

JOSHUA RONEN AND KENNETH A. SAGAT: COMBINING A FREE MARKET AND SINGLE-PAYER SYSTEM WILL PROVIDE MORE OPTIONS

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With the Better Care Reconciliation Act and repeal-only plan now dead on arrival in the Senate, Republicans will need to work together with Democrats to develop a new plan for America's healthcare system. But, given the tenor of recent conversations between the parties, the next bill presented will need to make significant concessions to satisfy both sides of the table.

We propose a new approach — grounded in sound economics — which will test the love-hate capacity of Republicans and Democrats alike, but will result in more options, more coverage, and more fiscal transparency and prudence for the American people.

The best way forward is to resort to the free market first and then, if affordable insurance (especially for pre-existing conditions) is not obtainable, direct government subsidy would be permissible.

In order to provide greater fiscal transparency and lower costs, the presently contemplated government subsidies to insurers would be eliminated in favor of direct government payments to providers for those who cannot afford the cost of insurance due to higher health risk. In other words, government payments would be the default option for those who demonstrate that they cannot obtain affordable insurance in an unsubsidized free market for less than a maximum percentage of their income – say two percent of gross income.

One of the recent amendments in the course of Republican consideration of healthcare proposals was laudable by proposing in part a free market for healthcare insurance without government subsidy.

A market with extensive subsidies distorts pricing and hides the true costs of insuring pre-existing conditions. At the present time, healthcare insurance is an admixture of subsidies, tax incentives, and penalties. A competitive insurers' market, free of subsidies, will not only provide greater freedom of choice but also generate valuable pricing and, hence, subsidization cost information.

Unfortunately, that proposal as well as others, by also providing for billions of dollars of subsidy indirectly for the benefit of individuals through payments to insurers, continues the present system which suffers from opacity hindering the ability to determine the prudence and efficacy of the payments as a method of providing healthcare.

There is no escaping that billions of dollars are required to subsidize the healthcare costs of millions of individuals with pre-existing conditions, who will not be able to afford the higher premiums and deductibles necessary to compensate for their higher health risk. The issue is how to do it in the most effective way at the lowest cost.

We endorse a competitive free market in which health insurers make risk assessments that will yield the lowest premia required by competitive insurers to compensate for risk, and this price information will in turn provide guidance regarding the cost of government subsidization, including Medicare and Medicaid.

To qualify for government "insurance," individuals would be required to provide proof that insurance offered to them in the free market, covering pre-existing conditions or other high health risk (as well as other essential coverage), is unaffordable.

This requirement will encourage a vibrant free market with insurer competition to prevent defection to the government "market." It will also provide the government (and taxpayers) with the ability to explicitly quantify the government subsidy provided in total and per individual: such quantification is critical when subsidies will run into the multiples of billions whether paid indirectly to insurers or directly to providers.

The government, through the Centers for Medicare & Medicaid Services (CMS) or alternatively state agencies, would also charge a risk-based premium per qualifying individual, which, together with an expected value of deductibles, would be capped at a maximum percentage of income.

Provision should also be made for enforceable retrospective charging of premium to those who fail to elect free market or, if qualified, government coverage but nonetheless seek emergency medical services — outside of Medicare or Medicaid.

Republicans will no doubt hate the single payer default option but will love the pure free market. Democrats will no doubt hate the pure free market but love the single payer alternative. No doubt too there must be debate concerning the amount of subsidization to be borne by taxpayers, but that debate needs to be informed by transparent cost information. Maybe love and hate can ideologically cancel each other out in the interest of an economically sensible policy.

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