What Matters

The Debate Zone: Should the U.S. government offer its own health insurance plan to people under age 65?

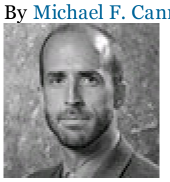
Yes. Consumers need more choice.

By Len M. Nichols, Ph.D.

A public plan would provide an alternative to people who mistrust private plans. And it would help keep those plans honest by serving as a benchmark for costs, benefits and premiums.

No way. It would mean worse health care for all.

By Michael F. Cannon



The government would inevitably end up giving the public plan unfair subsidies. Like all government attempts to meddle in the market, it would institutionalize waste and raise costs for everyone.

Len M. Nichols, Ph.D.

Why the U.S. needs a Public Health Insurance Plan

The question of whether a new public health insurance plan should be allowed to compete with private health insurance plans has polarized the health reform debate unnecessarily. Extremes from both political parties have tried to use the issue to prevent progress toward a bipartisan health reform package.

But health reform must be bipartisan to be sustainable over time. This means both sides' priorities must be reflected in the policy solution.

Allowing individuals to choose between public and private competitors serves two primary purposes. First, many Americans fear that private insurers, even those that operate on a nonprofit basis, will always restrict access to care (the mirror image of those who fear government involvement in any market). A public health insurance plan would reassure those who mistrust private insurance that their insurance product is accountable to elected officials and not to corporate stockholders or the proverbial bottom line.

Second, a public health insurance plan could serve as a valuable benchmark and enable consumers (and market managers) to compare the premiums, benefit design, and administrative efficiencies of different health plans. This benchmark would be especially valuable in the first year of the new insurance marketplace.

At the same time, the public health insurance plan must not be allowed to bankrupt private insurers unfairly nor should it be permitted to pave the way for governmental control of the health system.

The following three conditions are absolutely necessary for public and private health plans to compete fairly:

All insurance market rules must apply to all plans equally.

The authority governing the insurance marketplace cannot also manage the public health insurance plan.

The public health insurance plan cannot leverage Medicare or other public insurance products to administer prices or claim an unfair advantage.

Real-world experience is instructive. More than 30 states offer their employees a choice between privately insured products and a product for which the state bears the insurance risk. Under this scenario, the state picks the managers of the self-insured product, which then competes with traditional private insurers. In her recent testimony before the Senate Finance Committee, Secretary of Health and Human Services Kathleen Sebelius pointed to state employee benefit plans as examples wherein "public and private plans compete on the basis of benefits, innovation, and cost" without destroying the marketplace.

Yet, this type of public plan alone will not be sufficient to control costs. Therefore, cost growth control must be addressed through a systematic approach that includes a health information infrastructure, best practice information, decision support tools, and realigned provider and patient incentives. Medicare can and must lead the way with some of these transformations. But simply using Medicare's pricing power to control costs without addressing the underlying reasons health care costs are growing so rapidly will not fix our problem.

Some people question why a public plan is necessary if competition is actually fair. A public health insurance plan would help restore consumer confidence in our health system and provide a valuable benchmark for competition. Buying power is not what makes a plan "public" and a private-only marketplace is not a prerequisite for competition. Americans should be allowed to choose between public and private health insurance plans that compete on a level playing field.

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Michael F. Cannon

A Level Playing Field? Don't Make Me Laugh.

No. Competition between a government program and private insurers could never be fair. Government would assume control over an ever-increasing share of the market, drive health care costs higher, and depress quality.

Consider what would be necessary to create and sustain a level playing field between government and private insurers. First, a new government program would have to be completely self-financing. No special subsidies for start-up costs or operating costs, and it would have to maintain real reserves just like private insurers. Second, Congress could not leverage its market power to favor a government program by adopting Medicare's payment rates or requiring providers to participate as a condition of Medicare participation. Third, Congress and federal bureaucrats cannot be allowed to enact any regulations favoring the new program either deliberately or inadvertently. That means there cannot be even an *implicit* guarantee that the government would bail itself out. Fourth, no future Congress and no future bureaucrats can be allowed to do any of these things, ever.

These conditions will never be satisfied because public-plan supporters do not want them to be. Indeed, they want to violate every single of them from the get-go. They want a new program to build on Medicare's infrastructure, to use Medicare's payment rates, and to receive special subsidies.

In fact, if a government program were to be stripped of any special advantages it would cease to be a government program. It would be just another private insurer. Take away the violence and intimidation, and Tony Soprano is just an eccentric and earthy businessman.

Government programs do not contain health care costs; they shift, increase, and hide them. Government shifts the cost of my consumption to you. Costs rise overall, as they always do in a commons: nobody spends other people's money as wisely as they spend their own. Government hides the cost of its programs with price controls that extract wealth transfers from providers and that impose nonmonetary costs on patients, such as when 12-year-old Deamonte Driver died tragically in 2007 because his mother could not find a dentist willing to accept Medicaid's controlled prices. Raising $1 of government revenue costs society as much as $2, but that second dollar never shows up in any budget.

Comparing government to private spending growth is a nonsense metric. The employer-sponsored insurance system—a creature of Congress—bears more resemblance to a government program than a free health insurance market. And even private payers must use a delivery system shaped by government purchasing.

Government's greatest hidden costs come from forgone innovations in medical delivery. Medicare has *rewarded* waste, uncoordinated care, duplication, and medical errors, and *penalized* providers who try to solve those problems, for more than four decades. Some health plans do coordinate care, use electronic medical records, and strive to eliminate waste and error. And what happens when those plans try to compete in Medicare Advantage? President Obama proposes to kick them all out.

What was that about a level playing field?

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