing it. But, the authors argue, if all health care expenses, including premiums for non-group health insurance policies and out-of-pocket expenses were subsidized, the playing field would be leveled. Many Americans would forego employment-related health insurance, choosing instead to purchase a less expensive high-deductible catastrophic policy (which, under the terms of the proposal, they would have to purchase to gain the benefit of the tax subsidy), and to cover other medical expenses out-of-pocket. The authors argue (and provide an equation-filled appendix to support their argument) that once households were paying for most of their medical expenses out-of-pocket, they would spend less, shopping around for lower prices and foregoing wasteful and unnecessary medical care, causing a drop in health care expenditures, and an increase in tax revenues as households spent the money they would otherwise have spent on medical care on other things.

The authors realize that tax deductions are worth little to those who earn too little to pay taxes, and thus propose modest tax credits for 'very-low-income households'. They also propose an independent public subsidy for the chronically ill, recognizing that competitive health insurance markets exclude those with predictable high health care costs. Finally, the authors recognize the political risk of destroying employment-based health insurance (which polling data show enjoys wide support in the United States), and thus would allow employment-related insurance to be excluded from payroll as well as income tax liability (while non-employment-related insurance and out-of-pocket expenses would only be deductible for income tax) to give it a continued competitive edge.

Cannon and Tanner's *Healthy Competition* is a much more radical book. Both Michael Cannon and Michael Tanner are employees of the Cato Institute, and neither have academic appointments, although Cannon has served as a domestic policy analyst with the Senate Republican Policy Committee. Their book is rigorously and consistently libertarian, as is the Cato Institute. Cannon and Tanner see the health insurance tax subsidy as the absolutely central problem in American

health policy, and unflinchingly call for its abolition. Like Cogan, Hubbard, and Kessler, however, they recognize that this is politically unrealistic, and call for increased flexibility for health savings accounts, seeing this as the best hope for expanding out-of-pocket expenditures and for encouraging high-deductible individual insurance policies. Their primary goal is to 'remove government influence from consumers' decisions about health care and insurance' (Cannon and Tanner, 2005: 71) by encouraging the use of HSAs, which in turn will increase individual responsibility for health care costs and diminish moral hazard.

So far Cannon and Tanner sound a great deal like Cogan, Hubbard, and Kessler, although the mechanism through which they would encourage non group insurance and out-of-pocket expenditures differs. At this point, however, they largely part ways. Cogan, Hubbard, and Kessler do not attack our major public insurance programs, Medicare and Medicaid. They rather focus their attention on employment-related insurance. Cannon and Tanner see both programs as completely dysfunctional, and call for replacing the Medicare program with prefunded personal accounts and replacing Medicaid with a much diminished state-run voucher or cash-assistance program.

They also have a much more radical deregulatory agenda. Like Cogan, Hubbard, and Kessler, they would deregulate health insurance, but instead of federalizing regulation they would rather allow the purchase of insurance across state lines, thus encouraging a race to the bottom in insurance regulation. They go much further, however, calling for the end of the Food and Drug Administration approval system for drugs and devices, the creation of a market in human organs, and the end of licensing of health care professionals. In sum, they would to the full extent politically possible eliminate all government involvement in the health care system.

Although Cannon and Tanner offer a more radical prescription for curing the American health care system than do Cogan, Hubbard, and Kessler, both books share a common underlying understanding as to how the world operates. The authors of both books also share with other right-wing health policy advocates a common set of stories about the history and nature of the American health care system and the health care systems of other countries. I explore this understanding and these stories further in a forthcoming book (Jost, 2007).

First, and ultimately most important, right-wing health policy advocates believe that economics, and more particularly the microeconomics of the Chicago school, provides the most reliable and accurate explanation of human behavior, and indeed a comprehensive tool for understanding human behavior. This belief in the necessity and sufficiency of economic explanations for human behaviors – to the exclusion of alternatives such as history, sociology, psychology, philosophy, theology, or political science – pervades their literature.

Second, right-wing health policy advocates believe in the vital importance of individual freedom of choice in health care transactions. Health policy experts from other traditions usually describe the ideal health care system as having three attributes: universal accessibility, reasonable cost, and high quality. *Healthy Competition* articulates a different trinity of values: 'quality, affordability, and choice' (Cannon and Tanner, 2005: 2). Choice appears to be the greatest of the three, for 'individual choice actually promotes lower prices and higher quality'

(Cannon and Tanner, 2005: 5). Any constraint on individual freedom of choice, be it imposed by the government through regulation or even by private arrangements, such as managed care, impedes the achievement of economic efficiency.

Individual freedom to exercise control over resources is not just an economic issue to most advocates; it is a moral and political value as well. Accepting a positive right of access to health care for all on any basis other than ability to pay would mean, in the words of Cannon and Tanner, 'imposing an obligation on Jones to provide health care for Smith', thus limiting the right of Jones to choose how to direct his own resources (Cannon and Tanner, 2005: 35).

Third, right-wing health policy advocates believe that the best way to express, and conversely to gauge, individual preferences is through individual expenditures of money. Only by requiring consumers to spend their own money on health care services can we be sure that they truly value health care goods and services more than other goods and services. Indeed, health care products and services are subject to the same laws of supply and demand as are other products and services. Health care enjoys no special status as a consumer good.

Fourth, advocates believe that health care professionals and providers, just like consumers, are primarily motivated by economic considerations. Correspondingly, the best way to get health care providers to offer better or less expensive care, as well as to encourage innovation, is to get the financial incentives right by creating competitive markets.

Fifth, advocates tend to reject the notion of a 'need' for health care. They believe that health care services have value only insofar as they are valued by individuals. Consistency, therefore, would require that they reject the notion of a 'need' for medical services independent of demand for medical services. This indeed seems to be the position of some advocates at least some of the time. They may often seem quite skeptical of the value of health care services (Cogan, Hubbard, and Kessler, 2005: 15), and are particularly critical of the wastefulness of government health care programs (Cannon and Tanner, 2005: 80–81).

But, while advocates at times seem to reject the concept of objective 'need' for health care, they can also wax eloquent about the wonders of modern medicine. This is particularly true when they compare health care in the United States to that found in other countries (Cannon and Tanner, 2005: 17–23). In this mode, they emphasize the innovativeness and creativity of American health care research, its objective, scientific, contribution to health (Cogan, Hubbard, and Kessler, 2005: 8–13; Cannon and Tanner 2005: 17–18). Other countries with publicly funded health care systems, they suggest, discourage innovation and depend on the United States to move medicine forward (Cannon and Tanner, 2005: 17–18). Advocates also contend that other countries ration health care, by which they mean that other countries deny 'needed' health care products or services.

Sixth, right-wing advocates believe that there are no inherent limits to the demand for health care. If consumers are not required to pay the full cost of medical products and services, their demand for services will be limited only by the opportunity cost of the time that it takes them to acquire the services or by whatever bureaucratic barriers a health care system places in their way to ration care. Again, moral hazard is seen as the central problem of health policy.

From these philosophical and political assumptions grows a particular understanding of how health care systems function. First, as already noted, right-wing advocates believe that insurance as it now exists in the United States (and indeed throughout the world) is the problem, not the solution. The uninsured are not the problem; the over insured are.

Second, advocates generally reject any significant role for government in regulating or financing health care. This opposition is in large part driven by their general belief that governments are inherently corrupt. Laws, including those that govern health care, are the means through which organized groups with political power further their own interests, which often means protecting themselves against real market competition (Cannon and Tanner, 2005: 35). Real markets are grounded in the interests of all individuals as those individuals themselves perceive those interests, and thus better represent the public interest than government does. Government regulation inevitably distorts markets, introducing waste and inefficiency.

Like regulatory programs, benefit programs are inherently inefficient and distort health care markets (Cannon and Tanner, 2005: 35–38). Government benefit programs encourage inadequate care and restrict beneficiaries' choice of providers and services, while administered pricing formulas distort competition. Health care programs for the poor also impose perverse incentives on their recipients, discouraging work and savings and crowding out private insurance (Cannon and Tanner, 2005: 96–97). Moreover, regardless of their intent or structure, government-funded health benefit programs are unavoidably inefficient because they depend on taxation for funding, and taxation is inherently distortive and inefficient (Cannon and Tanner, 2005: 34).

Third, right-wing advocates are in general skeptical about the seriousness of the problem of the uninsured in the United States. They believe that most Americans who do not purchase health insurance or health care are simply choosing to spend their money on other things that are of more value to them. Only a small group of the poor and chronically ill have difficulty obtaining individual health insurance coverage. Many of the uninsured are well-to-do young people who simply choose to self-insure, and many more are already eligible for public programs. Indeed, advocates believe that insurance in the non-group market is affordable to almost all of the uninsured, they just do not want it. Many of the uninsured are also eligible for a Medicaid or another government program but have chosen not to participate in it, preferring uninsured status to Medicaid. And many of the uninsured have access to free medical care or Medicaid whenever they need it. In any event, the problem of access for the poor is best solved by the transfer of money to poor people to allow them to decide how much to spend on health care.

This is obviously an attractive vision to those with whose interests it aligns: insurance companies who prefer less regulation, physicians who despise medical negligence liability, wealthy and healthy taxpayers who are not interested in subsidizing health care for the poor and chronically ill. It is also a vision that in part reflects undeniable reality. It is indeed almost impossible to understand many state insurance mandates in the United States as anything other than special interest legislation, and moral hazard quite obviously is an issue with comprehensive insurance, even if it is not the single most important issue in health care.



But this is also a vision that ignores much of what seems to many health policy observers to be self-evident reality. In fact, health care is, at least in some instances, necessary, not simply a consumer preference. In fact, timely, appropriate health care is very difficult for many Americans to afford without public or private insurance. In fact, health insurance is also unaffordable to a significant proportion of the American public, and would continue to be even with tax credits or vouchers at the level proposed by these authors. In fact, public health care systems provide decent, high-quality, health care in many countries at a reasonable cost. In fact, access to health care is a much greater problem in the United States than is moral hazard.

These realities, which I must admit seem self-evident to me, are not self-evident to the authors of these books. They are, indeed, not even reality. It is not easy to read these books if these realities seem self-evident. It is not easy to understand the author's reality. Time and again I found myself looking up the references cited in the books (and the books are well-referenced) and concluding that I would not have read the source to say the same thing the authors read it to say. But the vision these authors hold is one held by many people in powerful places in the United States, and increasingly elsewhere in the world. It is a vision that all health policy scholars should engage, whether they accept it or not. These books are a good place to start.

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