

United States



Health reform

What now for Obamacare?

NEW YORK

The president's plan to overhaul America's health system hits turbulence in Congress

"IT'S a lot easier to be Santa than Scrooge," harrumphs Jim Cooper. The congressman from Tennessee is complaining about the health-reform plan unveiled in July by the Democratic leadership in the House of Representatives. He thinks it is a populist initiative that will end up fuelling rather than curbing America's runaway health inflation. Such tough talk would not be in the least surprising coming from the opposition party; but Mr Cooper is a Democrat. And he insists that reform efforts have gone so badly wrong that it is time to "go back to the drawing board".

Health reform is the domestic priority for Barack Obama, who has been pushing both houses of Congress to come up with final health bills before the August recess. On current plans, the House of Representatives is supposed to wind up its session on July 31st, while the Senate is scheduled to stay at work one more week.

A few weeks ago, it had seemed that his efforts were working, as both chambers were making progress on health legislation. But after months of building up momentum, Obamacare has hit serious snags, and Mr Obama's deadline looks likely to be missed. Whether this merely delays reforms until the autumn or scuppers them altogether remains to be seen.

The health bill supported by the House leadership quickly won approval from two of the three relevant committees, but then got bogged down in the Energy and

Commerce committee. That is because Mr Cooper and half a dozen like-minded fiscal conservatives (all part of the "Blue Dog" coalition of Democrats, see next story) threatened to keep it from advancing to a vote by the entire chamber. On July 29th the Blue Dogs agreed to stop blocking the committee's work if the party leadership agreed to various changes in the draft bill, including a cut in spending of some \$100 billion, and to a delay in the final House vote until after the recess.

What then? Nancy Pelosi, the House Speaker, declared recently "When I take this bill to the floor, it will win." Hang on a minute, though. Just because the House leadership forged ahead in crafting a bill before the Senate did does not mean it is a good bill or that it will get through. The highly partisan effort, which contains provisions for a government-run insurance plan and tax hikes for the rich, was always going to have a hard time winning broad support. Mr Cooper is convinced that Ms Pelosi does not have the votes in her own party necessary to pass the bill as it stands.

Moderate Democrats are reluctant to pin their names to a bill that conservatives are branding as big government and anti-business. The House proposal has also been criticised by non-partisan outfits including the Mayo Clinic, a respected hospital chain. The Congressional Budget Office (CBO), an independent agency, suggests it does not do enough to curb costs.

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Lexington is on holiday

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Small businessmen are also upset about the House bill's "employer mandate", which requires most firms to provide health coverage or pay a hefty fine. Nydia Velázquez, the Democratic chairwoman of the House's committee on small business, complained on July 28th that this was an unfair burden. The deal announced by the Blue Dogs the next day acknowledged this concern by raising the threshold below which firms would be exempted from the mandate.

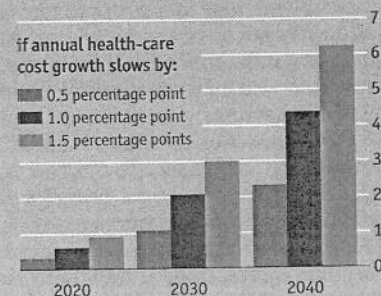
This in-fighting is reinforced by the fact that Democrats do not yet know whether a more appealing compromise that meets the test of revenue neutrality laid out by Mr Obama may yet emerge from the other chamber of Congress.

The Gang of Six at work

At first blush, it seems the Senate is lagging far behind the House. The Senate's health committee has passed a highly partisan bill, but the more important Finance Committee has yet to do so. And the Senate's Democratic leader, Harry Reid, has already admitted that he cannot bring a bill that

The upside

Forecast reduction in federal budget deficit due to health-care reform, % of GDP



Source: Council of Economic Advisers

► merges the output of those two committees to a vote by the full chamber until the autumn.

Yet it is the Senate Finance Committee that still offers a chance for sensible and successful health reform this year. That is because the committee's boss, Max Baucus of Montana, has pursued an impressively bipartisan approach. He has formed a core group, comprised of three senators from each party; its members have been meeting for hours a day for many weeks to hash out a compromise.

There was no final deal ready as *The Economist* went to press, but one could well come very soon. Chuck Grassley, the ranking Republican on the committee and a member of this powerful Gang of Six, reports that his group is "making progress by inches". He defends this painstaking process as a "more careful and less partisan" approach than the one taken by the House or the Senate's health committee. That is a big boast, but he is right.

The working group has courageously rejected several reform proposals popular with senior Democrats (including the president) and is considering including other measures that are unpopular with influential lobbies. If these bold ideas make it into the group's final compromise the Gang of Six may yet come up with a version that will win strong bipartisan support and form the backbone of any final reform bill.

The working group is edging towards rejecting two shibboleths of the left, both present in the current House proposals: a public plan and an employer mandate. Mr Obama has banged on about the need for a government-run insurance scheme to compete against rapacious private insurers, but moderates argue that reforming private insurance markets (as other countries including Switzerland and the Netherlands have done) offers a better solution. Labour activists have demanded a "pay or play" provision that would force companies to pay a hefty fine if they did not offer coverage, but many economists think such a provision would end up taxing low-skilled workers and destroying jobs.

The right ideas, at last

Just as important is what the group appears to be putting back into the mix. Many experts think capping or ending the tax advantage enjoyed by employer-provided health cover is a vital reform. Not only could it raise up to \$250 billion a year but it would also fix some perverse incentives. Unions, whose members often enjoy overly-generous health plans, hate this idea, and Mr Reid told Mr Baucus last month to kill it. Mr Obama roundly denounced the idea on the campaign trail.

Happily, this virtuous notion has resurfaced in different form and now has "viability" in the Finance Committee, according to Mr Grassley. Senator John Kerry has



Baucus (left) and Grassley hatch a plan

proposed a tax on the costliest health plans sold by insurance companies. The insurance lobby grumbles but misses the point: this proposal is meant to discourage only extravagant plans that prompt overuse of health care. Though not as elegant as a direct cap on the tax exclusion, this proposal is both a big step forward and politically palatable. Peter Orszag, director of the White House's Office of Management and Budget, confirms that the Obama administration is "open to this idea", and Mr Cooper also thinks it is promising.

The Gang of Six also appears to be tak-

ing up another good idea that had nearly fallen by the wayside. Last month the White House proposed the creation of an Independent Medicare Advisory Council (IMAC) to tackle costs and improve quality in Medicare, the government health scheme for the aged. The idea is that this non-partisan group of experts would make recommendations to the president twice a year, and he would be required to accept or reject them as a package. If Congress did not reject the package within 30 days the proposals would come into force.

A poll conducted this week for *The Economist* by YouGov underlines the potential importance of this step. Voters (see chart) overwhelmingly care more about the cost of health care than about the beloved Democratic goal of achieving near-universal coverage. So far the administration has focused too much on the latter.

The IMAC approach has the virtue of shielding difficult decisions about cost cutting from petty politics. Such an approach worked well when used by the Pentagon to decide which military bases to shut down. But an earlier and softer version of this idea, known as MedPAC, flopped. Nancy-Ann DeParle, the White House's head of health policy, served as a commissioner at that agency. She recalls that Congress simply ignored many recommendations that proved politically inconvenient.

So the idea of giving such an agency teeth should be welcome. Mr Orszag argues that it has two big merits: it insulates tough decisions from politics and it encourages ongoing rather than one-shot reform. Alas, the IMAC idea hit a snag on July 25th when the CBO insisted that it would not save much money over the next ten years. Among the shortcomings the agency identifies is the fact that the IMAC proposal does not contain specific cost-cutting targets or "triggers" that would act to cut costs automatically.

Why did it not? If IMAC were to get real clout, many Democrats fear that the Republicans would try to paint it as an effort to "ration health care". That points yet again to the importance of the bipartisan approach taken by the Senate Finance Committee. Such an approach might even lead to other important reforms making it onto the table. Mr Cooper is hopeful that tort reform will make it as a "last-minute sweetener", and an influential senator, Ron Wyden, says other innovative ideas from an excellent earlier bill he proposed are now getting a "second and third look".

Whether the Gang of Six reaches an accord before the recess or after matters less than the eventual outcome. Of course, it may all go horribly wrong in the end, dooming Obamacare altogether. A good Senate bill will be hard to reconcile with a bad House one. Mr Grassley, though, is confident that the Senate version will prevail. This is a gang worth watching. ■

