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Health Score

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Health Score

The Editors

In a 2005 survey of health economists, 91 percent agreed that company health benefits come out of wages. No other issue generated as much consensus. The idea is that an employer hires, and sets his compensation policies, based on what employees are worth to him and the total cost of employing them. How much of that cost goes to wages and how much to benefits is a matter of relative indifference. Government-mandated benefits should therefore be expected to come out of cash wages, not profits. The point sheds light on a neglected flaw in Obama's health-care plan and a neglected virtue in McCain's.

The Obama campaign has been doing saturation advertising against McCain on health care. It notes that McCain will tax company health benefits for the first time, and argues that this tax will cause employer-based health insurance to "unravel." When the Democrats note that McCain would replace the tax break for employer-provided insurance with a tax credit that applies to all health-insurance purchases -- something they acknowledge only under duress -- they say that it would be a bad deal for workers. The credit would be worth \$5,000 for families, but the employer-provided coverage they would lose would typically cost more. What Obama and his aides ignore is that health benefits come out of wages. The long-term effect of McCain's tax reform should be to increase take-home pay. Increased wages and the tax credit should be enough to cover a health policy and the disappearance of the old tax break while leaving money to spare. Every independent assessment of the plan indicates that at least 95 percent of taxpayers would come out ahead.

Obama would mandate that businesses either offer health coverage to their workers or pay the government to cover them. But benefits come out of wages. If the government imposes a per-worker tax, wages will have to drop (as will hiring). Incidentally, this feature of Obama's plan is one of the principal reasons he is wrong to say that he would "cut taxes for 95 percent of people": His health-care plan involves a large tax on employment.

McCain's plan would do nothing directly to alter companies' incentives to offer health coverage. If Obama's plan sets its tax below the cost of coverage, however, companies will have a strong incentive to drop their coverage and pay into the public system. Thus his promise that people will be able to keep their existing coverage if they want it is also dubious.

McCain has done very little to publicize his health-care reform or to defend it against these charges. Nor has he pointed out that Obama's plan would raise taxes on employment or induce employers to drop coverage. These failures on the part of McCain may contribute to his election defeat. But this debate, while frustrating, has not been pointless. Obama may have distorted the truth to slam

McCain's health plan but he has also sounded conservative themes in the process. His argument, after all, is that it is wrong for the government to raise health-care taxes or to threaten existing health-care arrangements. Should Obama be elected, these arguments may come back to doom his own plan.

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