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The public-option obsession

By Martin Gaynor /

As the debate over health-care reform continues, no single issue has attracted more attention or controversy than the "public option." Legislators in both houses have spent countless hours debating the issue and advocates continue to press on both sides. This is excessive and irrational. Worse, all the time and emotion spent on the public option prevents us from paying attention to issues that really matter.

A public option will neither save nor destroy health-care reform. There are potential advantages and disadvantages to a public option, but neither is as absolute as advocates or opponents claim. Advocates claim a public option will promote competition by not having to make profits for investors or by having lower costs, but it's far from evident that will happen. Opponents claim a public option will destroy competition by not having to cover its costs and thereby force all private firms from the market.

There are examples of well-established health-insurance markets that provide universal coverage and work perfectly well without a public option, as in the Netherlands and Switzerland. It appears that public options in San Francisco and Arizona have expanded coverage without forcing all private firms from the market.

The key factor is designing health-insurance exchanges that facilitate competition. We need to remember that the public option was proposed as a means to an end -- promoting competition in health-insurance exchanges. These markets do need a helping hand from government, due to the complex nature of insurance and concerns about competition.

There are four important things needed to give the health-insurance exchange markets the best chance to work well: insurance firm access to local provider networks; a national market; sufficient information and support so consumers can make good choices; and active antitrust enforcement.

It is critical that all insurance firms have adequate access to local provider networks. Health insurance plans' attractiveness to consumers is in large part determined by the doctors and hospitals in their networks. If doctors or hospitals are all sewn up by a dominant insurer, this will make it difficult to impossible for other insurers to get into the market and compete. Even a public option can't compete against a dominant insurer if it can't sign doctors and hospitals to its network at competitive rates. Assuring access to these local networks is a key factor that will determine the success or failure of the exchange.

At present, health insurance is provided on a state-by-state basis, limiting competition to insurers present in a particular state. It also forces insurers to form risk pools that are too small and subjects them to a crazy quilt of 50 different state regulatory systems. It only makes sense that there should be one national health-insurance exchange. This would maximize the number of potential competitors and allow for larger risk pools. Congress can set a single set of national regulations for that exchange.

Health-insurance contracts are extensive and complex. Consumers need help understanding them and comparing offers from insurers. Government can help by gathering and disseminating information to consumers in ways they can understand. Requiring all insurers to offer a standardized basic insurance plan would facilitate comparisons.

Antitrust enforcers must be given the authority and resources to protect competition in health-insurance markets. Where health insurers have acquired market dominance through illegal means, antitrust enforcers should break them up.

Offering the uninsured the opportunity to purchase health insurance is a central component of all health-reform proposals. Health insurance markets are likely to need a helping hand. It's time to focus on the components that are needed to make these markets work, and move beyond the debate over the public option.

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