



Healthcare Up In Smoke

By Jonathan J. Miltimore

In March, Iowa Governor Chet Culver signed legislation increasing Iowa's cigarette tax by \$1.00 per pack.¹ Congress, not to be left out, is currently considering a cigarette tax increase of its own.

Proposed legislation in the House and Senate would increase the federal cigarette tax from \$0.39 to \$1.00 per pack. Included in the proposal is a provision that would raise the tax cap on cigars from five cents to \$10, an increase of 20,000 percent. The tax increase would fund a \$60 billion government healthcare expansion.²

The State Children's Health Insurance Program (SCHIP) was enacted in the 1997 Balanced Budget Act and was designed to cover children from families of modest means that were too well-off to qualify for Medicaid. Jointly funded by states and the federal government, Congress alone has allocated nearly \$40 billion to SCHIP since 1997. In 2006, the program covered approximately 6.7 million children.³

The goal of SCHIP is a noble and obvious one: reduce the number of uninsured children in the United States. Soaring healthcare costs have resulted in an anxious and disgruntled electorate; if there is one thing Americans agree upon, it is that the U.S. healthcare system needs to be restructured. Covering children from families with modest incomes seems like an appropriate and compassionate step. But is it an effective one?

Thus far, the results of SCHIP have been mixed at best. The non-partisan Congressional Budget Office (CBO) reports that the uninsured rate of children from families in the 100-200 percent poverty level range dipped from 22.5 percent in 1996 to 17 percent in 2005. This drop in the rate of uninsured children, though modest, is not insignificant. But as CBO points out, the crowding-out effect of SCHIP is significant, as "the increase in public coverage has been partially offset by a reduction in private coverage."⁴

Essentially, a considerable number of the children covered under SCHIP come from families that have dropped their children from private plans to enroll them in a "free" government run program. CBO points out that "about 60 percent of the children who were eligible for the program were covered by private insurance in the year before the program was enacted." CBO estimates that for every 100 children enrolled in the program, as many as fifty are dropped from private coverage.⁵

The second problem with SCHIP is its perverse system of incentives. Though the federal government delivers SCHIP dollars in the form of block grants, it is liable for all cost overruns; hence, the federal government assumes the brunt of the costs (about 70 percent).⁶ This means that states, which possess considerable latitude in deciding who and how many to cover, are discouraged from controlling expenses and encouraged to implement ambitious plans for which they bear proportionately small costs.

For example, New Jersey has expanded eligibility to families 350 percent above the poverty level, so that a family of four making \$72,000 a year is eligible for government healthcare.⁷ Other states have expanded coverage to include parents. The Department of Health and Human Services reports that in Wisconsin adults consume nearly three of every four SCHIP dollars spent (this in the State Children's Health Insurance Program). Nearly one-third of the 700,000 adults covered in 2005 did not even have children.⁸

Despite its questionable efficiency, the Bush administration has expressed its willingness to reauthorize SCHIP, which is set to expire in 2007. The Democrat-controlled Congress, however, wants to expand SCHIP by as much as \$60 billion and stick smokers with the bill. The larger issue here is the politics of healthcare. Liberals have long championed a government-run single-payer system similar to that of Canada; a SCHIP expansion

A Publication of: **Public Interest Institute at Iowa Wesleyan College**

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would be a substantial step toward this goal, as some proposals would allow families with incomes 400 percent above the poverty level (yearly incomes of as much as \$82,000 per year) to become eligible for coverage.⁹

But as CBO points out, 89 percent of children between 300 and 400 percent of the poverty are already covered by private insurance. SCHIP is the Trojan horse that would extend socialized healthcare to the middle-class, as nearly three-fourths of all American children could become eligible for the program.

How one feels about government annexation of the healthcare industry likely depends largely on one's political philosophy. But the probable consequences of such a takeover are not difficult to conceive: the number of uninsured would plunge (healthcare would be "free" after all); the average waiting time to see a physician (even for critical care) would rise sharply; one-on-one time with one's physician and the quality of care received would plummet. And you would have far less control over your healthcare.

The question is not whether or not to cover children from underprivileged families; the question is how these children should be covered. Congress's SCHIP overreach is simply a battle in the larger war to determine if healthcare will be administered via private insurers or the state.

A far more effective solution to our healthcare predicament is to address the cause of the rising costs of healthcare in the United States. Government interference in healthcare (e.g. excessive mandates and regulation) has rendered the market all but dysfunctional. Congress can take two swift and decisive steps that would make the healthcare industry competitive and consumer driven again overnight.

First, allow consumers to purchase healthcare plans across state lines. This would destroy the quasi-monopolies insurance companies enjoy within their respective states. Second, allow individuals to purchase healthcare policies with pre-tax dollars the same way businesses do. Employer involvement in healthcare politics was an unintended consequence of government meddling in the 1950s — an attempt to impose wage controls on employees, which simply resulted in employers offering healthcare plans to employees instead of the wages — which needs to be rectified.

SCHIP expansion is not a solution to America's healthcare crisis; it will provide only a minimal increase in net coverage, while shuffling millions of middle-income American children already covered into government programs.

Most ironic is where the burden for this middle-class healthcare expansion is placed. Cigarette smokers tend to be lower-income wage earners that can least afford a 156 percent tax increase. In short, cigarette levies are the most regressive taxes in our system. In a sardonic twist, poor and working-class Americans will be subsidizing the healthcare for middle- and upper-middle class citizens making as much as \$82,000 per year. Ironic indeed.

Endnotes

- 1) Office of Governor and Lieutenant Governor, "Governor Culver Signs \$1 Per Pack Cigarette Tax Increase Into Law," March 15, 2007, <http://www.governor.iowa.gov/news/2007/03/15_1.php> (July 24, 2007).
- 2) Jonathan Weismann, "Children's Health Bill Approved by House," Washington Post, August 2, 2007, A01; James Thorner, "Cigarmakers in a panic," The Saint Petersburg Times, July 17, 2007, <http://www.sptimes.com/2007/07/17/Business/Cigarmakers_in_a_pani.shtml> (July 21, 2007).
- 3) Congressional Budget Office, "Section-2, Summary: The State Children's Health Program," May 2007, <<http://www.cbo.gov/ftpdoc.cfm?index=8092&type=0&sequence=1>> (July 31, 2007).
- 4) Ibid.
- 5) Ibid.
- 6) "The Newest Entitlement," The Wall Street Journal, July 30, 2007, A12.
United States Department of Health and Human Services, Fact Sheet, June 28, 2007, <<http://www.hhs.gov/news/facts/schip2.html>> (July 16, 2007).
- 7) CBO, SCHIP Summary.
- 8) U.S. Department of Health and Human Services, Fact Sheet.
- 9) CBO, Section 3, "The State Children's Health Program: The Design of the State Children's Health Program," May 2007, <<http://www.cbo.gov/ftpdoc.cfm?index=8092&type=0&sequence=2>> (July 10, 2007).

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