Bad Medicine For Health Care

Laws that require people to buy insurance only drive up the cost of policies

According to legend, King Canute of Denmark facetiously tried to stop the rising tide by simply raising his hand and commanding the waters to roll back. The tide, of course, kept rising. Yet policymakers throughout history have followed Canute's lead. From Hillary Clinton and John Edwards to Mitt Romney and Arnold Schwarzenegger, politicians across the spectrum have tried or vowed to solve America's health-care woes by enacting an individual mandate--a law requiring every adult to purchase health insurance. Despite its bipartisan support, the individual mandate is bad policy, a vain attempt to command a better result while doing nothing to achieve it.

Individual mandate supporters typically justify the policy by citing the problem of uncompensated care. When uninsured patients receive health services but don't pay for them, the rest of us end up footing the bill one way or another. So advocates of insurance mandates contend, plausibly enough, that we should make the free riders pay.

But how big is the free-rider problem, really? According to an Urban Institute study released in 2003, uncompensated care for the uninsured constitutes less than 3% of all health expenditures. Even if the individual mandate works exactly as planned, that's the effective upper boundary on the mandate's impact.

OF COURSE, IT WILL NOT WORK exactly as planned. As anyone who has ever driven above 55 mph knows, mandating something is not the same as making it happen. Some people will not comply: 47 states require drivers to buy liability auto insurance, yet the median percentage of uninsured drivers in those states is 12%. Granted, that number might be even higher without the mandates. The point, however, is that any amount of noncompliance reduces the efficacy of the mandate.

None of this means the uninsured are not a problem. Yet the true issue isn't that they cost the rest of us too much. It's that they simply get less care than most people (one reason uncompensated care is such a small fraction of health-care spending). And if the real concern is making health insurance and health care available to those in need, we should focus on reducing health-care prices and insurance premiums. The individual mandate is, at best, a distraction from that goal.

Some proposals couple mandates with subsidies for the purchase of private insurance. As far as policies to encourage more private coverage go, you could do worse. But as long as the public has to subsidize the formerly uninsured, the problem with free riders has not been solved. We're just paying for them in a different way.

To enact any mandate, legislators and bureaucrats must specify a minimum benefits package that an insurance policy must cover. Yet this package can't be defined in an apolitical way. Each medical specialty, from oncology to acupuncture, will push for its services to be included. Ditto other interest groups. In government, bloat is the rule, not the exception.

Even now, every state has a list of benefits that any health-insurance policy must cover--from contraception to psychotherapy to chiropractic to hair transplants. All states together have created nearly 1,900 mandated benefits. Of course, more generous benefits make insurance more expensive. A 2007 study estimates existing mandates boost premiums by more than 20%.

If interest groups have found it worthwhile to lobby 50 state legislatures for laws affecting only voluntarily purchased insurance policies, they will surely redouble their efforts to affect the contents of a federally mandated insurance plan. Consequently, even more people will find themselves unable to afford insurance. Others will buy insurance, but only via public subsidies. Isn't that just what the doctor didn't order?

A better approach to health reform would focus on removing mandates that drive up insurance premiums. States ought to repeal some...
or all of their mandated benefit laws, allowing firms to offer lower-priced catastrophic care policies to their customers. The federal government could assist by guaranteeing customers the right to buy insurance offered in any state, not just their own, enabling patients to patronize companies in states with fewer costly mandates. Indeed, removing mandates would do far more to expand health-care coverage than adding new mandates ever could.

Views expressed in Outside Shot are solely those of contributors.

Glen Whitman, associate professor of economics at California State University, Northridge, adapted this column from his earlier paper in Cato Policy Report.