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Free Trade Is The Fix For Rising Health Insurance Premiums

By: Simon Lester – January 9th, 2012

In recent days, there have been news reports that health insurance premiums will rise in many states. The reasons for this are many and varied. Proposed remedies for this problem depend in large part on which side of the political spectrum you are on. But putting aside the broader heath insurance sector issues, I'd like to propose a heretofore ignored policy change that everyone — except perhaps the health insurance companies themselves — should be able to get behind: allow free trade in health insurance.

To illustrate the potential benefits, let's first look at a more traditional form of free trade. Imagine a U.S. automobile market with no foreign owned companies. No Toyota, no Hyundai, no Volkswagen, no Mini. No foreign companies making cars in America and no foreign companies exporting cars to America from abroad. The only cars available are those made by American-owned car companies. Does anyone think that consumers would be better off in such a market? I suspect that only the most die-hard workers at American-owned car factories would answer in the affirmative. For the rest of us, it is of little doubt that competition from foreign owned car companies has led to higher quality and lower priced products for American consumers.

Now compare the car market to the market for health insurance. Unlike the car industry, foreign health insurance companies play very little role in the U.S. market. This is the case even though it is, in some ways, easier to sell health insurance to foreign customers. With cars, a company either has to make the car domestically and ship it abroad, or build a factory abroad in order to sell products there. By contrast, with health insurance, foreign sales are much simpler. Transactions can be carried out across borders electronically, or through a small office set up abroad to handle foreign customers. It would be technically easy, with substantial benefits to consumers.

Of course, the differences between the health insurance market and the car market could lead to some objections to opening up trade. One argument may be that allowing foreign owned companies to operate in the health insurance market undermines the regulation by individual states under the current regime. Arguably, these regulations hurt more than they help, and that we would better off letting insurance companies operate under the rules where they are domiciled. This would create competition among regulators to provide the optimal amount of consumer protection. But even if you take the view that state regulations apply to foreign providers, we can still let foreign competitors in and get the benefits of new competition. We could simply require foreign companies to satisfy the same regulations that domestic companies must meet.

And speaking of state regulation, letting in foreign competition also provides an opportunity to correct one of the great flaws in the current system, which is that many states prevent competition even from American-owned companies who are from other states. Opening the market to foreign competition offers a good excuse to eliminate the restrictions on out-of-state companies that exist due to state licensing laws. Again, even if you take the view that state regulation of health insurance is important, you can still support the idea of forcing health insurance companies to compete. While state regulation may provide some benefits to consumers, the absence of competition — from either foreign or out-of-state companies — clearly benefits only the health insurance companies.

As the experience with the car industry demonstrates, consumers benefit from competition. Companies who are forced to compete find ways to offer higher quality goods and services at the lowest possible prices. There can be little doubt that American car companies make better products than they would have if they had not faced foreign competition. When competition is restricted due to trade barriers, the only winners are the protected companies who make up the domestic industry.

These winners will protest any such health insurance policy change, of course. But free trade is a two way street. While they may be faced with more import competition, a shift to a policy of free trade could also open up export opportunities for these companies. If we are going to open our market, we can convince others to open theirs as well. This could bring even the health insurance industry on board, as they would have the opportunity to enter new markets. Although some countries have national health care systems, others have systems that use private health insurance to some degree. Further opening of these foreign markets could be of great benefit to American health insurance companies.

Health care reform has been a contentious debate, to say the least. But if there are small changes that we can all agree on, we should push forward with them. If we want to help consumers get better service from the health insurance industry at lower prices, there is an easy way: free trade in health insurance. Let foreign competition in, and watch quality go up and prices go down!