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The Cato Institute's Daffy Health Care Ideas

By Barbara O'Brien

The terrible truth conservatives won't speak out loud -- can't seem to admit to themselves, in fact -- is that the private insurance industry *cannot* provide affordable health insurance that would pay for the health care of all Americans. It cannot even provide affordable health insurance to most Americans across their entire lifetimes.

This is true even if their wildest libertarian wishes are fulfilled, and all the government programs like Medicare and Medicaid and SCHIP evaporate, and the employee benefit insurance system ends, and consumers could purchase insurance across state lines in one great big unregulated health insurance free market.

We know this because insurance company executives have admitted it. Recently some insurance executives let it slip to Congress their business models depended on dropping customers with big medical bills and denying coverage to people with preexisting conditions. Who above the age of 40 doesn't have a preexisting condition? And we know this because the health reform plans being proposed by the Right are nearly all, in one way or another, predicated on separating Americans into low-risk and high-risk pools. The private insurance industry is eager to get that low-risk pool all to itself and sell it competitive, affordable health insurance policies.

But the plans tend to be hazy about what will happen to those in the high-risk pool. I mean, what with global warming, there are only so many ice floes on which to set people adrift these days.

The Cato Institute

On the Right, conservative think tanks are the main generator of health-care policy ideas. Recently I looked at the Manhattan Institute's health care proposals. Now I'm going to look at the Cato Institute. Cato has a range of health-care policy proposals, including an original and genuinely daffy plan I call "insurance insurance" -- essentially, insurance to pay for insurance.

The Cato Institute is one of the "think tanks" doing its best to derail President Obama's health-care proposals and push the nation into a completely private, "free market" system. Cato was founded in 1977 by Edward H. Crane, a successful financial analyst; and Charles Koch, a billionaire co-owner of Koch Industries. The Koch Family Foundation is one of the largest sources of funding for conservative organizations in the United States. According to SourceWatch, Cato has a number of corporate sponsors and also receives money from several of the usual funders of right-wing think tanks -- the John M. Olin Foundation, the Lynde and Harry Bradley Foundation, the Scaife Foundations. See "Enemy of Health Care Reform: The Manhattan Institute" for more on how these foundations use think tanks to manipulate public opinion.

Cato differs from most of the other right-wing think tanks in that it is more libertarian than conservative and does not always toe the conservative line. Cato fellows were opposed to the invasion of Iraq, for example. Cato has issued position papers on "corporate welfare" that lean more in the direction of progressive than standard conservative ideas. Cato has been very much at odds with conservatism over presidential power issues.

However, in the matter of health-care reform, Cato swims in the same tank with more hard-Right organizations, such as the Heritage Foundation and the Manhattan Institute. The eventual plan is to eliminate government involvement in health care, phase out employee-benefit health insurance, and place everyone at the mercy of the private health insurance industry. "At the mercy of" is not hyperbole. The unregulated industry would be free to cherry pick customers, as it does in many states today. Many people would not be able to purchase insurance at any price.

Take, for example, a recent op ed in the *Los Angeles Times* by Cato senior fellow Michael Tanner. In "Obama doesn't have the only prescription for health care reform," Tanner lays out the basic conservative ideal.

First, phasing out employee benefit insurance, Tanner says, would lower the cost of private insurance policies. "Employment-based insurance hides much of the true cost of health care to consumers," Tanner says, "thereby encouraging overconsumption." I personally question whether large numbers of people are marching into their doctors' offices and demanding unnecessary medical procedures just because they don't have to pay the bill. We've seen evidence lately that "overconsumption" is at least as often caused by doctors ordering extra tests and procedures to bump up their profits.

Purchasing Policies Across State Lines

Next, Tanner says, make insurance more competitive by allowing people to purchase policies across state lines. Republicans love this idea. Indeed, there *are* significant differences in the costs of policies from state to state. So, let's let people in a high-cost state, such as New York, purchase policies in low-cost states, such as Kentucky. This would create more competition, causing costs to drop all over. Wouldn't it?

Last year the *Chicago Tribune*'s Judith Graham interviewed Sandy Praeger, president of the National Association of Insurance Commissioners, how this would work in the real world.

> *Insurers will set up shop in states with few regulations and market low-cost policies to people across the country. These policies will offer minimal coverage and appeal primarily to younger consumers.*
>
> *"It will be a race to the bottom," Praeger said, and there will be "very few consumer protections. ... You'll have plans that don't cover the benefits that people need...And healthy people are going to buy those less costly plans, because they don't think they need [the protection]." ...*
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> *...The policies that sell comprehensive coverage would draw a sicker, older customer base, becoming more and more expensive.*

So, we see that the idea about purchasing policies across state lines is a ruse to separate people into low-risk and high-risk pools. Older people, people with existing health problems, would be left in the more expensive high-risk pool while younger and healthier people, the low-risk pool, could be sold cheaper insurance. Well, as long as they remain younger and healthier, anyway.

I see another pitfall, which is that part of the difference in cost from one state to another has nothing to do with regulations and everything to do with cost-of-living differences. Office space is a lot more expensive in the greater New York City area than in Kentucky, and the New York City doctor is going to have more overhead even without the regulations. Therefore, he has to charge more for his services. The idea that health-care costs can be equalized across the country, so that a Kentucky insurance company will reimburse you for New York health care costs, is nonsense.

About Those Regulations

I know from personal experience that one of the major differences between high-cost and low-cost states is that many of the high-cost states, such as New York, restrict insurance companies' ability to cherry-pick customers. In

New York, insurance companies must sell policies to people with serious preexisting conditions who would be denied coverage in the "cheap" states.

However, you cannot get "free market" advocates to admit that cherry-picking is a problem. Instead, they like to blame high costs on unspecified government "regulations," which (they won't admit) include cherry-picking. Other regulations put limits on how much the insurers can jack up the cost of policies for those who get sick.

What about government "mandates"? These mandates are benefits that must be included in health policies sold in that state. Most states have mandated *something*, and every mandate adds at least a few cents to the cost of policies.

"With millions of American consumers balancing costs and risks," Cato's Michael Tanner writes, "states would be forced to evaluate whether their regulations offered true value or simply reflected the influence of special interests."

I admit that some of the mandates are questionable. As of 2008, 13 states have enacted a mandate for insurance to pay for in vitro fertilization, for example, according to the Council for Affordable Health Insurance. The free-market advocates love to bring that one up as a frill driving up the cost of health care for everyone. They are less likely to talk about the 20 states that mandated pap smears, the 28 states that mandated colorectal cancer screening, the 31 states that mandated contraceptives, the 47 states that mandated diabetic supplies, the 44 states that mandated emergency services, the 50 states that mandated mammographies, the 50 states that mandated at least 48 hours of postpartum maternity hospital care, etc. These benefits were mandated because health insurance companies were not paying for them.

And yes, this does raise the cost of insurance. But instead of questioning the mandates, we ought to be questioning the whole concept of paying for health care with for-profit insurance.

Skin in the Game

With some kinds of insurance, it makes sense to penalize people for being high risk. It makes sense to charge someone with multiple traffic violations and accidents more for auto insurance than someone with a safe driving record, for example. This is not only more fair to the safe driver; it also, in theory, encourages people to drive more safely.

Free market health-care advocates like to argue that the same principle applies to health insurance. People who take better care of themselves have less need for health care, it is argued, so insurers ought to be able to raise premiums on people who need to see doctors more than other people. This encourages people to choose a more healthful lifestyle.

I understand the argument for charging higher insurance premiums for people who smoke or are overweight. But there's only so much you can do with that. I heard someone argue recently that people who eat a healthful diet would pay less in health insurance than people who live on junk food. But how would the health insurance company know what we're eating? Will we have to wear food intake monitors? Or little GPS monitors to show the insurance companies how many miles a day we walk?

Essentially, the same people who scream about the intrusive power of big government want to give private insurance companies infinite access to our personal lives in order to determine what to charge us for insurance.

Further, a healthful lifestyle is no guarantee of avoiding catastrophic medical problems. Healthy people have accidents. People enjoying healthful outdoor activities can contract Lyme disease. Healthful fruits and vegetables can be contaminated with E. coli bacteria. Healthful people can be exposed to deadly pollutants such as asbestos, which causes mesothelioma, and not know it.

The Cato Plan: Insurance Insurance

Unlike some of the other conservative think tanks, which depend on the Good Actuarial Fairy to take care of high-risk insurance customers, Cato *does* have a plan for taking care of your medical needs as you get older and frailer. Cato says you should buy insurance insurance.

No, I'm serious. They call it "health status insurance," but it's essentially an *additional* insurance policy to insure you against the increased costs of being dumped into a high-risk pool. This plan was proposed in February 2009 by Cato adjunct scholar John H. Cochrane, a professor of finance at the University of Chicago School of Business.

The "health status" plan, as most conservative plans do, calls for eliminating employee-based insurance and also removing constraints on insurance agencies that limit their ability to jack up premiums for people who get sick. Then your second insurance policy will pick up the slack when you do get sick. Cochrane writes...

> *Medical insurance covers your medical expenses in the current year, minus deductibles and copayments. Health-status insurance covers the risk that your medical insurance premiums will rise. If you get a long-term condition that moves you into a more expensive medical insurance premium category, health-status insurance pays you a lump sum large enough to cover your higher medical insurance premiums, with no change in out-of-pocket expenses.*

Of course, keeping the cost of insurance insurance premiums reasonably low depends on people purchasing insurance

insurance policies while they are still young and healthy. But Cato, of course, doesn't want to make insurance insurance mandatory, but simply leave it to the good sense of young people struggling with too many other expenses to purchase insurance insurance policies on top of health insurance policies. Sure.

To me, Cochrane's proposal (which you can read here) is an admission that a consumer-driven free-market plan will fail you, and to protect yourself from this failure you need more insurance.

A Pure, Religious Faith

As I said earlier, Cato isn't necessarily irrational on all issues. But when an issue touches on markets, at Cato rational thinking is replaced by magical thinking. "Free markets" will solve all problems. It's more accurate to say that free markets are very good at producing goods and services at which someone can make a profit. Cato assumes that everything that's needful is profitable, but outside pure faith there is no reason to believe that is always true.

There are no end of studies and reports saying that all those "socialist" countries with "government-run" health care get more bang out of their health care bucks than we do. A recent report by Alan M. Garber and Jonathan Skinner (see the document for their credentials) provide several reasons why U.S. health care is uniquely inefficient. Government regulations and mandates are not among those reasons.

On the other hand, one reason our current system is inefficient is that health-care dollars chase profit instead of outcome. In other words, the medical-industrial complex does not make a profit from curing you; it makes a profit from what it call sell to you, whether it cures you or not. That's an inefficiency built into a "free market" system.

Anything to say about that, Cato Institute?

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