Romney Health Plan a Bust for Massachusetts

By Doug Bandow

September 22, 2011

Health care remains one of President Barack Obama's greatest political weaknesses. The issue remains an equally serious problem for Republican Mitt Romney.

President Obama's program to centralize medical decision-making in Washington remains as unpopular as ever. Insurers are raising premiums and canceling policies. The president's promise that Americans can keep their existing coverage has turned out to be void. Health care providers and insurers are cutting back operations and dropping jobs to comply with the new law. Washington has been forced to issue temporary waivers — over 1400, as of mid-June — to moderate the legislation's impact.

Moreover, ObamaCare has bent the cost curve upward by reinforcing the underlying third party payment problem. The administration even double counted its imagined cost savings, causing Medicare's chief actuary to warn that the program's latest estimates were essentially fraudulent. Future Congresses will have to reduce promised benefits or public subsidies, or hike spending.

No GOP presidential contender officially supported the administration legislation. However, Mitt Romney instituted an early variant of the Obama program.

As part of his liberal phase when governor of Massachusetts — political principles have been ever-flexible for Romney — he orchestrated passage of legislation with eerie similarities to ObamaCare. Massachusetts mandates purchase of insurance, decides what benefits must be offered, and maintains a complex system of subsidies and penalties. Declared Boston Globe columnist Adrian Walker, the two programs are "not identical, but they're certainly close kin." MIT economist Jonathan Gruber, who advised both Gov. Romney and President Obama on health care, asserted: "Basically, it's the same thing."

Out of either policy pride or political calculation, Romney continues to defend his approach as "a model that works." But he probably could not escape the legacy even if he wanted to. Walker wrote: "Health care was Romney's greatest achievement by so wide a margin that it's hard to know what to compare it to."

However, Romney has grown increasingly desperate to distinguish his legislation from that of Obama. The best the former can say is that his program was constitutional, since states possess the so-called "police power," allowing them to regulate most anything within their jurisdiction. In contrast, the federal government was created with only limited, enumerated powers. The Founders would never have imagined that Washington could force people to purchase health insurance under the guise of regulating "commerce among the states." (So far the federal courts have split on the issue.)

Alas, even the former governor's constitutional scruples are suspect. In 1994 he backed a federal mandate. His concern about the overweening federal government apparently was not so finely developed then.

In any case, the fact that RomneyCare is constitutional does not mean that it is wise. Americans want their president to exercise good judgment and common sense, as well as respect the office's constitutional limits. RomneyCare fails the first two standards.

Yet so far Romney has gotten off easy in the Republican contest. In the first debate former Minnesota Gov. Tim Pawlenty failed to criticize Romney on the issue of "ObamneyCare," as Pawlenty termed it, when given the opportunity. Pawlenty's belated attempt to toughen his message highlighted his political weaknesses, and he soon departed the race. (In fact, Pawlenty as well as former Utah Gov. Jon Huntsman both supported a mandate, though their respective state legislatures eventually passed more limited legislation.)

Texas Gov. Rick Perry may end Romney's easy ride. Perry already has gone after Romney, observing: "I think Mitt is finally recognizing that the Massachusetts healthcare plan that he passed is a huge problem for him, and yeah, it was not almost perfect." This is likely only the first of many hits.

"ObamneyCare" was not a revolutionary attempt to overturn the status quo. Rather, the usual special interests did quite well. The American Prospect's Robert Kuttner observed: "In Massachusetts, Romney needed and got buy-in from the powerful hospital, insurance, and corporate lobbies. To win that support, he could not fundamentally change the way they did business. Instead, private insurance companies got more customers thanks to the individual mandate, hospitals kept their beds full, and corporations that failed to insure employees paid only a token penalty of $295 per worker."

Romney's legislation sought to extend insurance coverage. About 95% to 96% — the state claims 98.1%, but the actual rate appears to be lower — of Massachusetts residents now are insured. That is a genuine achievement but still not universal coverage. Moreover, as Peter Suderman of Reason observed, "the state's insurance coverage rates were already unusually high to begin with: About 90% of the state's population had health coverage prior to the law's passage." In short, Gov. Romney's accomplishment actually was rather modest.

Moreover, at what cost? Defenders of RomneyCare argue that its goal was to expand coverage, not to cut expenditures, but Gov. Romney was not alone in promising "affordable" health care. Anyway, the legislation certainly was not supposed to drive costs skyward.

However, paying for more benefits for more people inevitably makes medicine more expensive. Costs for Commonwealth Care, the Massachusetts government's subsidized insurance program alone are up a fifth over initial projections. Last year State Treasurer Timothy P. Cahill wrote: "The universal insurance coverage we adopted in 2006 was projected to cost taxpayers $88 million a year. However, since this program was adopted in 2006, our health-care costs have in total exceeded $4 billion. The cost of Massachusetts' plan has blown a hole in the Commonwealth's budget."

State finances have not collapsed only because RomneyCare spread the costs widely, forcing virtually everyone in and out of the state to share the pain. Cahill cited federal subsidies as keeping the state afloat financially. Indeed, a June study from the Beacon Hill Institute concluded that "The state has been able to shift the majority of the costs to the federal government." The Institute pointed to higher costs of $8.6 billion since the law was implemented. Just $414 million was paid by Massachusetts. Medicaid (federal payments) covered $2.4 billion. Medicare took care of $1.4 billion.

But even more costs, $4.3 billion, have been imposed on the private sector — employers, insurers, and residents. This estimate is in line with an earlier study by the Massachusetts Taxpayers Foundation, which figured that 60% of the new costs fell on individuals and businesses.

As expenses have risen, so have premiums. Noted Kuttner, "because serious cost containment was not part of the original package, premium costs in the commonwealth have risen far faster than nationally — by 10.3%, the most recent year available." Economists John F. Cogan, Glenn Hubbard, and Daniel Kessler figured that RomneyCare inflated premiums by 6% from 2006 to 2008. This at a time where the state-subsidized Commonwealth Care was displacing private insurance for many people, thereby reducing demand, which should have reduced cost pressures.

Unfortunately, noted the Beacon Hill Institute, "private companies have no choice but to pass the higher costs onto the insured. Some of these costs fall in the double-digit range." That naturally displeased public officials, since it undercut their claim to have solved Massachusetts' health care problems.

Gov. Deval Patrick responded like King Canute: he insisted that premiums not rise. Predictably, his rejection of proposed rate hikes required insurers to operate at a loss and placed several in financial jeopardy.

Robert Dynan, the career insurance commissioner tasked with maintaining insurer solvency, wrote that the state "implemented artificial price caps on HMO rates. The rates, by design, have no actuarial support." Last year Sandy Praeger, Kansas' insurance Commissioner, observed: "Right now, premium increase have never been more political. If there is any way to justify not granting the increase, commissioners are looking for them."

Thankfully, Gov. Patrick's price controls did not fare well when challenged in court and his administration eventually negotiated reduced rate hikes. But the governor then came up with a new legislative program to arbitrarily reduce medical costs.

Even weaker restrictions would be counterproductive. The Beacon Hill Institute warned that "Controlling costs will translate into capping services provided by physicians and other caregivers. These are, in effect, price controls that will dampen the incentive to provide services and lead to longer wait times and the rationing of healthcare."

Even worse, bankrupt insurance carriers would mean either no health care coverage or expensive government bail-outs. Yet John Graham of the Pacific Research Institute detailed shrinking margins and pervasive losses for Massachusetts health insurers. He warned "that if politicians refuse to allow health plans to increase their premiums at a rate commensurate with the increase in medical costs, health plans will plunge into financial crisis within a remarkably short period of time." Indeed, carriers "will stand at the precipice of insolvency if the political class in Massachusetts insists on continuing to follow the path that it has chosen."

Unfortunately, worse is likely to come. The Rand Corporation concluded that "in the absence of policy change, health care spending in Massachusetts is projected to nearly double to $123 billion in 2020, increasing 8% faster than the state's" GDP. Added Rand, continued cost increases of this magnitude "threaten the long-term viability of the initiative." Nor can the state count on an increasingly strapped federal government to continue its generous subsidies. Moreover, at some point people and businesses will flee the state rather than pay ever more to underwrite the state's health care program.

Finally, RomneyCare inflated demand for medical services without increasing the corresponding supply. The Beacon Hill Institute concluded: "The vast number of the newly insured residents in Massachusetts is responsible for bottlenecks in the primary care system that forces residents to utilize emergency room care at a significantly higher than expected rate."

A fifth of adults report difficulty in finding a physician to treat them. Earlier this year the Massachusetts Medical Society discovered "more than half of primary care practices closed to new patients, longer wait times to get appointments with primary and specialty physicians, and significant variations in physician acceptance of government and government-related insurance products."

New York internist Marc Siegel observed: "The wait time for an appointment is now routinely over a month for primary-care doctors and specialists. Internists and family practitioners report being so overwhelmed — too many patients, too much time pressure — that more than half are closing their practices to new patients." You'd think Massachusetts was a province of Canada.

The state's subsidized programs effectively drive away doctors. Explained Siegel: "More than half of primary-care docs in Massachusetts find themselves unable to work with Medicaid or Commonwealth Care (state-subsidized insurance), which both pay providers poorly." Acceptance rates are far lower than even for Medicare, and one Massachusetts legislator has proposed making medical licensure contingent upon acceptance of state-subsidized plans.

Although the expansion of insurance was supposed to reduce emergency room use, visits rose 9% from 2004 to 2008. Ironically, noted Grace-Marie Turner of the Galen Institute, "difficulties in getting primary care have led to an increasing number of patients who rely on emergency rooms for basic medical services." Thus, uncompensated care still costs more than $400 million annually.

The state also encouraged adverse selection, as predicted. Many healthy people chose to remain uninsured and pay the fine (or lie about having purchased coverage). They then bought insurance when sick, and dropped the policy when it was no longer necessary. Massachusetts was forced to institute an open enrollment period, limiting when people could sign up for insurance — an otherwise bizarre restriction when the objective is to increase the number of people insured.

ObamneyCare is bad policy. Gov. Romney's signature policy achievement, no less than President Obama's principal legislative victory, is a bust.

At least Mitt Romney did not compound bad policy with unconstitutionality, but his health care failure inevitably taints his presidential bid. He rightly faces an uphill task in convincing Republican primary voters that he is the best choice to be their nominee.