

Daily Policy Digest

Health Issues

July 28, 2009

FANNIE MED?

President Obama and other leading Democrats have proposed creating a new government health insurance program as an option for Americans under the age of 65, within the context of a new, federally regulated market. But if Congress wants to make health care more efficient and increase competition, there are better options, including the use of direct and indirect subsidies, says Michael Cannon, policy analyst at the Cato Institute.

Currently, the federal and state governments finance Medicaid and the State Children's Health Insurance Program almost entirely through tax revenue; as a result, those programs crowd out private insurance among individuals who could otherwise obtain coverage on their own. Through direct subsidies, says Cannon:

- Creating a new program around Medicare's existing infrastructure would bestow start-up subsidies not available to new private health plans.
- To the extent that a new government program receives direct subsidies that are not available to private insurers, its relative cost would also be higher due to the deadweight loss of taxation, yet that added cost likewise would not appear in the government program's premiums.

Moreover, to pay for a new government program, Congress could subsidize its program indirectly, adds Cannon:

- Many supporters propose that a new program should adopt price controls identical or similar to Medicare's, or that the federal government should require providers to participate in the new program as a condition of Medicare participation.
- Adopting Medicare-like price controls would increase the prices that providers charge private insurers, and tightening the price controls that Medicaid uses to purchase prescription drugs, or expanding those price controls into either Medicare or a new government program, would likewise increase costs for the new program's private competitors.

Today's Congress cannot bind future Congresses. Supporters of a new program know this, and they are already contemplating future efforts to secure special advantages for any new program that Congress creates, says Cannon.

Source: Michael F. Cannon, "Fannie Med? Why A 'Public Option' Is Hazardous to Your Health," Cato Institute, Policy Analysis, No. 642, August 6, 2009.

For text:

<http://www.cato.org/pubs/pas/pa642.pdf>

For more on Health Issues:

http://www.ncpa.org/sub/dpd/index.php?Article_Category=16