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An option for public: less government, more choice

By Jeff Jacoby, Globe Columnist | November 4, 2009

Second of two parts

“MY GUIDING PRINCIPLE is and always has been that consumers do better when there is choice and competition.” So said President Obama in his address to Congress on health care, making an argument for a government-run “public option” to sell health insurance that many Democrats have echoed.

In 34 states, Obama noted, three-fourths of the insurance market is controlled by five or fewer companies. “Without competition, the price of insurance goes up and the quality goes down.” But add a public option “administered by the government just like Medicaid or Medicare,” he said, and competition would revive.

No, it wouldn’t.

A government-run health insurer would radically tilt the health-insurance playing field. It would amount to a new entitlement program, able to undercut the price of private insurance by squeezing hospitals and doctors, reimbursing them at below-market rates. “Just like Medicaid and Medicare,” which also underpay medical providers, the public option would force hospitals and doctors to charge private insurers more. Insurers would be compelled to raise their premiums, eventually losing millions of customers to the government plan.

Obama insists that any public option would have to be self-supporting, properly balancing its premiums and risk and not expecting the government to cover its losses. Sound familiar? The same assurances were made about Fannie Mae and Freddie Mac.

“I have no interest in putting insurance companies out of business,” the president says. As a US Senate candidate in 2003, he sang a different tune: “I happen to be a proponent of a single-payer universal health care program . . . But as all of you know, we may not get there immediately.” Has he changed his mind? Or only his talking points?

More competition among health insurers is a consummation to be devoutly wished. But there are better ways to get there than a public option.

Here are three:

■**Tear down the barriers to buying insurance across state lines.** Under federal law, states are permitted to regulate “the business of insurance” as they see fit, and most have seen fit to allow the sale only of insurance policies licensed by their own insurance commissions. As a consequence, there is no competitive national market for health insurance; there are 50 state markets instead, most of which are dominated by a handful of insurers. This, says Michael Cannon of the Cato Institute, is the “original sin” of health insurance regulation.

When it comes to almost any other product or service, Americans would find a ban on interstate commerce and competition intolerable: Imagine being told that you could buy a car only if it was manufactured in your state. Consumers in the market for a mortgage are free to do business with an out-of-state lender; those in the market for health insurance should be equally free to do business with an out-of-state insurer.

■ **Repeal mandatory benefits that make health insurance needlessly expensive.** Compounding the lack of interstate competition is the way states drive up the cost of health insurance by making certain types of coverage compulsory. Consumers and insurers should be free to work out for themselves just how comprehensive or limited a policy should be. But state mandates prevent such flexibility by requiring insurance companies to sell a fixed array of benefits that many customers may not want. Individuals seeking plain-vanilla health insurance - a policy that will cover them, say, in case of major surgery or catastrophic illness - may find themselves forced to pay for a policy that also covers acupuncture, in vitro fertilization, alcoholism therapy, and a dozen additional treatments.

When compulsion takes the place of competition, the result is invariably less choice at higher cost.

■ **De-link health insurance from employment.** Nothing distorts America's health insurance market like the misbegotten tax preference for employer-sponsored health insurance. Until that preference is removed, millions will continue to rely on their employers' health plan, rather than buying insurance for themselves. Fix the tax code, and no longer could insurance companies routinely bypass employees and deal only with their employers. Instead we would see intense competition for individual customers - and the lower premiums such competition would yield.

Yes, Mr. President, consumers *do* benefit from choice and competition. The key to both is not more government regulation and control, but less.

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