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Buying insurance across state lines not a “race to the bottom”

February 15th, 2010 | by Brian Schwartz |

Colorado politicians forbid citizens from buying more affordable insurance available in other states. Ed Sealover [reports](#) in the *Denver Business Journal*:

Colorado Republicans’ top health-care bill is coming before a House committee today. But don’t expect you’ll ever hear about it again this year.

HB 1163, sponsored by Rep. Cindy Acree, R-Aurora, would authorize the Commissioner of Insurance to enter into multi-state agreements so that insurance policy issuers can offer individual health-care plans in Colorado that are regulated by other states. The issuer must be financially viable and ensure proper access to health care in Colorado through the plans, and Colorado would have the sole responsibility to ensure the plan complies with its insurance laws.

...

Sen. Morgan Carroll, an Aurora Democrat considered her caucus’ expert on insurance issues, called the bill “basically **a race to the bottom.**” The only way that it would allow more Coloradans to buy insurance is if they are forced to get less comprehensive and less regulated coverage that state laws have frowned on, she said.

“It may allow people to search a little bit further for a bit cheaper price, but they’re stuck with an inferior product,” Carroll said. “Other states cannot enforce our protections.”

Carroll is mistaken. Giving people the *freedom* to buy insurance that meets the regulatory requirements of other states is not force. It’s, well, freedom. Has it occurred to Morgan Carroll that some people might want less comprehensive insurance that Colorado politicians have made illegal? (Other states do this, too.) Michael Cannon explains in the Cato Handbook for Policymakers ([Chapter 16 on health insurance regulation](#)):

Opponents will claim that regulatory federalism will lead to a “race to the bottom,” with some states so eager to attract premium tax revenue that they will eliminate all regulatory protections or skimp on enforcement. In reality, both market and political forces would prevent a race to the bottom. As producers of regulatory protections, states are unlikely to attract or retain customers—insurers, employers, or individual purchasers—by offering an inferior product. Purchasers will avoid states whose regulations prove inadequate, and ultimately, so will insurers. Moreover, the first people to be harmed by inadequate regulatory protections will likely be residents of that state, who will demand that their legislators remedy the problem. The resulting level of regulation would not be zero regulation. Rather than a race to the bottom, regulatory federalism would spur a race to equilibrium—or multiple equilibria—between too much and too little regulation. That

balance would be struck by consumers' revealing their preferences.

Also, for reference, Cannon [addresses](#) this objection to allowing people to buy more affordable insurance across state lines: "Opponents of regulatory federalism will also claim that consumers would have to travel to another state to have those protections enforced." See the above links.

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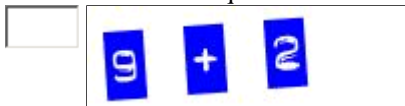
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