Healthcare Economist

« Friday Links

Tanner on Obamacare

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Cato Institute Senior Fellow Michael Tanner is not a big fan of some health care reforms that are being proposed. He reviews recent health reform proposals in his Obamacare article. I review a few of his arguments below.

- **Employer Mandate**. Tanner believes employer mandates are a bad idea and I wholeheartedly agree. Large firms can efficiently offer health insurance and will continue to do so to attract employees. For small firms, however, they do not have the scale to efficiently offer health insurance. The employer mandate would stifle small business growth and put a drag on the economy. An economics experiment also showed employer mandates will adversely affect small businesses.
- **Individual Mandate**. One reason for the individual mandate is that the cost of the uninsured is passed on to the insured through higher premiums or higher taxes. Tanner, however, notes that "uncompensated care…[costs] as much as $40.7 billion per year, with 85 percent of that cost borne by federal, state, and local governments. But…the United States currently spends roughly $2.4 trillion annually on health care, …[which] amounts to about 1.7 percent of the total U.S. health care spending. Other estimates put it slightly higher, at 3–5 percent." So an individual mandate will not greatly reduce costs. Secondly, enforcing an individual mandate will be difficult. Massachusetts instituted an individual mandate in 2005, but 200,000 people still remained uninsured. Strict enforcement of an individual mandate will be costly to administer and will mostly go after poor people who couldn't afford health insurance to begin with.
- **Cost-effectiveness programs**. The stimulus packaged authorized "$1.1 billion for the federal Agency for Healthcare Research and Quality to conduct a 'comparative-effectiveness research program.'" Is this a good idea? Tanner argues that Americans don't want the government deciding what type of care they can get. But of course, private insurance companies decide what type of care their enrollees can get all the time. If there is a government health insurance plan, investing in cost-effectiveness research reduces the chance that taxpayer funds are wasted. Of course, if you want to pay for a procedure out of pocket, you would be allowed to do this yourself. Tanner claims that government cost-effectiveness research could crowd out cost-effectiveness research by private insurers. However, the government is more likely than private health plans to share its findings publicly; since information is a public good, government cost-effectiveness research is welfare improving.

Source: Tanner, Michael D. (2009) "Obamacare to Come: Seven Bad Ideas for Health Care Reform" Cato Institute Policy Analysis no. 638.