

Getting to the root

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There are two ways to reduce the federal budget deficit: cut spending and increase revenue. Most of the debate in Washington has focused on cuts; more recently the two parties have been in a standoff over whether to raise money as well—by reducing tax breaks. Serious progress on the balanced-budget front will require both approaches. But neither can solve the larger problem behind the nation's budget woes: the dramatic rise in health-care costs.

American health care is staggeringly expensive. This is true whether care is purchased by an individual, an insurance company or the government. Medicare—the largest federal health-care program—eats up a huge chunk of the budget, but not because government-run insurance is especially costly. Health care costs too much in general.

At present, Medicare covers seniors directly. The budget that House Republicans passed in April would change it to a voucher program that helps seniors buy coverage themselves. This new program would be allowed to grow just 1 percent faster than inflation. But health-care costs are going up much faster than that—and the Republican plan does nothing to address this problem. It simply caps the amount the government will pay, leaving seniors to pick up the increasingly larger difference.

Tax increases might sound like an appealing alternative. But whatever their merits, higher income taxes aren't a sustainable way to preserve Medicare either. Wage growth can't come close to keeping up with health-care costs. Raising taxes would certainly help in the short term, but it would just have to be done again—and again.

The fundamental problem isn't that Medicare pays too large a share of seniors' health care, and it isn't that taxes are too low to fund it. It's that health care costs too much and is rapidly costing more and more.

Reversing this situation is no simple task. But the health-care reform bill enacted last spring is a major step forward. Several of the Affordable Care Act's cost controls rely on incentives for Medicare providers, with the goal of using Medicare to lead the way to more efficient and cost-effective care systemwide.

Among other things, the law includes a system in which a single doctor coordinates a patient's overall care, with the aim of keeping the patient healthy—as opposed to the current system, in which each doctor's incentive is to provide as much care as possible. To this same end, a bundled-payment system will move providers toward collecting once for successfully treating a condition rather than billing for each individual treatment. The law expands research into the effectiveness of different treatments and drugs. And it sets up processes for testing and implementing future cost controls.

The reform bill's cost controls move in the right direction and pave the way for further reforms—unless the bill's opponents succeed in preventing key elements from being implemented. Supporters of the Republican effort to privatize Medicare like to claim that Democrats haven't offered a credible alternative. In reality, they've done much more: they passed a landmark bill that begins to seriously address health-care costs. Our future financial stability will depend on the success of these reforms and others to follow.