

Umpire or Play Ball, Not Both (8/7/09)

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***Washington Post:** Is a Public Option Necessary? Do you think that a government-sponsored health insurance option is needed to help control rising costs and "keep insurers honest," as President Obama says?*

With multiple public option proposals under discussion, I'll focus on the original: a government-run plan, competing with private insurers, whose existence is guaranteed by law and taxpayers. Such a plan would likely accelerate, not decelerate, the rise in costs.

If the public plan could compete on a level playing field with private insurers, it's hard to say how it would keep anyone honest. But a level playing field is unlikely. **The Lewin Group** predicted a public plan would rapidly and massively erode the private insurance market. An alternative possibility is that the public plan churns through money but ultimately fails; Maine's **Dirigo**, **Tennessee's TennCare** and Hawaii's **Keiki Care** are instructive cases.

Administrative efficiency? Our biggest public plan is Medicare and its costs are high. Claims that Medicare spends less than private insurers on administrative costs are based on a misreading of data ([good explanation here](#)). Plus, "administrative costs" doesn't even capture fraudulent claims, which some estimates place as high as 12 percent of Medicare's total expenditures. Google "Medicare" and "fraud" and you get 1.4 million hits.

Payments to providers? As I told a reader a few weeks ago: In 1965, President Johnson predicted Medicare would cost \$500 million per year (\$3.5 billion in 2009 dollars) and he considered that amount "a train wreck." This year, Medicare will actually spend over \$500 billion -- 143 times larger than LBJ's prediction. (It'll double again in around 10 years.) Medicare's \$30 to \$60 trillion long-term funding gap is on course to consume the entire federal budget by mid-century. Medicare's rigid, wasteful, antiquated reimbursement structure rewards doctors for poking, prodding, cutting and slicing, but not for getting patients healthy or keeping them that way.

Back to basics: I work on behalf of small businesses and they need rising costs to decelerate. That means making the private insurance market more competitive and empowering consumers and providers to find ways to restrain costs. Asking the government to be both umpire and player is no way to get that job done.