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Dust-Up

Public option: a private insurer killer?

How could Washington avoid driving insurers out of business? Larry McNeely and Michael F. Cannon debate.

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Today's topic: Wouldn't a "public option" plan inevitably have unfair advantages over private insurers? How could you avoid driving insurers out of business?

Private insurers need a competitor
Point: Larry McNeely

I argued Wednesday that the "public option" would lower costs and keep insurers honest by providing real competition. But some argue that this would not be fair competition, that it would be too successful in providing high-quality, affordable coverage. Even if true, that would be more a problem for the insurance companies than for consumers. But the reality is that a public option would level the playing field.

Reform opponents, including you, Michael, may repeat the unfairness argument all you want. It will get a bunch of applause from the insurance lobby. It will win a couple of votes. But when it comes to the bills Congress will be considering, it's not true.

Here's what the public option in the House Energy and Commerce Committee bill would do:

* Support itself from the premiums it charges to its beneficiaries, just like private plans in the exchange, with the only federal dollars coming in the form of a start-up loan that would be repaid to the taxpayers (Page 120).

* Obey all the same regulations as private plans (Page 117).

* No doctor will be forced to participate in the plan (Page 124).

So when supporters of the legislation talk about a public option competing on a level playing field, it is more than talk -- it is written in the bill.

Some Americans wonder why the insurance industry is fighting so hard against a fair reform. The answer is, simply, that most insurers have never before had to compete in such a way.

That radical bastion of socialism, the American Medical Assn., found that the insurance markets in 94% of American communities failed to meet the Department of Justice's own standards for a competitive market. This means that, in some states, the dominant insurer or insurers have essentially set their own rules for years. Not coincidentally, our rates have gone up year in and year out.

However, with a public health insurance competitor available in every American community, private insurers would finally have to compete for each customer's premium dollar. And they would have to work especially hard if the public plan stresses prevention and encourages the highest quality, coordinated medical care.

So what would this new competition mean for existing private insurers?

It means that any insurers that can innovate and find a way to deliver better care and lower costs have a great shot at keeping their customers. Private insurers, from Geisinger in Pennsylvania to Kaiser Permanente in California, have been pioneers in efficiency and quality. Their model of integrating coverage with care is not one the public plan will be able to imitate, and they will do fine as a result.

But many insurers are not delivering quality coverage -- they reap their profits from choosing to cover only the most profitable patients, rather than providing good care. That is a business model that the public plan can help render obsolete.

Rewarding innovators and breaking up the monopolies that allow obsolete, anti-consumer businesses to survive is what the free market is all about, right, Michael?

Larry McNeely is the healthcare reform advocate for the U.S. Public Interest Research Group.

Government, by definition, cannot compete fairly
Counterpoint: Michael F. Cannon

It's your dead horse, Larry.

* Costs: Supporters of a new "Fannie Med" think it will cost less than private insurance because they ignore many of the costs of government programs, such as reduced economic growth and forgone innovation.

How many potential jobs have been destroyed (a non-monetary cost) because every dollar of Medicare taxes eliminates 30 cents of economic growth?

How much time (a non-monetary cost) have American patients spent filling out forms because government programs suppress electronic records? Or sitting in waiting rooms because government programs suppress electronic communications between patients and doctors?

Medical errors kill up to 100,000 Americans each year. How many died needlessly (another non-monetary cost) because the largest purchaser of medical services in the world -- Medicare -- penalizes innovations that prevent medical errors?

* Fair competition: A level playing field between government and the private sector is pure fantasy. It would be about as fair as your kid's lemonade stand competing with Al Capone.

Congress has so many ways to hide its inefficiencies and cripple the competition that it would drive private insurers out of business despite offering an inferior product. As an example, President Obama has proposed just kicking private insurers out of Medicare entirely. Is that the sort of "fair competition" you have in mind, Larry?

A level playing field is impossible even if Capone -- er, Congress -- puts it in the healthcare reform bill.

Obama economics advisor Larry Summers found that Fannie Mae and Freddie Mac saved $6 billion annually on borrowing and other costs merely because everybody believed Congress would bail them out if they ever got into trouble. The same perceptions would adhere to Fannie Med, giving it a sizable, immovable and unfair advantage.

* Interstate competition: You hint that insurance companies would like to let consumers and employers purchase less-expensive coverage across state lines. In fact, insurers hate that proposal because it would break up their little cartels. Meanwhile, the insurers are salivating over the subsidies that Congress and Obama are poised to give them.

Does any of that give you pause?

* Consumer protections: Research shows that the state-level price controls you applaud do little or nothing to increase pooling, but they do reduce choice and increase the number of uninsured. If price controls make insurance too expensive for people to afford, then they're not really consumer protections, are they?

It's ironic, really, that you rail against "near-monopolies" in insurance markets but endorse outright monopolies for insurance regulators. Letting people purchase insurance across state lines won't produce a race to the bottom -- that's what the insurance regulator monopolies are giving us right now. Making the regulators compete would allow consumers to keep the protections they want and avoid the hidden taxes and special-interest giveaways that drive up the cost of insurance.

What do you say we break up both monopolies? Or is competition not what you're really after?

P.S. -- You can fit more facts into these 500 words if you lay off the cheap shots, like "partisan talking points."

P.P.S. -- Happy Constitution Day!

Michael F. Cannon is director of health policy studies at the libertarian Cato Institute and the coauthor of "Healthy Competition: What's Holding Back Health Care and How to Free It."