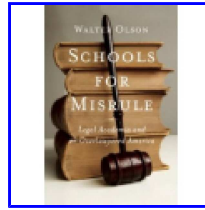


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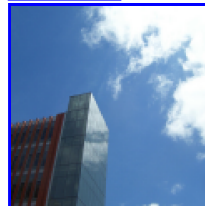
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Letter From Washington: Interstate Sales Of Health Coverage Is No Panacea (But It And Some Other Things Could Certainly Help)

by [Eli Lehrer](#) on December 14, 2010

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During a conference I co-hosted at the [Cato Institute](#) last week, several speakers raised questions about the new Federal Insurance Offices' ability to collect data about minority groups and communities "underserved" by property and casualty insurers. Some, like my friend Bob Detlefson of the National Association of Mutual Insurance Companies, argue that this is a camel's nose under the tent for applying the Community Reinvestment Act or something like it to insurers. I wouldn't like to see that happen but I doubt that it will for three major reasons.

First, although a few states have "take all comers" and "anti-cherry picking" laws, they don't seem to have legs or, where they exist, much impact. I watch these things pretty closely and, while legislators all over attack credit scoring, there are few serious moves towards explicitly CRA-like efforts around the country.

Second, residual market laws already serve a CRA-like function of insuring universal availability of insurance. All states have residual auto market laws on the books (although about 20 of the markets have 10 policies or fewer) and about half of all states have FAIR plans intended to write property insurance for people who can't otherwise get it. While it's possible to raise theoretical objections to some of these "shared market" mechanisms they are, with some big exceptions like Florida, North Carolina (auto), and Texas, benign.

Finally, the office really is a toothless tiger. It's going to be headed by a civil servant and likely won't issue its report on federal regulation anywhere close to schedule. (It's due in less than a year). I can't imagine it becoming a major force for a CRA-for-insurance.

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I'm all for allowing interstate sales of health coverage. But, as I look more closely at it, I'm not convinced that allowing them will make nearly as much difference as most advocates of the idea say that it will. Three reasons:

1. State level mandates surely add to the cost of coverage but, when one looks closely at it, the mandates that are most expensive (mental health parity) are almost certainly wise, while the mandates that look silly either aren't silly at all (mandatory podiatry coverage vastly reduces expensive amputations for diabetics) or won't really make a difference (toupee coverage for chemotherapy patients adds less than a penny to the average cost of a health insurance policy.) Any law that defines health insurance at all is a "mandate." Otherwise, we'd offer tax preferences and subsidies for things like crystal healing. Thus a true "no mandates" policy would be awful public policy.
2. The illustrative examples many people throw around (a policy in Wisconsin is a less than half the price of one in New Jersey for a younger male) are misleading. As a realistic matter, interstate sales only allow people to escape coverage mandates. They won't do anything about tort environments or underlying medical cost structures. Doctors in New Jersey just aren't going to accept Wisconsin reimbursement rates for anything. The need to adjust payment rates will eat up most savings. Also, of course, individual market policies are purchased by only a small percentage of people; group policy differences are smaller than those in the individual market.
3. Solvency regulation is going to be a mess. Regulating insurers for solvency is a core government function. Interstate sales are intended, in large part, to promote price competition. Insurance, however, is useless (and even dangerous) if it's sold for too little. One can easily see some left-right "conspiracies" that leave solvency regulation in the dust: conservatives want to prove that interstate sales work while liberals will want to make sure that companies operating interstate provide significant coverage. The easy way to do both? Let an interstate health insurer operate on a "cash flow" basis and throw traditional insurer reserving requirements out the window. A quickly growing insurer could likely pay its bills this way for awhile so long as it kept on getting new customers and (assuming it will be required to

community rate) could probably even cherry pick by, say, marketing mostly in areas populated by young healthy people. This could be a disaster and require a huge bailout.

Try interstate sales. Yes. I think they're a good idea. I could list even more reasons why they are. But they aren't going to solve many serious problems.

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Raising taxes on the well-off—the people who save, invest, and start businesses—is a terrible idea that could well cause deflation and deepen an already serious economic crisis. Conservatives and libertarians were absolutely right to resist President Obama's efforts to boost them. Broader pro-investment tax reforms—cutting the corporate income tax, allowing accelerated business expensing, expanding the R&D tax credit—could also make a lot of sense and should be part of any conservative agenda. A pro-investment tax code, in short, is a good idea.

But, in this situation, it's wrong to suggest tax hikes for the poor. In fact, they're even more likely to be harmful. That why I'm deeply disturbed by proposals—emanating from more than a few Republicans on the Hill—that would raise taxes on the poor to cut the budget deficit. The typical proposal involves cutting the Earned Income Tax Credit. The EITC, America's most effective social welfare program, works largely by refunding employer-paid payroll taxes to lower income workers. As a result of the credit, almost anyone who works 40 hours a week, 50+ weeks a year can live above the poverty line. It's an almost perfect social welfare program: it directly rewards work, is checked for eligibility much more closely than other welfare programs (the IRS administers it), and, it doesn't require a hoard of social workers. Eliminating it during a recession would throw millions into true poverty, destroy incentives to work, and, because the poor have the highest marginal propensity to consume, cause a drop in consumer spending.

While the EITC shouldn't be touched—in fact, it was probably a mistake to do away with President Obama's "Making Work Pay" EITC expansion—other programs targeted towards lower income groups need improvements that would save federal dollars too.

There are three other places that people interested in cutting government should look: food, job training, and housing. In each of these categories, the United States maintains a number of programs (hundreds for job training, perhaps 30 for housing, a half dozen for food) with overlapping and occasionally contradictory purposes. The results aren't very good. Job training programs range from pretty effective to dismal failures. Some place people in jobs at a few hundred dollars per placement. Others can cost upwards of \$10,000 per person placement. Food programs, which are all basically premised on the idea that no other program exists, tend to encourage obesity by subsidizing high calorie foods. Housing programs overlap so much and have so many different goals—ranging from providing roofs over the heads of the poorest of the poor to helping middle class families live in neighborhoods mostly populated by the rich—that they lack any clear vision.

Redesigning any of these programs is a complex undertaking that will take real attention to governance issues (which far too many on the Right want to ignore) and, frankly, a clear set of priorities. The specifics of a redesign are going to require a lot more thought than I can give. But I'd suggest two guiding principles:

1. Have one major program that serves the overwhelming bulk of people in a given area. Some efforts work better than others; expand those. Get rid of the rest and keep the net savings.
2. Focus any subsidies on the truly poor. The middle class shouldn't get any job training or food subsidies and very little for housing.

Until next week,

Eli Lehrer, National Director

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