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How the "Public Option" of Health Insurance Went From Inevitable to Imperiled

Some straight talk from a straight-laced federal agency puts government-run insurance on the brink

Peter Suderman | June 29, 2009

Just a few weeks ago, progressive health-care reform looked like a done deal. And the so-called "public plan"—a government-run insurance option beloved by the Democratic Party's most liberal faction—was to be the legislation's centerpiece.

But thanks to some inconvenient analysis from the Congressional Budget Office (CBO) and increased public worries about government spending in general, reform efforts are now in disarray. Although an expensive overhaul of the health-care system is still on the front-burner, the once-preordained inclusion of a public plan is now in jeopardy. If it fails, the result will be a huge loss for the Democratic Party's liberal wing and a victory for those who want to keep the government out of the health insurance business. How did a sure thing turn shaky so fast?

Ever since the politically disastrous defeat of President Bill Clinton's HillaryCare in 1994, progressive health care advocates have been itching for a legislative rematch, digging through the wreckage in search of lessons for future battles. One of the key ideas to emerge was a "public option"—a government-run insurance plan that, advocates said, would compete with private plans, providing Americans a cheaper insurance option while exerting a downward pull on private insurance premiums. More crucially, unlike HillaryCare, it would accomplish this without directly forcing individuals off their current insurance plans.

The public option was credited by supporters with having almost miraculous properties. Former South Dakota Sen. Tom Daschle, a one-time frontrunner to head up the Department of Health and Human Services and one of the Democratic Party's most prominent health-reform advocates, penned a piece for *Newsweek* claiming that it would simultaneously lower costs, expand choice, and improve patient access. Given such expectations, it was hardly surprising to see pundit and longtime universal health care booster Ezra Klein write that for progressive reformers, the inclusion of a strong public insurance option was "the single most recognizable marker for victory."

For a while, things seemed to be moving in that direction, with President Barack Obama making health care one of his top legislative priorities, and Democrats everywhere proclaiming that the time for reform had finally come. As Michael Cannon, a health policy analyst at the Cato Institute, argues, "The administration wanted to create an aura of inevitability."

But starting this month, the advocates' confidence began to shrivel. *The New Republic*'s Jonathan Cohn, whose 2007 book *Sick* made a passionate plea for universal coverage, wrote on June 17 that reformers should be worried, topping his blog post with a picture of a lit-up panic sign. The next week, the same magazine published an article by Clinton health-care pollster Stanley Greenberg worrying that the public mood was bearing an eerie resemblance to 1994. And Sen. Dianne Feinstein (D-Calif.) warned on June 21 that Obama might not have the votes this year to pass the biggest item on his legislative agenda. Much of the newfound criticism centered on objections to the public plan.

What let the air out of their tires? The answer, to a large degree, lies in the unexpected power emanating from three little letters: CBO.

That would be the Congressional Budget Office, a straight-laced bureau whose job is to ground congressional fantasy in budgetary reality. And when it comes to health care, fantasy was more or less what the reformers were hoping for. Unfortunately for them, says George Mason University economist Tyler Cowen, "CBO scoring is biased toward the certain and the real and the measurable." That attitude led the office to decline to score some of the untested cost-saving measures included in the bill.

On June 16, the CBO slapped the Senate Finance Committee's draft legislation with a staggering $1.6 trillion price tag over the next 10 years—an outlay which the office further predicted would only cover about two-thirds of currently uninsured people. Given recent polls suggesting increased public wariness over excessive spending, it was a number big enough to give pause even to a government on a record-breaking spending spree.

The CBO didn't actually score a public option (though that didn't stop some Republicans from inaccurately saying it did). But generalized sticker shock seems to have opened the way for already skeptical legislators, including some centrist Democrats, to express concerns about the government getting heavily into the insurance market.

There are plenty of reasons to be skeptical of a public plan. The most discussed objection is that it would cause many people to move off their current employer-sponsored policies. The government wouldn't force anyone to switch, but would be providing an incentive for workplaces to drop current coverage altogether. Businesses that did so would likely be required to pay into a pool to finance insurance alternatives, but for many, particularly those with older, less healthy workforces, dropping current coverage options would still prove an attractive option.

The other, somewhat less-discussed problem, is the potential for free riding. Any public plan would be subject to regulations known as *guaranteed issue* and c*ommunity rating*. These regulations would require plans to be open to all comers and prohibit plans from discriminating based on price. That would be an extremely attractive option for the chronically sick. But the presence of the very sick, and thus the very expensive, would drive up total costs—potentially pushing healthy people away from private plans. As Cowen explains, the result would be a sort of federal high-risk pool, "a vehicle through which you can pay more money to cover some high risk people."

So without ever actually scoring it, the CBO brought concerns about the public plan to light. The likely end result of this, thinks Cowen, is a dramatically scaled-back bill with either no public option or one that's largely toothless—restricted from bargaining down prices with medical providers, or perhaps subject to a "trigger" mechanism that would only allow a public plan to come into being if private plans failed to control costs or increase coverage.

Public-plan champions such as Robert Reich and Jacob Hacker, the latter of whose 2007 Economic Policy Institute paper "Healthcare for America" was influential in the push for a public option, have been ramping up pressure, pleading in a June 23 conference call with reporters for Obama to use the bully pulpit to support a vigorous public option. But although Obama voiced some support for the public option in a press conference later that day, he refused to say that its inclusion was non-negotiable—a message reiterated by White House senior advisers over the weekend. The implications for the public plan were crystal clear: Despite all the reformers' hopes and work, it's no longer inevitable.

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