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Health Care Reform – Is the Public Option Doomed?

The Health Care Reform movement was confident and in a strong position earlier this year, when it appeared that public support was overwhelming, with President Obama pushing for a bill to sign sooner, not later. Legislation appeared to be only a matter of the Congressional Democratic majority agreeing on something and getting a few Republicans to join with them so it at least appeared bipartisan. However, before long the movement started running into some unexpected trouble.

Originally, that trouble seemed limited to the usual conservative refrains from familiar "far right" sources such as Rush Limbaugh and Newt Gingrich. Much to the surprise of many, a true revolt gradually began taking shape with followers increasingly looking like members of the typical American middle class. In the last few weeks, this revolt has reached a fever pitch in loud and increasingly contentious town hall meetings. The concerns of the "revolutionaries" are many, but some of the most frequently mentioned issues are the possibilities of higher taxes, federal government control over health care choices, expansion of publicly-funded coverage to people who are not even lawfully in this country, and last, but hardly least, the now nearly infamous "public option."

Congress went into its August recess without passing a reform bill, much to the president's disappointment. Trying to recapture the momentum, he decided it was time to confront this revolt by heading west. However, his destination was not the friendly Democratic confines of California or Oregon. Instead he went to talk with more conservative constituencies who had delivered some traditionally Republican states for him and his party for the first time in memory. Attempting to calm this angry uprising from his right flank, Mr. Obama found himself in a town hall meeting in Montana offering reassurance to a skeptical, but courteous audience that the high costs of the program would be met by cutting "waste" in other programs. Two days later, in a speech in Colorado, he stated, in effect, that the "public option,"a concept very much anathema to mountain state traditions of distrusting federal government, *was not an absolutely critical element of his proposed reform.*

This seemingly innocuous statement promptly ignited a second revolt; this time from the president's left. A group of about 100 liberal Democrats in the House of Representatives is now threatening to block any bill that does not contain some kind of government-run health care plan. Now the president suddenly finds himself fighting a two-front political war, while trying to hold on to the all-important middle ground.

The emotional flashpoint of all this, is clearly the "public option". But what exactly is it? Is it a government-run insurance company? Or is it more like an insurance cooperative or exchange? Actually either of those could constitute a reasonable definition. In a broad general sense, it means any optional public health insurance system operated by the federal government. The rebels on the president's left clearly prefer a government-run and publicly-owned insurance company directly competing with the private insurance industry. That is "public option" in its extreme form. Other than limited-purpose programs such as Medicare, its own civil service and military systems, and perhaps the Veterans Administration, there is little past experience on which the federal government can draw.

Performance reviews for these systems vary depending on who you are asking and, all too often, their political views. However, at least one state has had significant experience in operating a "public option"- California; and the experience was not positive.

As California accounts for roughly 10% of the nation's entire gross domestic product, with an economy larger than that of most nations, and with a highly diverse population, one would think it would be a perfect testing laboratory for a national insurance exchange. The Health Insurance Plan of California (HIPC) was founded in 1993 and was a health insurance exchange similar to what HR 3200 would create. It was modeled after the Federal Employee Health Benefit Program (FEHBP), but with one very important difference - participation in FEHBP is mandatory in order to obtain government-paid health benefits; that is, the government will not help pay the cost of non-FEHBP health coverage. HIPC was voluntary. The idea of HIPC, as with any exchange, was to help individuals and small businesses get market clout by joining together to negotiate group rates with different plans and carriers. It was not an insurance company but a true exchange. To oversimplify, the exchange actually worked more like a flea market - insurers and health plans set up "tables" and attempted to sell medical coverage to people walking through the market.

Many plans and insurers declined participation in HIPC. This was because of the adverse selection that would inevitably result from the ability of people to switch plans at practically any time. However, HIPC's problem list was not limited to adverse selection. It had considerable trouble attracting participants. The largest membership HIPC ever achieved was 150,000, hardly impressive in a state of over 30 million people. As a result, it lacked real market clout in dealing with insurance companies and health plans. Attempts to negotiate lower rates simply failed. Health insurers proved reluctant to participate since it would not be the exclusive source of coverage for most populations. Insurance companies did not particularly care for the kind of head-to-head competition that HIPC involved. Insurers always prefer to insure whole groups directly rather than compete in an exchange.

HIPC also failed to realize few, if any of the administrative efficiencies that were anticipated through economies of scale. Many plans and insurers began to withdraw and the fewer plans there were to choose from the fewer people sought insurance inside HIPC, sending it into an effective death spiral. By 2006 it had crashed and burned. As of this writing, the "Public Option" of the President's Health Care Reform program is skating on thin ice. We simply don't know if it will be scuttled, made Part 2 of a two-part Reform bill or emerge in some completely different form. Whatever becomes of it, you can bet it will be after some very contentious debate. Our hope is that the final decision will be made in a calm and rational way, based on fact and with the good of the American people as the number-one consideration.

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