The Volokh Conspiracy

[**David Hyman**, **June 25, 2009 at 7:22pm**] **Trackbacks**

Health Insurance and the Public Plan: Where's The Beef?

The proposal to allow a public plan (also called a “public option” or a “government plan” depending on the normative atmospherics one wants to signal) to compete directly with private health insurers has become one of the hottest flashpoints in the debate over health reform. President Obama spoke to the issue earlier this week and yesterday’s Wall Street Journal had a lengthy op-ed by (former Labor Secretary) Robert Reich on the subject. Many others have been heard on the subject as well – including (in alphabetical order) Jonathan Cohn, Tyler Cowen, Tim Greaney, Jacob Hacker, Ezra Klein, Arnold Kling, Paul Krugman, Megan McArdle, and Frank Pasquale. The Cato Institute had a conference last week on health reform where there was a panel on the public plan at which I spoke, along with Cathy Schoen (Commonwealth Fund), Gail Wilensky (former administrator of CMS - then called HCFA) and Karen Davenport (Center for American Progress). A recent New York Times poll showed strong support for the public plan, but critics quickly pointed out those polled skewed heavily Democratic.

Design details matter; part of the complexity is that different groups are using the same words - "public plan" — to refer to very different proposals. For example, the Commonwealth Fund's version of a public plan is radically different than the one put out by the New America Foundation. Leaving that complexity aside, proponents argue that the public plan will improve the performance of the market, by creating more options and keeping the insurance companies “honest.” Critics argue that a public plan will be an unfair competitor, and will inevitably dominate the market.

There are different ways of conceptualizing the debate – I’m going to organize my analysis around the three M’s of a public plan: Monopoly, Monopsony, and Maverick. (I had a former colleague who told me the key to a good title for an article or speech is to pick three words that all start with the same letter, and use them to organize the analysis. So, monopoly, monopsony, and maverick it is).

I’ll concentrate in this post on monopoly and monopsony. Proponents of a public plan argue that the market for health insurance is monopolistic, and that a public plan will provide consumers with more options – thus making the market more competitive. The assertion that the health insurance market is monopolistic is usually based on some throwaway claims about the number of mergers of health insurers over the past several years, followed by statistics on market share or market concentration of health insurers in all 50 states. The original source of these statistics is a series of papers on HMO and PPO market share done by the American Medical Association, written to support their larger legislative agenda of allowing joint negotiation of fees by independent physicians and tightening regulation of health insurers. In 2004, Professor James Robinson published a paper in Health Affairs on the subject, providing detailed information on market concentration in all 50 states, for HMO/PPO and commercial insurance.

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Let's ignore the irony that the AMA's work has provided the intellectual foundation for the Obama Administration to propose a public plan — which the AMA has now come out against. Instead, focus on whether the proffered statistics actually prove what they purport to establish. As I outlined in a paper in Health Affairs I co-authored several years ago, there are numerous difficulties with this approach to determining whether there is a monopoly problem in health insurance. (There may well be other problems with health insurers – but let's put those aside for the moment). First, counting up the number of mergers doesn't tell you anything useful at all. Mergers across discrete geographic and product markets are unproblematic, while mergers within such markets may or may not raise antitrust issues. Second, although states are a natural regulatory unit, the marketplace for coverage often does not track state borders – and market share/concentration ratios for something that isn't a market are meaningless. The AMA's focus on the market share of HMOs and PPOs also omits other options – such as self-funded ERISA plans (for large and small groups) and high-deductible health insurance plans (for individuals, often coupled with a health savings account). If the state is, in fact, the relevant market, all options need to be included for the market share/concentration ratios to mean anything. Third, market concentration ratios are a screening tool – and no one with antitrust enforcement responsibility in the past several decades has thought that de-concentration in the absence of an actual antitrust violation was a strategy that would go anywhere in court, or had much of anything to recommend itself as a general policy.

This doesn't mean that there are no problems with health insurer performance – nor that no health insurance markets are oligopolistic – but you can't answer those issues in the abstract or assume that there's an antitrust problem, or that there isn't such a problem – you have to actually go and look.

More importantly, if you think there is actually a monopoly problem in certain coverage markets, then we have an established way of dealing with that — prove it up, and use the remedies provided for by the antitrust laws. The principal remedy is structural – break up the monopoly, and restore competition to the market. As far as I can tell, in the entire history of antitrust, no one has ever thought a plausible response to a monopoly is for the government to go into the business of providing the monopolized services, in order to create some competition. (And, as I will detail in a subsequent post, when the government has gone into the business of providing insurance, the results have not been pro-competitive).

Let's be concrete. The government is currently investigating Intel and Google, and previously prosecuted Microsoft for antitrust violations – but anyone who suggested that the way to address a monopoly in these areas was for the federal government to go into the business of developing computer chips, web browsers and search engines would have been laughed out of the antitrust bar. If you want more competition in the market for health insurance, the most direct and obvious (and standard approach, if history is any guide) is to address the problem head-on – by bringing cases against violators, eliminating state-created barriers to entry, and otherwise trying to address the source(s) of market failure.

Next, monopsony. If a public plan can rely on Medicare's purchasing power and pricing, it can probably under-price private insurance – although if proponents of a public plan are right that private insurers have a monopoly position in the market, its hard to see how a public plan gets much more

Eric Posner
Eugene Volokh
Ilya Somin
Jim Lindgren
John Elwood
Jonathan Adler
Kenneth Anderson
Orin Kerr (on leave)
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leverage than that. And, if private insurers don't have enough market power to engage in monopsony pricing, that means there isn't a monopoly problem in the coverage market – which, after all, was the primary justification for a public plan in the first place.

Leaving all that aside, it is important to remember that consumers are harmed by both monopoly and monopsony. So, proponents might view the monopsony purchasing power of a public plan as a feature, but its actually a bug.

In my next post, I will address the "maverick" issue. This issue involves a series of sub-claims: that a public plan will have lower administrative costs than a private plan; that a public plan will behave differently than a private plan; and that we should not have a "level playing field" for purposes of regulation and taxes because doing so will strip the public plan of its "inherent advantages."

martinned (mail) (www): (link)

> More importantly, if you think there is actually a monopoly problem in certain coverage markets, then we have an established way of dealing with that — prove it up, and use the remedies provided for by the antitrust laws.

This is wrong, and you wrote as much earlier in your post. Being a monopoly is not forbidden by the Sherman Act, only (unlawful) monopolization is. Microsoft were accused of specific violations of the law, since that's what it takes to win a monopolization case. The antitrust laws don't fix market power in general. (Nor should they, in most cases.)

More generally, I'm not sure that market power is really the key here. Clearly if the health insurance market were perfectly competitive, in the sense of microeconomic theory, the problems that motivate the administration's proposals wouldn't exist. So in that sense market power is the source of the problem. However, that is only true in a weak sense, in that there is some market power in the market, companies do behave strategically, and they do price over marginal costs. None of that is open to dispute, and beyond that the problems noted are unique to the health insurance market, and therefore not open to attack through normal antitrust analysis.

6.25.2009 7:49pm

A. Zarkov (mail): (link)

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The intention of the Obama administration is clear: a single payer system with mandatory subscription and ultimately rationing. To achieve this end, they will use the power of government to drive the private insurers out of business, leaving the public no choice but to accept the government plan. Since young and healthy people will tend opt out, participation will be mandatory. It has to be, the plan members cannot subsidize themselves-- somebody has to pay for the beer.

One way or another the plan will cover illegal aliens and the new immigrants who will pour into the US in large numbers after amnesty is enacted. With chain migration, the US population will expand by another 100 million people over the next 30 years. The new migrants will for the most part be low IQ, low skilled workers, from the third world who will constitute a tremendous drain on the medical system. How can we possibly have virtually open borders and social welfare? Where is the money going to come from? I know just print it. We now have a country run by pod people.

6.25.2009 8:04pm

martinned (mail) (www): (link)

@A. Zarkov: Have you ever met a politician who was capable of thinking that far ahead? 3 years, 4 months, 1 week and a few days, that's it.

6.25.2009 8:06pm

CaDan (mail): (link)

And then, at night, the ice weasels come.

6.25.2009 8:22pm

t.simenon (mail): (link)

With chain migration, the US population will expand by another 100 million people over the next 30 years. The new migrants will for the most part be low IQ, low skilled workers, from the third world

EVERYBODY (HIS)PANIC!!!

6.25.2009 8:35pm

Upend, Coming: (link)

I think your comparison to Microsoft, Intel, and Google are inapt.

Insurance is, largely speaking, a cost-spreading

Technology Liberation Front
Tom Palmer
WSJ Law Blog

Andrew Sullivan
David Frum
Deep Glamour
Emmanuelle Richard
Hit & Run
Joanne Jacobs
KausFiles
Lileks
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Room for Debate
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Former Chef
GeekPress
Gil Milbauer
NoodleFood
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Stuart Buck
Matt Yglesias

Reason

Day by Day
ScrappleFace

measure. It serves a similar function to basic tort actions for products liability. Under basic tort doctrine, there is almost always talk of "deep pockets" and cost spreading.

Unlike product and service companies, insurance companies are merely overhead for cost spreading -- with a profit incentive.

The more appropriate analogy is the student loan industry. They provide loans that are insured by the government. The students pay approximately 8.5% in federal student loans. The industry spreads the cost of the debt by using depositors money to fund this temporary debt. But, you can cut out the financial company and get a direct loan through your school at 7.9%. Saving nearly one-tenth the APR.

The fact is that the financial companies are overhead. All I filled out was a master promissory note, no one really checked my finances to see if I would be able to pay back $40,000. If the financial companies are overhead, the insurance companies are even more clearly "overhead."

If there was any industry that should probably not have million dollar salaries for CEOs, it would be the insurance industry that has as its only product: other insureds premiums.

6.25.2009 8:42pm

RPT (mail): (link)

Zarkov:

It's all lobbyist determined. Nothing will change from the current insurance company bureaucrat rationing system. Do you support the status quo?

6.25.2009 8:42pm

Upend, Coming: (link)

Oh, and I wouldn't go so far as to claim that the government will be more efficient than private companies. But, set the government's rates at the prevailing public industry rate and watch the public industry start "finding" savings.

6.25.2009 8:46pm

A. Zarkov (mail): (link)

martinned:

"Have you ever met a politician who was capable of thinking that far ahead? 3 years, 4 months, 1 week and a few days, that's it."

In this case they are thinking ahead-- that's the problem.

RPT:

"Do you support the status quo?"

I support the status quo over what's likely in store for us. The government will present us with something so complicated that it will be hard to figure out if it's an improvement. I prefer the devil I know to the devil I don't.

6.25.2009 8:59pm

Michael H Schneider (mail): (link)

Leaving all that aside, it is important to remember that consumers are harmed by both monopoly and monopsony.

That is true if, and only if, we would otherwise have an efficient market with consumers having the information they need to make well informed choices among a variety of competing businesses, where the businesses compete on the basis of the quality of the product they deliver. That's not the situation in health insurance.

Instead, consumers find it almost impossible to evaluate the quality of insurance (what exactly do they exclude? What are the odds I'll need that service? What rates have they negotiated with providers which will determine how much I'll pay as a deductible or 20%co-pay? How often do they baselessly deny claims?). And the companies compete on price, and keep profits high by cherry picking customers, denying or rescinding coverage, and gaming the market.

In that situation the market has failed, and neither monopoly nor monopsony is necessarily worse that what we've got.

6.25.2009 9:14pm

trotsky (mail): (link)

One thought about competition and consumers. I've had health insurance through my company for the past 12 years; I've usually had a choice of three options (bronze, silver and gold-plated) selected by someone at

corporate HR on the other side of the country.

I presume there is a robust B2B market for insurance services, but I'm guess that at least 85 percent of privately insured Americans just take whatever their employer offers. The patients aren't the buyers -- and that makes a difference,no?

6.25.2009 9:20pm

George Smith: (link)

Its not really about health care. It's about control and buying the votes to sustain it. Don't worry, though. The Carribean and Central America will be slopping over with ex-pat American doctors, so we can go there to get those colonoscopies, MRIs and hip replacements when we need them.

6.25.2009 9:42pm

Pro Natura (mail): (link)

> The Carribean and Central America will be slopping over with ex-pat American doctors, so we can go there to get those colonoscopies, MRIs and hip replacements when we need them.

Except, just like in Canada now, the "we" will only be the wealthy and politically connected. And that's exactly the way the Kennedys and Obamas in this country want it: They and their families and dependents constituting a post-modern nobility and what was once the middle-class reduced to government-dependent serfs.

6.25.2009 10:01pm

Desiderius: (link)

See also.

6.25.2009 10:11pm

Allan Walstad (mail): (link)

I don't see any Constitutional basis for the feds to subsidize medical care or construct any medical "plan," much less impose it. Nor do I see any evidence that government meddling in the market for medicine (or just about any market to a substantial degree) is likely to decrease costs or improve quality.

It is properly up to individuals and families to look after themselves with their own resources, whether through

direct purchase of goods and services or utilizing insurance. Anyone concerned with the well-being of people in need has a right to contribute charitably to their aid.

All that's being discussed here is various collectivist schemes that lead down the road toward total subservience of individuals and families to the state. It is a measure of how far political discourse has descended that anyone who objects to wholesale robbery and coercion is likely to be ignored or ridiculed--or even, these days, put on some federal enforcement agency watch list.

6.25.2009 11:06pm

BooBerry (mail): (link)

> It is a measure of how far political discourse has descended that anyone who objects to wholesale robbery and coercion is likely to be ignored or ridiculed.

Yup - sounds about justified that you'd be ignored/ridiculed.

6.25.2009 11:11pm

picpoule: (link)

How will this work when everyone is covered by some kind of insurance, but there is no corresponding increase in the amount of MDs available? If there are long waiting periods for care/treatment, or rationing, will the victims of that rationing stand for it? Even if they die because of rationing, will the families sue? Who will get sued? The government that grants itself immunity? It's all so crazy and unworkable. A pity we can't just fix the broken part.

6.25.2009 11:12pm

Psalm91 (mail): (link)

What a forlorn group we have here, afraid of any change. No more confidence in the country's ability to change and progress. Nothing but fear. The "devil you know" is preferable if you have a good position in his cohort.

6.25.2009 11:28pm

Jmaie (mail): (link)

The patients aren't the buyers -- and that makes a difference,no?

That is the entire difference. Neither the consumer nor the physician has any incentive to control costs, and in fact have strong incentives running the other way. As Upend, Coming correctly stated, insurance companies are overhead for spreading costs. Their costs go up, rates increase, profits continue. They make a show of cost control and annoy their most frequent users, but that's about it.

It seems likely that the public option will be the camel's nose. Eventually the private insurance share of the market will shrink until the public option covers most of the populace, at which point rationing sets in.

6.25.2009 11:32pm

Ben P: (link)

> I don't see any Constitutional basis for the feds to subsidize medical care or construct any medical "plan," much less impose it. Nor do I see any evidence that government meddling in the market for medicine (or just about any market to a substantial degree) is likely to decrease costs or improve quality.

It might be "shlocky" but it's plainly observable that the US already spends more for medical care than any other first world country, and my some measures at least obtains considerably worse results. (and I freely admit Mankiw had a good point in his comments about how the statistics aren't that dispositive, there very well can be multiple reasons why the US has shorter life expectances, and higher infant mortality rates than most other first world countries.)

The fact remains that ~20% of people have been "priced out" of the market for healthcare services, and federal regulations on emergency healthcare services means they get them for free anyway in what's arguably the most ineffcient way possible (Getting emergency care when it becomes critical that hospitals are legally required to provide.)

Does this mean that a strong or single payer health care system is the only, the best, or even a truly viable option? Not at all. (although, it's probably noteworthy

on this point that Medicare/Medicaid/other government subsidized health care like Schip and VA) are already almost a majority share of the health care in the country anyway)

But pretending that the health care market in this country doesn't have some really serious problems is almost tantamount to burying your head in the sand. (even if you think the best answer to those problems is deregulation)

6.25.2009 11:41pm

Ben P: (link)

> It seems likely that the public option will be the camel's nose. Eventually the private insurance share of the market will shrink until the public option covers most of the populace, at which point rationing sets in.

I don't necessarily see that this is an absolute certainty. Nearly every other first world country has some sort of comprehensive public healthcare system, and the majority of them DON'T look like the Canadian/UK system. Several of them have maintained substantial public/private hybrid multipayer systems.

A system like Germanies has it's own problems of course, but the fact remains that they've had a "public option" for more than a century and more than a quarter of the medical insurance there remains private because people buy all out private or private supplementary insurance.

6.25.2009 11:49pm

interruptus: (link)

> A system like Germanies has it's own problems of course, but the fact remains that they've had a "public option" for more than a century and more than a quarter of the medical insurance there remains private because people buy all out private or private supplementary insurance.

The same is true of France, where despite its "socialist"

reputation, the vast majority (~90%) of people have private insurance, with only the poorest relying solely on the public option.

6.26.2009 12:07am

Yea.. no: (link)

Dude,

I don't know who you are, but if you are blogging on this site, I assume that you a pretty smart guy.

Therefore, I am disappointed that you have approached this question so mechanically. You talk about anti-trust cases and the definition of a monopoly. You are getting lost in legalese and the trees. Look at the forest.

Health care, as it works today in the USA, is desperately bankrupt. Costs are exploding exponentially, much like housing costs were until 2008.

The admin costs, the salaries, the cost of equipment and drugs, and the profiteering are all off the chart.

We, AS A NATION, need to sit down and ask some serious questions: What is more important to us? The freedom of doctors to make money, or the speed with which we get ER care? The cost of existing drugs, or the availability of new ones? The fact that millions of hard working Americans don't have health insurance and live in constant fear and/or pain and/or deteriorating health, or insurance company bonuses?

Your post addresses none of this, and therefore, is not very elucidating, frankly.

Whether or not the health care companies are technically a monopoly or not, or even whether we *should* treat them as such is missing the big picture!

6.26.2009 12:15am

Yea.. no: (link)

Oh, by the way: I know that not all heath care provider salaries were not keeping up with housing bubble era inflation. But frankly, no doctors are starving, and a lot of their patients are. (i.e one out of 10 Americans is now on food stamps)

6.26.2009 12:21am

Yea.. no: (link)

heh. sorry about the above typos, I am trying to study

for the bar, and I am very tired. :-(

6.26.2009 12:23am

Yea.. no: (link)

Forgive me, one last thought:

You write: "The principal remedy is structural – break up the monopoly, and restore competition to the market. "

I might agree with you, and thus be willing to abandon my entire rant above, except that I reject that health care is just another service.

On a moral level, I think that health care is substantively different than say, the service of tax accounting. People can live and indeed thrive without access to a cheap or even competent tax accountant. I am OK with leaving the market to setting most accounting practice issues.

Health care is different. And if our current crop of doctors disagrees, maybe its time to just abolish the AMA and let a few more medical schools open up, crank out a few 100,000 more PAs, and see what some REAL competition can accomplish.

In fact, I would be more open to the "market" theories of health care insurance if the ENTIRE FIELD wasn't already a complete joke of intractable multi-level quasi-monopolies.

6.26.2009 12:31am

Cornellian (mail): (link)

It's a health plan, you don't get beef, you get lean portions of poultry and white fish.

6.26.2009 12:42am

Kazinski: (link)

Health care is so complicated I think government guidelines for what procedures are necessary and and how many providers are needed to provide them is just common sense.

When I had to go get an MRI on my knee earlier this week, I was shocked and appalled that I got an appointment the very next day. Once the government streamlines health care, we won't have underutilized resources just sitting around waiting for some clumsy middle aged idiot to tear up his knee. An expensive

piece of equipment like that should be booked up at least 6 weeks in advance to minimize waste.

6.26.2009 12:55am

Jake (Guest): (link)

> On a moral level, I think that health care is substantively different than say, the service of tax accounting. People can live and indeed thrive without access to a cheap or even competent tax accountant. I am OK with leaving the market to setting most accounting practice issues.

(1) This ignores the moral component of freedom of contract. I realize this ship has sailed already, but do you seriously not have a problem with a system that forbids you from paying the doctor of your choice for the medical care of your choice?

(2) The practical argument is poorly thought out. Consider food. Can't live without food. I've even heard that some of those greedy food providers out there are charging hundreds of dollars for a single meal while poor people are starving in the streets. Clearly we need to nationalize Big Food and show those fatcats what's what, right?

Could we please at least make an effort to find colorable arguments that health care is different from every other good and service in the world? Why is it that when people can't afford housing we provide housing for the poor, but when people can't afford medical care we aim to nationalize the whole system?

6.26.2009 2:31am

G Miller: (link)

As far as I can tell, in the entire history of antitrust, no one has ever thought a plausible response to a monopoly is for the government to go into the business of providing the monopolized services, in order to create some competition.

Here's another example: various municipalities' plan to offer public WiFi networks when existing broadband suppliers (cable, DSL) are perceived to be oligopolies and either too expensive or too reluctant to offer wide

geographic coverage.

6.26.2009 2:33am

interruptus: (link)

> This ignores the moral component of freedom of contract. I realize this ship has sailed already, but do you seriously not have a problem with a system that forbids you from paying the doctor of your choice for the medical care of your choice?

That's a good argument against single-payer systems of the Canadian variety, but I don't think anyone considers those likely to pass. In a multi-payer system with a public option, like Germany's and France's, there is no such prohibition on choosing to pay for your own medical care if you don't like the care offered by the public system.

6.26.2009 2:58am

Leo Marvin (mail): (link)

A liberal is a conservative who's lost his health insurance.*

[*My comeback to "a conservative is a liberal who's been mugged." I realize no one has said that for 15 or 20 years, but I'm slow. Sue me.]

6.26.2009 3:13am

Bruce Hayden (mail): (link)

> Next, monopsony. If a public plan can rely on Medicare's purchasing power and pricing, it can probably under-price private insurance – although if proponents of a public plan are right that private insurers have a monopoly position in the market, its hard to see how a public plan gets much more leverage than that. And, if private insurers don't have enough market power to engage in monopsony pricing, that means there isn't a monopoly problem in the coverage market – which, after all, was the primary justification for a public plan in the first place

One problem here, that is not addressed by the proponents of the Obama plan is that the reason that

the government can pay less for medical services than private insurers is that it is in essence forcing them to massively cross-subsidize its patients.

If you want to look for the biggest cost drivers of our health care systems, one of the most obvious is the leveraging effect of this. If a medical cost goes up, for almost any reason, it will be translated into an even larger increase for those not covered by government plans, because the government sets its reimbursement levels typically well below cost, and so providers must recoup their losses from their other paying customers, driving up what they charge these other customers even faster. But, worse, while actual costs are rising, the government is actually cutting reimbursement levels, making this even worse.

So, what happens when the government gets into the market for the rest of us? Most likely, they will extend their under-cost reimbursements to their new policy holders, making this cross-subsidization problem even worse. This is one reason that a more extensive government insurance program is likely to drive more and more people to their system, as the leverage inherent in the cross-subsidization drives up the rates of those not covered by government insurance higher and higher, in comparison.

6.26.2009 3:26am

Bruce Hayden (mail): (link)

> More generally, I'm not sure that market power is really the key here. Clearly if the health insurance market were perfectly competitive, in the sense of microeconomic theory, the problems that motivate the administration's proposals wouldn't exist. So in that sense market power is the source of the problem. However, that is only true in a weak sense, in that there is some market power in the market, companies do behave strategically, and they do price over marginal costs. None of that is open to dispute, and beyond that the problems noted are unique to the health insurance market, and therefore not open to attack through normal antitrust analysis.

The problem, as with much of the current agenda by the Democrats running this country right now, is that the problem doesn't bear up under scrutiny. Once you have eliminated those who are voluntarily uninsured, those

who are here illegally, and those eligible for other government programs, etc., all of a sudden most of those 40 or so million "uninsured" disappear. Maybe 10 million or so remain, and the solution then is far different. Extending existing programs to cover them for catastrophic medical costs would be far, far, cheaper in the long run than anything being currently proposed by the majority in Congress or the President.

6.26.2009 3:31am

Bruce Hayden (mail): (link)

> How will this work when everyone is covered by some kind of insurance, but there is no corresponding increase in the amount of MDs available? If there are long waiting periods for care/treatment, or rationing, will the victims of that rationing stand for it? Even if they die because of rationing, will the families sue? Who will get sued? The government that grants itself immunity? It's all so crazy and unworkable. A pity we can't just fix the broken part.

Actually, the proposed "solutions" are liable to make the problem worse, much worse. Why? Because the government would put even more financial leverage on the primary care providers, who are already being overworked and underpaid. Why go to medical school, incur the debt, spend a number of additional years as a grossly underpaid resident, get involved in an extremely highly leveraged and capital intensive profession, just to earn less money than your friends who went to law school?

Supply is easy. First, temporarily reduce the barriers for entry of English and Spanish speaking physicians trained in other countries. Then, determine the AMA's control over medical school admissions, construction, and accreditation to be monopolistic. Third, fund more residencies.

6.26.2009 3:38am

Desiderius: (link)

Psalm91,

"What a forlorn group we have here, afraid of any change. No more confidence in the country's ability to change and progress. Nothing but fear. The "devil you know" is preferable if you have a good position in his cohort."

Please. Cato and the like have been advocating principled, innovative, research-backed change for decades, with specific policy prescriptions, but "liberals" like yourself who should have been on the forefront advocating for that change have instead been lost in a fever dream where an 80-year-old Deal is ever New and the stagnation produced by government-owned enterprise worldwide never happened.

The job of the government is to regulate enterprise. That job is fatally compromised when the government *is* the enterprise as well.

6.26.2009 6:42am

Desiderius: (link)

LM,

"A liberal is a conservative who's lost his health insurance.*

[*My comeback to "a conservative is a liberal who's been mugged." I realize no one has said that for 15 or 20 years, but I'm slow. Sue me.]"

Actually, out here in Bizarro Sparta, there are whole platoons charged with making sure not a soul falls through the cracks. You'll get that with a culture characterized by confessions of societal depravity that would make a Calvinist blush.

What's missing, I think, is the Calvinist assurance of pardon that once released all that pent-up guilt. Instead these days it gets channeled into our Progressive established church, the state, in desperate hope of absolving said guilt by demonstrating the depth of the patron's caring.

6.26.2009 6:54am

Ben P: (link)

> When I had to go get an MRI on my knee earlier this week, I was shocked and appalled that I got an appointment the very next day. Once the government streamlines health care, we won't have underutilized resources just sitting around waiting for some clumsy middle aged idiot to tear up his knee. An expensive piece of equipment like that should be booked up at least 6 weeks in advance to minimize waste.

I realize you're being sarcastic (hopefully), but this contains it's own counter argument. It's a good example of illustrating the problems of competition in the healthcare market.

are relatively simple. But I'd counter by asking "how much more did you pay to get it now rather than next week" and probably more important, because it was covered by insurance, do you even know how much more you paid? Did you have a choice of options?

In a market with perfect information, some consumers might well pay 2x to have it done tomorrow, others might well pay X if they can get on the schedule two weeks from now.

An MRI is an expensive piece of machinery that is effectively rented out by the hour. On one level the economics of such a business aren't any different than any other such piece of machinery.

If we assume a "Market price" for the use of that machinery (which itself might be suspect), the maximum profit that the owner of the machine will get, will be from having it rented out 100% of the available time (accounting for maintenence breaks and such).

But this has to be balanced against the availability. Every time a customer comes in and can't rent the machine when he wants, the owner risks having that customer decide not to rent the machine, or go elsewhere. So he might get 3 machines, now each machine is only being utilized 65% of the time, but he makes up for it in the volume of business he's oing.

In a "perfect" market there's ample room for both merchants who charge "over market" but guarantee availability when you need it, and Merchants who charge

"under market," but will probably make you wait for it.

Your insurance company could probably just as easily say "we're not going to pay a premium for next day use" and make you wait, and given if you're like most Americans you don't independently purchase your coverage, would you have a choice?

Or if there is no such thing as a premium, that means there's an oversupply of the machines and prices are kept artificially high. Of course, people who use the service don't realize this because they don't pay for it directly, they may not even pay for the insurance directly.

6.26.2009 9:33am

Mark Buehner (mail): (link)

I've been trying to find details of how this public option is supposed to work, but I cant, assumedly because they don't exist.

Here's what's missing, and why the public option is anti-competitive: this entity isn't subject to market forces. They (as far as I know) don't need to be profitable, or even solvent. How do you compete with an opponent that runs on government red ink? They will be able (and certainly will) operate at a loss and be able to offer premiums that the true market competition simply _can't_ offer.

The ironic part of this whole mess is that what we will end up with will be astonishingly unprogressive. The vast majority of the country will be stuck in the public option (because employers will find it far more efficient to pay the tax penalty and wash their hands) while the extremely wealthy (or elected) will retain their gold plated coverage.

6.26.2009 10:11am

Upend, Coming: (link)

To Bruce:

The phantom of the overstated uninsureds may have kernels of truth, but ignores the "insured" that have ultra-high deductibles or run primarily from "health savings accounts" - which are not insurance if you only get what you pay in.

To Jake (guest): See my post above #6 and #8, for a breakdown of why insurance is different than "big food."

6.26.2009 10:15am

BGates: (link)

Ben, when you commented about the differences in costs between the US and other countries, and the difficulties the poor have with the current system, and insisted that in fact the health care market does have some really serious problems, why did you preface your remarks by quoting someone asking for evidence that the government can make things better and has the Constitutional authority to try?

6.26.2009 10:50am

Brian S: (link)

> Insurance is, largely speaking, a cost-spreading measure. It serves a similar function to basic tort actions for products liability. Under basic tort doctrine, there is almost always talk of "deep pockets" and cost spreading.
>
> Unlike product and service companies, insurance companies are merely overhead for cost spreading -- with a profit incentive.

You know what? This attitude is part of the problem. Because this is not actually what insurance is.

Insurance is a person or entity with capital making a bet that they can guarantee me [me, personally, as an individual] payments under certain circumstances, in return for a regular premium payment.

Now, a person or entity making such bets will - if they're sensible - engage in actuarial activities to know if they're making a good bet, and will want to make a large number of such bets in order to have probability on their side. But the "cost-spreading" that occurs as a result of this is an *emergent phenomena arising from insurance,* and not insurance itself.

Many of the inefficiencies in the insurance market result from state and federal level regulations that aim at forcing the insurance companies to function as cost-spreading pools, as if this was their primary reason to exist. And it's not.

6.26.2009 10:53am

RPT (mail): (link)

Desiderius:

The CATO Institute is a conservative/corporate think tank/lobbying group, not some independent organization. It supports the status quo/insurance rationing system.

6.26.2009 11:24am

rick.felt: (link)

@A. Zarkov:

-Open borders
-Welfare state
-Economic prosperity

Pick any two.

6.26.2009 11:24am

rick.felt: (link)

Two pet peeves with the whole health care debate:

(1) Our treatment of payment for routine, predictable health services as "insurance" is insane. Dental checkups, annual gynecological appointments, pregnancy, birth control pills, and annual physicals are all predictable/controllable. There's no more reason to have "insurance" for this sort of thing than there is to have "car insurance" for oil changes and wiper blades. Besides, no one is going bankrupt over a $100-200 dental visit or annual physical. If health insurance were really insurance, it would cover only low-probability, high-cost events. As others have noted, it makes no more sense for employers (or insurance companies generally) to pay for life's known essentials. I don't expect my employer to pay for my rent, food, or water, and I need all of those to live.

(2) Criticize the insurance companies, doctors, and hospitals all you want, but don't blame the "free market" for the problems in the health care sector. With the government picking up tab for the health care of what, 30-40% of the population, plus regulating the hell out of the whole thing and throwing in tax incentives, the idea that the market for health care is "free" is beyond ludicrous.

6.26.2009 11:52am

Mark Buehner (mail): (link)

The other thing is Medicare loses 30% of its budget to waste and fraud. And Obama has the gaul to point to it as a model because of low administrative fees. Turns out if you don't give a damn how much you lose in waste and fraud you don't need much administration.

6.26.2009 12:02pm

rick.felt: (link)

Under basic tort doctrine, there is almost always talk of "deep pockets" and cost spreading.

You took Torts with a functionalist professor. It's fine; I did too. But you might want to be aware that there are other conceptions of tort law out there, not all of which share this "cost spreading" view.

6.26.2009 12:04pm

interruptus: (link)

> How do you compete with an opponent that runs on government red ink? They will be able (and certainly will) operate at a loss and be able to offer premiums that the true market competition simply _can't_ offer.

This ignores the fact that in other countries with a public option, but not single-payer systems, private insurance *is* able to compete; e.g. 90% of French pay for private insurance. The private insurers differentiate themselves by offering higher-quality service with lower waiting times and more covered procedures, since the public option is intended to be an acceptable baseline, not all the service anyone might ever want.

If opponents of "socialized medicine" are correct in the parade of horribles they cite, e.g. long waiting times, then private insurers should have no trouble at all competing.

6.26.2009 12:07pm

Mark Buehner (mail): (link)

> If opponents of "socialized medicine" are correct in the parade of horribles they cite, e.g. long waiting times, then private insurers should have no trouble at all competing.

You're missing the point. Government pays what it feels like paying to the providers, ie medicare. The provider has to make up that deficit by jacking up the prices for everybody else. That means that not only do private insurers pay more, they are still 'competing' with an entity that doesn't have to make a profit or even break even to begin with. French private insurance is supplemental- everyone is required to have the base government insurance. That's not what we're talking about here (at least out loud). If Obama intends to go that way, fine, but he should stop pretending everyone can keep their present insurance.

Regardless, the entire scheme is financially unsustainable, either here or in France. We are in store for a demographic bomb that makes this entire debate a farce. In 10 years we will simply have way too many sick, old, dying people per young healthy worker to sustain this level of care, whoever is paying for it. Rationing is on the way.

6.26.2009 12:19pm

rick.felt: (link)

The private insurers differentiate themselves by offering higher-quality service with lower waiting times and more covered procedures, since the public option is intended to be an acceptable baseline, not all the service anyone might ever want.

A valid point, but once we have some sort of universal health care is it *politically* possible for *Americans* to tolerate a multi-tier system? Is it going to be possible to sell even the middle class on a public program that permits the rich to jump the line for MRIs? I expect much complaining from unions and much grandstanding from John Edwards types: "Two Americas," and all that.

6.26.2009 12:29pm

Ben P: (link)

> Ben, when you commented about the differences in costs between the US and other countries, and the difficulties the poor have with the current system, and insisted that in fact the health care market does have some really serious problems, why did you preface your remarks by quoting someone asking for evidence that the government can make things better and has the Constitutional

> authority to try?

The most accurate answer is probably that I don't always (or even rarely) know exactly what my final point will be when I start writing. But I may have also misread some.

But I also will quote part of a comment to respond to the whole thing. I tend to run long as it is.

Looking back, what I was getting had has to do more with the post taken as a whole. I think the view stated that "Healthcare is something to be purchased with peoples own resources or provided through charity, and government intervention is always bad," although a reasonable statement, fundamentally misunderstand the situation.

The idea that the free market is universally a better option than "government meddling" presupposes a properly functioning competitive market. Not only free competition, but that consumers have enough information to make the proper choice. Nearly every free market philosopher out there admits that there are certain things (like monopolies) that disrupt the proper functioning of the system.

I think there's pretty convincing evidence that our healthcare market is not functioning properly. There are many causes, some of them part of the market itself, but many others the result of already existing regulations. (Insurance laws, EMTALA, MEdicare/MEdicaid etc)

As for constitutional authority. There are certainly philosophical positions, but there's really no reason to expect that the current understanding of constitutional law would prohibit congress passing medical legislation under either taxing and spending or interstate commerce clauses.

6.26.2009 12:30pm

Soronel Haetir (mail): (link)

interruptus,

The problem I see with that is I fear we are going to go straight to a government plan that covers everything rather than just those basics. It will take time for the market signals to get through while in the meantime the private insurance market will get clobbered. Add on top

of that things that aren't really medical in nature that states are now requiring insurance to cover, such as behavioral training for autism and you end up with an incredibly screwed product.

I may be wrong on this, but my understanding of Europe is that there is very little regional control within countries on much of anything. Canada of course does have strong regional control but they also abandoned their fully public system.

How long will it take for new private supplimental insurers to emerge if the current crop is crippled?

I actually do see end of life care as one of the areas we could better manage resources. I've now seen the process close up three times, all three insured, two private one Medicare. In all three cases the doctors would have gone ahead with massive intervention in order to extend life for however long they could. This despite one of the patients showed no brain activity, the respirator was the only thing keeping her alive. Another chose to forego further chemotherapy because a few extra weeks of misery weren't worth it to him and the third was an extremely elderly woman who had already been sick for a decade, had no memory of who she was and was in constant moderate pain despite medication.

So yes, I do think Americans have a distorted sense of when heroic measures are in order. I would basically cut it off both at beginning and end of life. Much better to focus on the young through middle aged.

This is not to say that the terminal shouldn't be given care, but the nature of that care should be focused on reileving suffering rather than futile attempts at extending life.

6.26.2009 12:32pm

Andy Freeman (mail): (link)

> But pretending that the health care market in this country doesn't have some really serious problems is almost tantamount to burying your head in the sand. (even if you think the best answer to those problems is deregulation)

Disagreeing with Obamacare is not the same as pretending that US health care does not have serious problems.

In fact, proposing big changes, such as deregulation, ObamaCare, etc, regardless of the change, starts from

the premise that US healthcare has serious problems.

I think that Obama should have free rein over the healthcare for all federal, state, and local govt employees (and elected officials) and their dependents together with the Indian Health Service, the VA, and Medicare/Medicaid. However, starting in 2011, the per-person budget gets cut by 5%/year for the next four years. (That's less than 20% and he's claiming that he can save 30% so it's an easy hurdle.)

Let's see it work. If govt employees become fitter and healthier at less cost, great! If not....

6.26.2009 12:48pm

Dan Weber (www): (link)

> The private insurers differentiate themselves by offering higher-quality service with lower waiting times and more covered procedures, since the public option is intended to be an acceptable baseline, not all the service anyone might ever want.

If this is what's being proposed for America (a baseline system), then good. But we've been getting very little detail on just what the "public plan" will be.

> If opponents of "socialized medicine" are correct in the parade of horribles they cite, e.g. long waiting times, then private insurers should have no trouble at all competing.

It depends on how much of a subsidy the government plan gets.

A minimal government system that costs little in taxes and does little in services (for example, anything found by an **independent** MedPAC to be cost-effective) will have a healthy private system alongside it.

But one can easily design a government-run system that is poorly-run yet starves other competitors merely through massive government subsidy.

I can easily imagine a government-run system **without** these problems, so the details really, really, really matter.

6.26.2009 12:50pm

SeaDrive: (link)

As someone who works in the industry, I would say that it's more correct to say that costs are raised by fragmentation in the insurance market than to say they are raised by monopoly. There are a lot of little companies out there, and there is also an internal factor: the big insurance companies fragment the market with a large number of policy choices. Differences in coverage generate a lot of labor hours in doctor's offices and in claims-paying organizations.

Differences in coverage also lead to differences in treatment, which can't be good.

Americans have been trained to think that no one pays for his own medical care to the extent that they refuse care if they think they will have to pay. Any doctor will tell you that consumers will avoid going to the doctor, or skip followup visits, in order to save even a modest co-pay. This behavior is seen in patients who can well afford the $30 (or whatever).

The easiest way to reduce costs is to deny care. Most schemes to reduce cost rely on denial of care, often on the excuse that it's the patient denying it to himself.

6.26.2009 12:58pm

Soronel Haetir (mail): (link)

> I can easily imagine a government-run system without these problems, so the details really, really, really matter.

But can you imagine such a problem free system emerging from Congress? I'd put that in the category of wishing or fantasy.

6.26.2009 1:09pm

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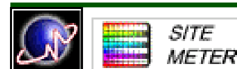

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