



The end of Obamacare: Fixing healthcare the free-market way

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Now that President Trump has been sworn into office, congressional Republicans have the opportunity to do what they've been promising for years by repealing and replacing Obamacare. Their effort to balance ideology, politics and policy on healthcare in the coming months will be the mirror image of what Democrats encountered eight years ago.

When Democrats and President Obama set out to overhaul the healthcare system in 2009, liberals knew what their ideal system would look like. Obama himself repeatedly said that if he were starting "from scratch" he would pursue a single-payer system. Under such systems in Canada and Europe, government provides guaranteed health coverage, and controls costs by paying less to healthcare providers and making cost-and-benefit calculations about whether certain care is justified.

Despite his ideological preferences, Obama recognized that moving swiftly to a single-payer system would be too disruptive to the 80 percent of the public that was happy with its health coverage, and the millions of people employed in the healthcare industry. Obamacare emerged as a system that relies on a raft of taxes, subsidies and regulations to, in the words of left-liberal columnist Paul Krugman, "rope, coddle and nudge us into a rough approximation of a single-payer system."

By passing Obamacare, Democrats were laying a "cornerstone" for government healthcare that they expected to build on, as co-author and former Sen. Max Baucus put it as the legislation came out of the Finance Committee he chaired. Former Sen. Tom Harkin described it as a "starter home." Liberals settled for Obamacare but held out hope that they could incrementally expand it into something like a single-payer system. Hillary Clinton was ready, if she won the White House, to push for bigger subsidies and tighter regulations.

On the other side of the healthcare policy universe, free market health scholars have spent decades laying out a vision for an alternative healthcare system liberated from government interference. Republicans are now trying to see how close they can get to that sort of system while limiting disruption to people's current insurance arrangements.

Whereas liberals envision more central control as the key to a system that is better and cheaper, those on the Right have long sought to move in the opposite direction, focusing on ways to reduce costs by giving people more control over their healthcare dollars.

In most other aspects of their lives, the public is used to having a lot of choices and relishes the opportunity to shop around for the best deals. When it comes to televisions, computers, communications and much more, innovation has lowered costs and raised quality over time. Today's sleek high-definition televisions are far cheaper than the bulky black-and-white models of TV's infancy. An iPhone is a phone, but also a computer, a stereo, a book, an alarm clock, a camera, a camcorder and a flash light, among other things. As people enjoy the fruits of innovation in other sectors of the consumer economy, there's an assumption that breakthrough technologies and improved treatments in healthcare will necessarily drive costs higher. This need not be so.

A big difference between other sectors of the economy and healthcare is that when it comes to healthcare, consumers are left out of the equation. Instead, suppliers make the decisions. Insurers, hospitals, doctors and drug companies all fight with each other and with the government over trillions of dollars a year. Even before Obamacare, nearly everyone who had insurance obtained it either through government or their employers (due to the tax-advantaged status of employer healthcare). This not only limits choices and restricts portability, but also means that the normal incentives that consumers have to seek bargains is removed. Because there is no transparency in healthcare, consumers have no idea what anything will cost until they get the bill. If, in the 1940s, government had launched a program to buy televisions for citizens, and had rigged the tax code so most people got televisions through their employers, and electronics stores didn't display prices, the trajectory of that industry would have looked very different.

Even the most ardent advocates of a free market would acknowledge that healthcare isn't the same as other sectors. A man being rushed to the hospital with a heart attack, for instance, isn't going to enter into a negotiation with the paramedics over the cost of treatment as if he were at a swap meet. But there are many ways in which creating a consumer-driven system could affect the types of insurance people buy, and how it would deal with medical emergencies. More significantly, just a small fraction of the \$3.2 trillion in annual healthcare spending goes to emergency rooms (previous estimates have pegged emergency room expenditures at less than 2 percent to no more than 10 percent of overall U.S. healthcare spending).

For routine medical spending and tests, there are many ways in which innovation, transparency and empowered consumers could contain costs. A 2014 study published by the Journal of the American Medical Association found that when consumers were given access to a platform allowing them to compare medical prices, they spent less on lab tests, MRIs, CT scans and (to a lesser degree) doctors' visits.

Though many different factions of the right-of-center policy community could agree on a broad goal of making the healthcare sector function more like a free market, Republicans have struggled for years to unify around a single plan to move in this direction. The reason is due to differences along the ideological spectrum, ranging from very conservative or libertarian health analysts who believe in a pure market-based system (and would prefer that Republicans focus more on costs than on chasing targets as to the number of people covered) to those who believe that Republicans, too, should work toward a system to ensure broad coverage.

One way this ideological difference manifests itself is in the debate over whether to create a tax deduction or a tax credit for the purchase of insurance. Though this seems an obscure technical disagreement, it actually illuminates the ideological fault lines on healthcare.

Deductions are favored by more conservative plans because they function like a tax cut, allowing individuals and families to reduce their tax burden by the amount they spend on insurance, up to a certain amount. But those Republicans more concerned with expanding coverage don't care for deductions because people with low income have little or no tax burden against which to deduct. Such Republicans gravitate toward refundable tax credits, which give a fixed amount toward the purchase of insurance, and can be used regardless of how much individuals owe in taxes. Such plans function more like new spending, and thus tend to be less popular among staunch, limited-government conservatives.

In addition to such long-standing disputes, the fact that Obamacare finances coverage for millions of people has added a layer to this ideological debate. Now Republicans are sparring over how aggressively they can uproot Obamacare, and how broad or comprehensive the coverage should be that replaces it.

As the 2016 election approached, Republicans in Congress were beginning to coalesce around a general approach to repealing and replacing Obamacare. Not every rank-and-file member was on board with the same plan, and many ideological battles remained unsettled. But party leaders rallied around plans that closely resembled one another.

The "Better Way" outline released by House Speaker Paul Ryan, R-Wis., last year was similar to a more detailed plan unveiled earlier by Rep. Tom Price, R-Ga., whom Trump has tapped to be his secretary of health and human services. These plans also had much in common with one that was co-authored by Sen. Orrin Hatch, R-Utah, who chairs the Finance Committee that will play a crucial role in writing any replacement.

All these plans would repeal Obamacare and replace it with a system that provides tax credits for the purchase of insurance. In the Price plan, the credits would be adjusted by age, ranging from \$1,200 to \$3,000, with an additional \$900 credit per child up to age 18. The plans would also expand the use of health savings accounts, which allow people to save money before tax to pay for medical expenses. They would also allow people to buy insurance outside their state, so they could go bargain hunting in less-regulated states.

These GOP plans would all address the issue of people who wanted to buy insurance even though they already had medical ailments. The plans would require insurers to offer policies to anybody maintaining continuous coverage, and by promoting high-risk pools in the states, which would remove those with pre-existing conditions from the general pool of insurance customers and offer a separate outlet for coverage.

This general approach will face criticism from both the Left, for being too disruptive to those benefiting from Obamacare, and from the Right, for providing too many concessions toward the liberal vision of universal coverage.

For instance, one of Obamacare's fiercest opponents, Michael Cannon of the libertarian Cato Institute, rejects the notion that Republicans should be chasing coverage targets. Instead, he has argued in favor of changing the tax code's current exclusion for employer-sponsored health

insurance to one that would enable them to offer large health savings accounts, which could be used either to purchase insurance or saved to pay for future out-of-pocket costs. A modified version of his large HSA proposal has been introduced by Sen. Jeff Flake, R-Ariz., and Rep. Dave Brat, R-Va. On the other end of the spectrum, Sen. Susan Collins, R-Maine, and Rep. Bill Cassidy, R-La., introduced a plan that would allow states to remain in Obamacare.

Any policy passed by Republicans in Congress would eventually have to be signed by Trump, who has vacillated between touting free-market options and calling for comprehensive coverage for everybody.

Republicans now have a once-in-a-lifetime opportunity to accomplish what they've long said they want, migrating the clunky healthcare system into a free market that promotes innovation and puts more power in the hands of the consumer. If they squander this chance and settle for minor cosmetic changes to Obamacare, the next few years will be seen as nothing more than a speed bump on the long march to single-payer healthcare.