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Do Conservatives Really Want To Repeal Obamacare?

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Probably not. Here's why: virtually every conservative health policy analyst advising Republican candidates and Republican office holders believes in the same model Barack Obama believes in.

President Obama was fond of saying that the idea behind Obamacare came from a conservative think tank. A lot of people assumed he was just making a rhetorical point. Others assumed he was pointing to a fact of historical interest only. People also assumed that since Democrats passed Obamacare without a single Republican vote, the whole idea behind Obamacare must be left-of-center. And since every conservative publication worth a salt has condemned Obamacare, it's common to assume that there is a right-of-center reform that conservatives prefer.

All these assumptions are wrong.

That may explain why the "repeal and replace" heath care bill that passed the House this spring made almost no fundamental change in the structure of Obamacare. Yes, it reduced taxes. Yes, it reduced spending. But as far as the way health insurance is to be bought and sold in the individual market, all the Republicans did was tweak things. They tweaked the encouragement to buy (by fiddling with the tax credits). They tweaked the penalty for being uninsured (switching from a tax penalty to a premium-hike penalty). And they provided some financial relief for high-cost enrollees (with risk pool money). But that's all they did. After seven long years of moaning and groaning about President Obama's heath reform, they kept in place the very structure they vowed to dismantle.

The core idea behind Obamacare is managed competition. But it's not an idea that the Heritage Foundation happened upon in an ill-considered moment of unclear thinking in the distant past. To the contrary, managed competition is the core model of health reform that has shaped and molded the thinking of almost all conservative health policy analysts for the past 30 years. It is just as strongly adhered to today as it ever was. The only notable exceptions are a small group of health policy scholars I have worked with at the Cato Institute, the National Center for Policy Analysis and at the Goodman Institute.

The only thing clearly left wing about Obamacare is a trillion-dollar increase in taxes and a trillion-plus increase in spending. Everything else in the Affordable Care Act – including how the money is spent — could be construed as considerably right wing.

For example, Obamacare does something that would ordinarily cause Democrats and AARP talking heads to scream bloody murder. For the first time ever, it restricts Medicare spending by means of a global budget. Going forward, Medicare spending is scheduled to grow at roughly the rate of growth of real per capita GDP – a rate that is about half the historical rate of growth of health care spending generally. And this budget cap is not just a ten-year restriction (the normal time horizon of Congress). It goes on forever. As a result, this one change reduced the federal government's unfunded liability by more than $50 trillion, the minute Barack Obama signed the bill into law.

There's more. Obamacare also put a cap on other government health care spending. Going forward, Medicaid hospital spending and the subsidies in the Obamacare exchanges will also grow roughly at the same rate as per capita real GDP – regardless of what happens in the health care system as a whole. One can only imagine the muckraking speeches that would have been delivered by Democrats in Congress had Republicans proposed these very same reforms.

And here is perhaps the biggest surprise of all. Have you noticed that in virtually every election the Democrats have accused the Republicans of wanting to "privatize Medicare" and draining it of resources until it "withers on the vine." Then you may be shocked to learn that Obamacare has ushered in an era of stealth Medicare privatization . Although they may not even know it, more than one in five seniors is now in an Accountable Care Organization (ACO) that has a profit-making incentive to reduce spending on patients! This is in addition to the one-third of seniors who are in Medicare Advantage plans – the Republican's privatization effort.

So, let's stop and take stock. The budget caps are good policy. For the first time in the 52-year history of Medicare and Medicaid, these entitlement programs have been subject to budget restraints. Ditto for the caps on tax credits for individually-purchased health insurance. Republicans were wise to keep these constraint's in place. But no one should expect Congress to resist political pressure and keep health entitlement programs on this lower spending path unless new tools are available to control costs.

At the Health Affairs blog, Tom Saving (a former Medicare Trustee) and I proposed a series of reforms that would empower patients, doctors and entrepreneurs and create opportunities for substantial cost control. Sadly, the most recent Republican health bill ignored these suggestions. They also ignored another opportunity.

The Democratic experiment with ACOs has been a miserable failure. It's now clear that these entities (once derisively called "HMOs on steroids") have not saved one thin dime. Medicare Advantage plans, by contrast, cost about 16% less than traditional Medicare. So, had the Republican health bill allowed (not forced, just "allowed") the ACOs to become like Medicare Advantage plans, there would have been a huge improvement in both cost and quality of care for senior citizens.

Then there is managed competition. Technically, this is a system in which enrollees can periodically choose to switch health plans (usually once year) and the plans must accept all

comers and charge a community rated premium, irrespective of the expected costs for any enrollee.

Although the system might appear to be based on sound economic principles (after all, there is the word "competition"), in fact the restrictions create perverse incentives for everyone in the market. Buyers who are overcharged (mainly the healthy) have an incentive to under-insure. Buyers who are undercharged (mainly the sick) have an incentive to over-insure. On the seller side, health plans have an incentive to attract the healthy (on whom they make a profit) and avoid the sick (on whom they incur losses). After enrollment, health plans have an incentive to over-provide to the healthy (to keep the ones they have and attract more of them) and under-provide to the sick (to encourage the exodus of the ones they have and discourage enrollment by any more of them).

This is, of course, exactly what we are seeing in the exchanges – with a race to the bottom on the part of the insurers, reflected in high deductibles and narrow networks that omit the best doctors and the best facilities. Academic studies have borne out the analysis my colleagues and I initiated more than two decades ago. For example, a study by scholars at Harvard and the University of Texas found that insurers are using high out-of-pocket prescription drug costs to deter certain chronically-ill patients from joining their plans.

An example is the drug Copaxone, used to treat and prevent relapse of MS. Patients who use this drug are expected to generate an average of $61,000 in costs, but the insurers receive only $47,000 in revenue after accounting for the large risk adjustment and reinsurance transfer payments. Since the patients are unprofitable, the insurers set the out-of-pocket requirements for the drug very high – to discourage enrollment. Here are some additional studies referenced by Austin Frakt.

In 1978, Stanford University's Alain Enthoven argued that the Federal Employee Health Benefits Program was a managed competition system that worked and that it should be a model for reforming the nation's entire health care system. Enthoven's work persuaded Hillary Clinton and she based her health reform on the model – which is why the term is so often associated with "liberal" health reform. But at the very same time, the Heritage Foundation was also touting the FEHBP model and so were other conservative health analysts. Subsequently, the Heritage Foundation was intimately involved in helping Mitt Romney with a managed competition health reform; and Barack Obama said on several occasions that his reform was an extension of Romney's reform.

Meanwhile, other countries got in on the act, with managed competition systems set up in Switzerland, the Netherlands and Israel. Health policy analysts Avik Roy and Regina Herzlinger, among others, pointed to the Swiss system as one that appeared to function in an especially attractive way.

So why do the systems of foreign countries and the FEHBP appear to work so much better than Obamacare? Part of the reason seems to be that competition is more gentlemanly in these other

systems and they are managed by overseers – to actively prevent the worst abuses. Obamacare, by contrast, has encouraged dog-eat-dog competition and it is basically unmanaged.

The Obamacare exchanges would work much better if we employed a type of free market risk adjustment, that I have described elsewhere. But Republicans in Congress have been slow to adopt this idea and they are likely to give us a "reform" of the individual market with the same race to the bottom we had before.

And what about the other party? Truth be known, the left wing of the Democratic party hates Obamacare just as much as right wing Republicans . They are just less noisy about it. But moderate Democrats are as devoted to managed competition as moderate Republicans.

For the time being, I'm afraid it's here to stay.