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REVIEW & OUTLOOK

Cheaper Health Insurance

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Republicans haven't been getting much credit on the health policy front, despite their misguided 2003 drug entitlement masquerading as Medicare "reform." That could change soon. Last week the House Energy and Commerce Committee approved a bill that could dramatically reduce the ranks of the uninsured and spur general economic growth -- all without costing a dime to the Treasury.

The idea behind the legislation, sponsored by GOP Representative John Shadegg of Arizona, is disarmingly simple: Allow Americans to buy health insurance from vendors in any one of the 50 states.

Right now Americans who aren't lucky enough to get insurance from large employers or poor enough to qualify for Medicaid find themselves at the mercy of the legislators and insurance commissioners of the state in which they happen to live. This can be OK in states that exercise this regulatory function judiciously. But in others, the young and working poor find themselves effectively priced out of the market by special-interest regulations dressed up as consumer protections.

New York requires every insurance policy sold there to cover podiatry. Acupuncture coverage is mandated in 11 states, massage therapy in four, osteopathy in 24, and chiropractors in 47. There are an estimated 1,800 or so such insurance "mandates" across the country, and the costs add up. "It is always the providers asking for the mandate; it is never the consumer," says health policy guru John Goodman, who has testified before legislatures considering such rules.

What's more, states like New Jersey and New York add two more ultra-expensive requirements: "Guaranteed issue" allows people to wait till they are sick and then buy insurance; "community rating" prevents insurers from charging different prices to people of different ages and health status. These may sound like compassionate ideas, until you realize they make insurance so expensive that millions of people are exposed to financial ruin because they aren't allowed to buy basic policies focused on catastrophic costs.

How expensive? A 2004 study by eHealthInsurance.com found that a typical insurance policy ($2,000 deductible, 20% co-insurance) for a family of four could be had for as little in as $172 per month in a reasonably regulated locality like Kansas City, Missouri. But in New York that family's only option -- managed care -- would run $840 per month, and in New Jersey family policies run a whopping $1,200-plus. We bet Democratic Representative Frank Pallone's constituents in New Jersey would be interested in his view that insurance in his state is only "slightly" more expensive than elsewhere.

As for the arguments against the bill, let's dismiss the phony federalism objection first. The Founders wrote a Commerce Clause into the Constitution precisely so Congress could act against internal restraints on trade of the sort represented by today's 50-state health-insurance market. The system has never made much sense; it is even more of an anachronism in the age of Amazon and eBay.

Critics also allege that freeing up interstate commerce will result in a "race to the bottom" in which fly-by-night insurers operating in poorly regulated states would be able to take advantage of consumers. But we've yet to hear which poorly regulated states they're talking about. The best analogy for what to expect here is probably our experience with interstate banking, which has indeed resulted in operators moving to friendly climes like Delaware and South Dakota but which has also proven nothing but a boon to consumers. A national market has allowed the growth of big, financially stable institutions that have earned consumer trust.

Nor, contrary to the self-interested arguments being put forth by the BlueCross BlueShield Association -- which has effectively monopolized many highly regulated markets and fears the competition -- would free commerce jeopardize the "risk pool" (i.e. the overall pool of money that makes insurance possible by allowing the healthy to subsidize the sick). In high-cost, guaranteed-issue states the young and healthy don't participate in the individual insurance market anyway; a larger national market can only improve matters.

As a major side benefit, interstate commerce in health insurance would remove a huge barrier to the efficient allocation of human resources in our economy. Right now untold numbers of Americans fear moving, switching jobs or starting their own businesses for fear of losing their health insurance. That would change if they were able to shop nationwide for policies that would follow them wherever they go.

But the most important issue here is justice. It is simply immoral that millions should be exposed to the possibility of financial ruin because of the all-or-nothing choice offered by the insurance regulations of states like New York and New Jersey. Amazingly, we hear the entire GOP delegations from both states are leaning against the bill, which may come before the full House in September. Their names belong on a dishonor roll should they end up letting the special-interest lobbies mentioned above determine their vote. We hope President Bush -- who supports the Shadegg bill -- is prepared to twist arms as he did on the Medicare vote.

It's no exaggeration to say this could turn out to be the most humane and consequential domestic achievement of the Bush years.

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