

Health Reform from a Public Choice Perspective: What Just Happened?

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Health Reform

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Plan of talk

- Why has health reform been so difficult to initiate, come close to failing, and remains challenging (and changeable) to implement?
- I offer a simple public choice perspective on what would have worked, and then wonder why (as usual) theory and practice differ.
- I use this contrast to comment on some problematic features of health reform (cost containment and 3 others) that remain to be resolved.

An ideal public choice model of health reform

- Describe a set of setting-neutral income related predetermined subsidies to qualified insurance.
- Calculate the total tax cost of that pattern of subsidies.
- Pay as much as you can by limiting/capping the exclusion, a “tax” with negative XB that contributes to cost containment.
- Raise the rest with an equitable income tax surcharge.
- Stop.

Public choice model continued

- Assemble information on benefits to taxpayers: health improvements for the uninsured, clean conscience, possible positive spillovers.
- Taxpayers to compare marginal taxes and benefits
- And hopefully the median voter votes yes on something decent.

What happened?

- The president campaigned on...
- Covering all (many?) of the currently uninsured.
- No change for people with insurance, in premiums or care.
- Taxes on imposed only on the rich, tanning salons, and high cost health plans (eventually).
- My view: achieving these 3 goals was and is highly implausible if not impossible.
- And a lot of Americans figured that out too.
- Plus the side payments to get legislation through Congress caused distress.

The political economy question: why choose this risky and duplicitous route?

- Politicians reluctant to level with voters about hard choices.
- Need to cater to views to the left of the median voter but more central in Democratic party.
- Political desire to create opportunities for rent seeking or to pursue other (ideological) goals (public plans, tax sugary drinks)
- The median voter doesn't understand (yet).
- The median voter correctly votes no.

My guesses and implications

- Main reason: fear that the moral case is not persuasive
- And the need to deal with ideology
- But will the choice if achieved in this way be stable?
- Yes: People will get used to it and like some things.
- No: People will remember and recoil at some things when they are to be implemented. And if costs continue to rise....

Cost containment

- Costs have risen historically because of beneficial but costly technology and growing health worker wages—no one is willing to stop those.
- There are a few proven but small interventions, a larger set of promising but speculative ones.
- The Congressional testimony syndrome: apologize for your number, then defend it to the death!
- My guess: reform costs more but we should still do it.

The big question: stability of the subsidy program under cost over-runs?

- If subsidies to uninsured cost more than asserted, will political choice continue to support them?
- Given the patchwork financing system
- Given the absence of good measures/commitment to the uninsured?
- As bad as Medicaid?
- What to do for greater stability?

Optimal policy under uncertainty

- Don't pick one guess and stick to it; instead choose a policy that will be pretty good no matter what.
- Ideal hedged policy #1: cap the exclusion
- Ideal hedged policy #2: Put in rules to adjust depending on what happens—but like SGR and the Medicare trigger???
- Ideal policy #3 (according to me): set real growth rate for public Medicare voucher after 2020; tell non-poor aging Boomers to plan ahead.

Following three more challenges

- Employer mandate distorting, distracting, inequitable, and hated (for all the wrong reasons): likely to be watered down.
- Community rating with no exclusions is the worst way to do a good thing. Stop at (decent, properly funded) high risk pools and GR? But is there a need to smite evil?
- Medicare: Changes that might have made Medicare's long run future less dire have been taken to pay for the uninsured. Big deficits or taxes with an extra \$300 billion for non-poor uninsured. Now what and when?

A new approach

- Why not try honesty (and transparency) for a change?
- May be necessary to maintain support in a fiscally stressed environment
- And it might even be good politics

Conclusions

- A survival model of public choice?
Legislative passage is largely random but survival/stability is not.
- If it fails or needs to be refreshed: create quasi-constitutional models first and choose from them.

Conclusion: everything has been said and we are now in a loop with no exit.

- From a letter to the *Times*, March 9:
- “Costs must be regulated by government so as to derail the profit-greed factor; with [this] provision in effect, private companies, not the government, would be best at providing insurance in a country where government growth and decisionmaking are of great concern...”