Critical Condition

NRO's health-care blog.

Why Liberals Haven't Learned the Lessons of Massachusetts

By Avik Roy

Posted on July 21, 2010 12:11 PM

Faced with a barrage of bad news about the health-care system in Massachusetts, Obamacare advocates such as Jonathan Gruber, Jonathan Cohn, Ezra Klein, and Igor Volsky have started fighting back, arguing that things are going great in the Bay State. Cato's Michael Cannon has done a great job of summarizing their arguments, and why they fall flat:

- The Commonwealth Fund reports that even though Massachusetts already had the highest health insurance premiums in the nation, premiums rose faster post-RomneyCare than anywhere else; 21-46 percent faster than the national average.
- A recent study estimates that RomneyCare has so far increased employer-sponsored health-insurance premiums by an average of 6 percent.
- The success that Klein sees in Massachusetts' individual market — which accounts for just 4 percent of the private market — is merely the product of shifting costs to workers with job-based coverage.
- Contrary to Klein's *post hoc* spin that RomneyCare "was never an attempt to control costs," Romney himself promised that "the costs of health care will be reduced."
- Aaron Yelowitz and I find evidence suggesting that uninsured Massachusetts residents are responding to the individual mandate not by obtaining coverage but by concealing their insurance status. Coverage gains may therefore be less than official estimates suggest.
- Evidence is mounting that, despite stiffer penalties than ObamaCare will impose, increasing numbers of people are gaming the individual mandate by only purchasing health insurance when they need medical care. Such behavior could ultimately cause the "private" insurance market to collapse.

Liberals like to talk about controlling health costs, but in practice, they are far less concerned about reducing costs than they are about increasing spending. Here again is Jonathan Cohn:

> If the lesson from Massachusetts is that "genuine cost control is avoided because it's politically

> difficult" then fiscal disaster is inevitable. Health care costs are going to keep rising, no matter what we do. And if that's the case, I would certainly prefer a world in which people don't have to worry about paying their medical bills. It doesn't cost a lot to make that happen; the incremental cost of insuring the uninsured is a small fraction of health care spending.

Cohn captures a lot of what's wrong with liberal health-care philosophy in these few sentences. "If fiscal disaster is inevitable, we might as well cover the uninsured." Actually, the exact opposite is true. The reason why health care costs keep rising, and the reason we face fiscal disaster, is *because* of subsidized insurance.

Government programs like Medicare and Medicaid, which started out small, reward irresponsible utilization of health-care resources. As MIT economist Amy Finkelstein showed in an important paper, Medicare alone is responsible for nearly half of the health care inflation between 1950 and 1990. The reason is hardly mysterious: if you subsidize health-care spending, as Cohn recommends, you will get more of it, leading to even more health-care inflation. It's Economics 101: if you increase demand for a product, and keep supply constant, prices will go up.

And, so, we end up with the death spiral of state-funded health care. As the cost of health care increases, driven there by government subsidies, fewer people can afford private insurance, leading to more cries for more government subsidies, which will drive costs up even further. Wouldn't it be nice if we could try the opposite approach?

– Avik Roy is an equity research analyst at Monness, Crespi, Hardt & Co., and blogs on healthcare policy at The Apothecary.

PERMALINK