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A nip and tuck make public-insurer plan more attractive

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Perhaps opponents really have shouted President Barack Obama's most far-reaching health-care reform proposals into oblivion, as it seems based on the administration's backtracking of recent days. But it would be a mistake for Obama to completely abandon his plans, and bad for the economy.

The central idea of Obama's reform plan, a publicly run insurance company offered as an alternative to private insurance, deserves to be studied on its merits. By some estimates, it could reduce the nation's spending on administrative health-care costs by $250 billion in the first decade of operation.

Likewise, the criticisms and alternatives offered by opponents deserve dissection with the same level of analytical testing that has been applied to Obama's plan. When considered carefully, the economic arguments aimed at supporting alternatives often do not hold up.

Take the idea put forward by America's Health Insurance Plans, the Washington-based lobby for health insurers.

The group dislikes Obama's plan, which would give individuals the option to buy health-care coverage from a government-run insurer. Trying not to become the lobby of "no," the insurance group has its own ideas.

The insurance lobby is willing to provide coverage regardless of a person's pre-existing conditions. It will stop insisting on a need to score each insured person based on their prior health history.

So far, so good. But here's the catch: In exchange for those concessions, America's Health Insurance Plans want a mandate for universal coverage provided by, you guessed it, America's Health Insurance Plans.

"They're saying they want the government to force another 40 or 50 million people to buy their product," said Michael F. Cannon, a Cato Institute economist who has roundly criticized the Obama plan. "No wonder they're willing to give up a lot to get there."

This is the trouble with the health-care shoutfest so far. There is nearly universal agreement that the current health-care system is not working. Costs are out of control. Some sort of reform is needed.

But if given the choice between reform that might create new risks and continuation with a system that everyone knows is broken, the incumbent players will stick with the broken system any day. And they, as much as anyone, are the ones digging in hardest to stop reform.

That's politics, I guess. But an issue as complex and momentous as this one cannot be left purely to politics. Somewhere along the way, economics should come into play, because the stakes are too high for politics to trump all.

Obama has signaled a willingness to dump his public-option proposal. Clearly, he has found it politically expedient to do so. And yet, the economic arguments of those who are attacking his plan are weak enough that they, too, should bear careful examination and the criticism they deserve.

For example, those who oppose Obama's proposal say government will be such a powerful competitor that it will crowd out all the private insurers. Yet, at the same time they argue that government is so inefficient that it cannot possibly reduce costs and achieve the savings Obama promises.

The two arguments contradict each other. The opponents should not have it both ways.

Fortunately, a middle way is developing that addresses concerns about how the public insurer should operate once it is launched with many billions of dollars in government backing.

A coalition of moderate House Democrats, the so-called Blue Dogs, have put forward a proposal to require the public-option insurer's operations to be self-sustaining, funded entirely by premium revenue rather than continued government largesse. Such an approach presumably would limit the government insurer's growth.

Another plan would prevent the government from using its powers to give unfair market advantage to the government-run insurer.

Those proposals level the playing field somewhat and would make a public insurer not an instrument of government conquest but a true competitor.

Further refinements are needed, though, in some key areas. A public insurer cannot simply work off of Medicare's rate card for health services, as contemplated in the leading House bill. If that happens, it will quickly crowd out all private-industry competitors.

A mechanism also should be created by which political pressures do not come to bear on those setting prices for the new insurer. Once politics seep in, prices would be pushed down to levels that make it impossible for privately run insurers to compete.

All the shouting has made it appear, to some, that Obama needs to dispense with the private option because it is political poison. The idea can be resuscitated, though, with tinkering that addresses concerns about how a government-backed insurer would affect other players in the health-care economy.