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

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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…”