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Price controls by any other name

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In 301 AD, the Roman emperor Diocletian imposed price controls on most commodities and professions in the empire. The penalty for raising prices was death. Yet the controls failed utterly, leading to shortages, more inflation and the near collapse of the imperial economy.

Now, nearly two millennia later, President Obama seems determined to demonstrate how little we've learned.

Yesterday, the president proposed giving the federal government the power to regulate insurance premiums. Undoubtedly, this will be politically popular -- at least, in the short term. Insurance companies aren't exactly America's most loveable industry. Recent premium hikes will result in real hardship for many Americans.

There is, of course, a certain arrogance in the assumption that Obama, Nancy Pelosi and a bevy of government bureaucrats know exactly what something should cost. No doubt, as soon as they finish setting insurance prices, they'll move on to negotiating Tracy McGrady's contract renewal.

But more important, attempts to control prices by government fiat ignore basic economic laws -- and the result could be disastrous for the American health-care system.

Most people think of prices and costs as the same thing, but from an economic perspective, they aren't. Prices are what people pay to receive a good or service. Costs are what it takes to produce the goods and services. In this case, limiting the prices that insurers can charge does nothing about the underlying costs of health care.

Insurers unable to charge more for an increasingly expensive product can be expected to trim costs in one of two ways:

* They can drop their most expensive customers -- in this case, the sickest, who consume the most health care. Many companies are already doing this, a major source of dissatisfaction with the health-care system. In fact, the president wants to prohibit companies from doing this.

* They can cut back on their reimbursement rates to hospitals and physicians. But neither doctors nor hospitals, any more than insurance companies, are willing to operate at a loss. If payments fall below their costs, they'll simply stop taking patients. One only has to look at government programs like Medicare and Medicaid to see how this works.

Medicare already reimburses at roughly 80 cents on every dollar of actual costs. Medicaid pays even less. As a result, more than a third of physicians have closed their practices to Medicaid patients; 12 percent no longer accept Medicare patients.

If private insurers begin similarly to cut back their reimbursements, some hospitals may go out of business, and some doctors may close their practices. Retirement in Florida may begin to look a lot better than another snowy New York winter. Others will stop accepting insurance or set up "concierge" practices in which they see only a small number of privately paying patients.

Thus, price controls on insurers will ultimately lead to rationing -- the lack of available health-care goods and services.

If the president doesn't want to learn from history, he can look to the experience of other countries. Canada and Britain impose global budgets and strict limits on health-care prices. As a result, more than 750,000 Britons are waiting for admission to hospitals. Every year, British physicians cancel almost 50,000 surgeries because patients on the waiting list become too sick for the operations to proceed.

In Canada, almost 800,000 people are on the waiting list for care. And, according to the Canadian Supreme Court, many are in chronic pain and some will die while waiting for treatment.

If Obama were really interested in making insurance more affordable, rather than just scoring political points, there are many things he could do. For example, he might try to create some genuine competition in the insurance market by allowing people to buy insurance from outside of the state in which they reside. Insurance companies in New York or New Jersey could be made to compete with all 1,300 insurance companies nationwide (including some 500 nonprofit insurers). That's the kind of competition that holds down prices for other goods and services.

Or Obama could try to tackle underlying health-care costs, by repealing government regulations that add as much as much as $169 billion a year to the cost of care, according to Christopher Conover of Duke University.

Instead, the president has chosen the economic equivalent of throwing some insurance executives to the lions in the Colosseum. As health-care reform, it would be about as effective. Diocletian would be proud.

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