



Written by [Michael Tennant](#) on April 25, 2012

Romney's Not-so-“revolutionary” Healthcare Plan

As Governor, Romney proudly signed into law what would become the prototype for ObamaCare: a statute mandating that every Bay Stater purchase health insurance or pay a tax penalty. In 2009, he even [urged](#) President Barack Obama to look to Romneycare and its alleged solution to the “free rider” problem as a model for national healthcare reform.



Today, running for President under the auspices of a party that despises ObamaCare, Romney [says](#) he wants to “abolish the program, root and branch,” and replace it with “a free market, federalist approach to making quality, affordable health insurance available to every American.”

The centerpiece of his plan is a tax credit to individuals for the purchase of health insurance. Romney makes the reasonable point that the current tax code is unfair because it exempts employer-based health insurance premiums from income taxes but forces individuals who purchase insurance on their own to do so with after-tax dollars. By providing the same tax break to individuals, more people will have the ability to buy insurance. They will also be able to choose whether they want what their employers are offering or what they can get on their own, and they won't have to fear the loss of coverage that currently comes with changing jobs.

“It is absolutely essential if you are going to reform the health insurance market to change the tax treatment of health insurance,” Robert Moffit, a senior fellow at the Heritage Foundation, told Levey. “It is the 800-pound gorilla in the healthcare debate.”

That is, as long as people aren't paying for their own insurance, they won't be much concerned about how much it costs and will tend to abuse it, driving up healthcare costs. Also, as Levey notes, because employer-provided health insurance is not taxed while wages are, the tax code “gives employers an incentive to provide generous health benefits,” which further encourages employees to make use of the healthcare system — and up prices go.

Romney has called for changing Medicare from its current fee-for-service approach to a premium support program, much like the plan offered by Rep. Paul Ryan (R-Wis.). He also wants to change Medicaid to provide block grants to states.

The change to Medicare theoretically would offer the same benefits as the tax credit, but there is a difference: A tax credit lets people keep their own money, while a Medicare subsidy for purchasing private insurance gives seniors other people's money. The former is almost certain to promote frugality; the latter is less so.

Critics worry that “the shift could force seniors to pay thousands of dollars more for their care,”



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according to Levey. If the plan produces the desired results, prices will fall, and seniors will be paying less. If not, then they will be paying more. But why, one might ask, should those consuming health services not be the ones paying for them?

Turning Medicaid into block grants “would cut hundreds of billions of dollars from the healthcare safety net and force major new limits on care,” Levey avers, referring to Congressional Budget Office (CBO) estimates. This, however, is going to happen anyway in the long run as Medicaid becomes impossibly expensive. Wouldn't it be better to address the problem by cutting spending now than to wait until such cuts are forced upon us?

Romney offers [other proposals](#): reforming the tort system; permitting the interstate sale of insurance; allowing Health Savings Account funds to be used for insurance premiums; creating “public-private partnerships, exchanges, and subsidies” to help the uninsured; creating high-risk pools for the chronically ill; and providing “innovation grants to explore non-litigation alternatives to dispute resolution.”

While some of these proposals are just warmed-over ObamaCare provisions, many of those aimed at reducing government's role in the healthcare system have also been suggested by other Republican presidential candidates. Even constitutionalist Congressman Ron Paul of Texas favors health insurance tax credits, Health Savings Account expansion, and interstate insurance sales.

There are those, of course, who prefer ObamaCare or even a fully socialized healthcare system, and they are, naturally, unhappy with Romney's plan. “Critics say it would put the health insurance of millions of Americans at risk,” notes Levey, by giving employers an incentive to drop health insurance benefits. He points to a study that found that a similar plan offered by Sen. John McCain (R-Ariz.) in 2008 would have cost 9 million people their employer-based health insurance.

Under ObamaCare, meanwhile, the CBO [forecasts](#) that three million to five million Americans *per year* will lose their employer-provided health insurance — and not all of those losing their coverage will be able to obtain it elsewhere. Even the worst-case scenario under Romney's plan would be a vast improvement.

Moreover, while employers might feel somewhat less compelled to offer health benefits under Romney's proposal, they would still recognize that group insurance, which is generally cheaper than individual insurance (and more so when the employer is picking up much of the tab), is a powerful bargaining chip. As a result, employers would probably not drop coverage *en masse*.

“Giving tax breaks to all Americans to get health insurance also can cost a lot,” Levey writes, by which he means that offering tax credits for the purchase of insurance will necessarily lead to lower tax revenues. This assumes that all money belongs to the U.S. Treasury and that any money left in the hands of the people who earn it is a “cost.” In fact, it is simply a reduction in revenue and should be dealt with by Washington as it is dealt with by families and businesses: by cutting spending.

Romney has not offered any details as to how he would reduce spending to compensate for the lower revenue; for that matter, he has offered few detailed proposals for cutting *any* spending, insurance tax credit or not. He will need to be more specific if he expects people to take his proposals seriously.

While Romney would not go as far as constitutionalists might like, his plan is certainly superior to ObamaCare. But it is “revolutionary” only if one believes that returning the law to a somewhat more freedom-friendly version of its pre-ObamaCare state constitutes a major upheaval. Romney's plan might



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represent a step or two in the right direction; it does not represent a full-scale return to constitutionalism, which would truly be American Revolutionary.



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