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The Boston Globe

Healthcare: Do we need the Lexus?

By Jeff Jacoby, Globe Columnist | July 29, 2009

IMAGINE the sort of car you'd drive if government regulations made it illegal to sell any automobile that didn't feature 380-horsepower direct-injection V6 engines, computer-controlled electric power steering, eight-speed automatic transmission, four-wheel-drive, automatic climate control, "smart key" technology, touch-screen navigation, backup cameras, LED headlights, acoustic glass, surround-sound stereo, and leather seat stitching.

If those were the minimum requirements every car had to meet before it could be sold, would you commute to and from work every day in a Lexus LS 460 or some other luxury vehicle? Well, you might, if the steep price wasn't an obstacle. But it's more likely you wouldn't be driving at all. If the government barred you from buying anything but a high-end car, you'd probably have no choice but to rely on the bus or subway, or to find a job closer to home.

What is true of transportation is true of everything else: Increase the number of amenities that a product or service must include, and more consumers will be unable to pay for that product or service.

That is why one of the simplest strategies for making health insurance more affordable is to reduce the minimum number of benefits that insurers are required to cover.

In every state in the union, legislators and regulators drive up the cost of healthcare by making insurance policies more comprehensive. Rather than allow the free market to determine which medical services health plans will cover, states force consumers to pay for an array of covered benefits they may not need or want. For example, 45 states require insurance policies to include treatment for alcoholism and 34 mandate coverage of drug abuse treatment. Contraceptives are covered in 31 states, as are hairpieces in 10 states, and in-vitro fertilization in 13 states. Consumers who buy health insurance are often forced to pay for coverage of services they may consider highly dubious, such as acupuncture (benefits are mandatory in 11 states), chiropractic (46 states), osteopathy (22 states), and naturopathy (four states).

Forty years ago, there were only a handful of benefits that health policies were required by law to cover. Today, the Council for Affordable Health Insurance identifies an astonishing 1,961 mandated benefits and providers. While any one mandate may not add appreciably to the price of an insurance policy, in the aggregate their cost is huge. The Cato Institute, citing the Congressional Budget Office, estimates that state regulations increase the cost of health insurance by 15 percent. And since "each percentage-point rise in health insurance costs increases the number of uninsured by 300,000 people," as scholars John Cogan, Glenn Hubbard, and Daniel Kessler point out, it is clear that the proliferation of insurance mandates is one reason why millions of Americans are uninsured.

Yet instead of pruning back this thicket of compulsory benefits, lawmakers are planting even more of them.

As Kay Lazar reported in the Boston Globe on Monday, Massachusetts legislators have filed more than 70 bills this year to increase the array of services the state's health insurers would be required to cover. Among the benefits the pending bills would mandate are hearing aids for children, cleft palate surgery, treatment of infantile cataracts, smoking cessation products, "asthma education," vitamin supplements for mitochondrial disease, post-partum depression screening - and the list goes on and on.

As it is, health insurance in Massachusetts - which already mandates coverage for more than 40 itemized benefits, providers, and patient populations - is among the nation's most expensive. The last thing the Bay State (or any state) needs is for government to drive the cost of medical coverage higher still. It should be left to the market, not to lawmakers and lobbyists, to decide which medical services should be included in a basic-vanilla insurance policy. When lawmakers yield to special-interest pleas that this or that benefit be made compulsory, the results are less choice, higher premiums, and more individuals priced out of the market.

The key to healthcare reform is lively competition, not the dead hand of government compulsion. Legislators, take note: Enacting new mandates won't make medical insurance more affordable. Repealing old ones just might.

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