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Opinion

Obama doesn't have the only prescription for healthcare reform

A free-market approach would move away from employer-provided insurance and increase competition among both insurers and health providers.

By Michael Tanner

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President Obama is right when he says that the U.S. healthcare system needs reform. Although this country provides the finest care in the world, our healthcare system has serious problems. It costs too much. Too many people lack health insurance. And quality can be uneven.

The president and his supporters in Congress would have you believe that the only choice is between their plan -- which amounts to a government takeover of the healthcare system -- and the broken status quo. That is a falsehood.

But supporters of the free market, frankly, have been remiss in positing viable alternatives. So what exactly would a free-market approach to reform look like? Quite simply, it relies on those time-tested building blocks of marketplace efficiency: competition and choice.

There are two key components to any free-market healthcare reform. First, we need to move away from a system dominated by employer-provided health insurance and instead make health insurance personal and portable, controlled by the individual rather than government or an employer.

Employment-based insurance hides much of the true cost of healthcare to consumers, thereby encouraging overconsumption. It also limits consumer choice, because employers get the final say in what type of insurance a worker will receive. It means that people who don't receive insurance through work are put at a significant and costly disadvantage. And, of course, it means that if you lose your job, you are likely to end up uninsured.

Changing from employer-provided to individually purchased insurance requires changing the tax treatment of health insurance. The current system excludes the value of employer-provided insurance from a worker's taxable income. However, a worker purchasing health insurance on his own must do so with after-tax dollars. This provides a significant financial reward for those who have employer-provided insurance. That should be reversed.

For tax purposes, employer-provided insurance should be treated as taxable income. To offset the increased tax, workers should receive a standard deduction (or in some plans, a tax credit) for the purchase of health insurance, regardless of whether they receive it through their job or purchase it on their own.

The other part of effective healthcare reform involves increasing competition among both insurers and health providers. Current regulations establish monopolies and cartels in both industries. Today, for example, people can't purchase health insurance across state lines. And because different states have very different regulations and mandates, costs can vary widely depending on where you live.

New Jersey, for example, requires insurers to cover a wide range of procedures and types of care, including in-vitro fertilization, contraceptives, chiropodists and coverage of children until they reach age 25. Those mandated benefits aren't cheap. According to a 2007 analysis by the National Center for Policy Analysis, the cost of a standard health insurance policy for a healthy 25-year-old man averaged $5,580 in the state. A standard policy in Kentucky, which has far fewer mandates, would cost the same man only $960 per year.

Unfortunately, consumers are more or less held prisoner by their state's regulatory regime. It is illegal for that hypothetical New Jersey resident to buy the cheaper health insurance in Kentucky. On the other hand, if consumers were free to purchase insurance in other states, they could in effect "purchase" the regulations of that other state. A consumer in New Jersey could avoid the state's regulatory costs and choose, say, Kentucky, if that state's regulations aligned more closely with his or her preferences.

With millions of American consumers balancing costs and risks, states would be forced to evaluate whether their regulations offered true value or simply reflected the influence of special interests. Rep. John Shadegg (R-Ariz.) has a bill in Congress that would allow consumers to purchase their insurance in other states.

We also need to rethink medical licensing laws to encourage greater competition among providers. Nurse practitioners, physician assistants, midwives and other non-physician practitioners should have far greater ability to treat patients. We also should be encouraging such innovations in delivery as medical clinics in retail outlets.

The choice facing us now is not between Obama's plan for healthcare micromanaged by the government or doing nothing. Rather, it is a choice between government control, regulation and rationing on one hand, and free markets, choice and competition on the other.

That is the real healthcare debate.

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