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It's the Health Care That Matters, Not the Insurance

Veronique de Rugy

March 8, 2017

The release of the House Republicans' health care reform plan is the latest reminder that misguided objectives drive many policy decisions in Washington. Unfortunately, it often results in bad policy outcomes with real economic costs.

A lot has been said about the new plan to replace the Affordable Care Act. For example, it would make health care more expensive for millions of Americans. It would create a new entitlement, in the form of expensive tax credits. It would create an "Obamacare cliff" for the presidential election in 2020, the year when many important parts of the Affordable Care Act would be repealed. It might fail and drive us straight into a single-payer system. I agree with all of that.

But at the heart of the Republicans' inability to reform health care is their commitment to this notion that the provision of health insurance is the goal rather than the provision of health care or, more fundamentally, the production of health itself. Though insurance companies love it because it guarantees overinflated profits for their industry, this idea goes a long way toward explaining why the supply of health care remains so expensive.

As my colleague Robert Graboyes rightfully points out in his work, by focusing exclusively on the provision of health insurance coverage, Republicans have been asking the wrong question: "How do we find a way for Americans to consume health care at no cost to them?"

Unfortunately, it has produced a series of policy decisions that have removed all incentives for health care consumers to be careful about how they spend money.

According to a Congressional Budget Office report in July, consumers pay for only 11 percent of their health care costs. Everything else is paid for by third parties, whether it's the government or private insurance. That's a problem, because when people's consumption is paid for by someone else, it jacks up demand and drives up the prices and inefficiencies of the subsidized good or service. Why should you consume health care carefully if you don't pay for it? And of course, health care providers have little incentive to keep their prices low to retain their customers (patients) because these consumers aren't paying the full tab.

Graboyes notes that this laser focus on the provision of health insurance coverage has distracted us from a more important health care goal: producing better health for more people at lower cost, year after year. The solution here is innovation. Nothing would affect prices and quality of health

care as radically as revolutionary innovation, which we've seen in other fields, such as information technology. To encourage such innovation, we have to free the health care supply from the many constraints imposed by federal and state governments (both blue and red) and the special interests they serve.

"At the federal level, we could speed up the Food and Drug Administration's process for approving drugs and devices. The government could stop impeding the development of specialty hospitals. At the state level — encourage telemedicine, allow nurse practitioners and other non-physician providers to practice independently, eliminate certificate of need (CON) laws, and ease up on restrictive licensure laws," Graboyes writes. That, of course, is just the beginning. The next step is to end the Soviet-style price control so prevalent in Medicare pricing methodology and end hospital monopolies.

This is not what the Republicans' bill would do. Its benefits, such as the removal of most Affordable Care Act taxes, would be overwhelmed by the negative impact of government-encouraged health insurance provision. Though it would reform Medicaid, it would leave the ACA's huge Medicaid expansion untouched, replace Obamacare tax credits with Republican tax credits in the individual insurance market and continue the distortive practice of subsidizing employers' plans through the tax code. The bottom line is that the plan might add to the deficit. It deserves its Obamacare 2.0 label, as it doesn't really address anything. It might even make things worse, according to Michael Cannon at the Cato Institute.

It's time that lawmakers shift the way they think about the role that government should play in health care generally and abandon the idea that their role is to provide health insurance for all. They're obviously not there yet.

Veronique de Rugy is a senior research fellow at the Mercatus Center at George Mason University. To find out more about Veronique de Rugy and read features by other Creators Syndicate writers and cartoonists, visit the Creators Syndicate webpage at www.creators.com.