

Why “Free-market” Health Insurance Will Not Work

by

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Apart from always finding some way to benefit rich people in every legislative offering, Republicans love to justify everything with basing it on the “free-market”, capitalizing (pun intended) on the pervasive phobia for socialism built up in Americans since the Soviet expansionism after World War 2. In the roll-out announcement of the recent GOP “repeal and replace” health-insurance bill (the American Health Care Act), House of Representatives Speaker Paul Ryan stated that the “free market” choice of the individual will decrease premiums liking it to how the free market has reduced prices in services and manufactured goods. According to Ryan and the Republicans, the competitive free-market will encourage providers to lower premiums, thus encouraging people to become insured. Rubbish! Here is why.

The life insurance industry in America is robust and thriving with low, competitive premiums enjoyed by about all the insured. Life insurance is “free-market”. So why should it not work with health insurance? Because of two basic reasons: (1) life insurance has only one type of payout for the provider – if you die! Health insurance has many more and much larger and often on-going payouts. (2) Life insurance has a much larger pool of insured to “subsidize” their payouts. Relatively, health insurance does not.

Difference 1 – With the extremely large payouts for health insurance, there is little incentive for ‘free market’ providers, who are run by the bottom line of profit, to offer such a product. Life insurance is a much more lucrative product.

Difference 2 – Healthy people, who are generally the youngest ones, will not gravitate in sufficient numbers to the pool of insured to make it worth a provider’s while to offer low-cost health insurance for all. This, or course, is why health insurance premiums increased so dramatically in the last two years under the Affordable Care Act. Why? (and this is the main reason why free-market will not work) Because most young, healthy, single people think they will never get seriously ill and choose not to protect themselves – in essence, they choose to “insure” themselves, even though one in six “young adults” has a chronic illness like cancer, diabetes, or asthma, according to the U.S. Department of Labor.¹

It is only in the sense of responsibility for someone else’s illness, such as a spouse or child, that a person buys insurance. In the case of life insurance, people readily buy it to protect their families in the event of their own death – not the death of family member. In the case of health insurance, people are reluctant to buy coverage for themselves thinking they will never get ill. They are also reluctant to buy it for their families because the premiums are so high, no matter how competitive companies would become, hoping the family-member will get well on his/her own.

One of the major flaws with the current proposal is that the lowest premiums would be for the youngest adults – yet these are the ones with the young children who require so much medical attention and thus incur so much more medical expenses than middle-aged adults with no children or children who have

left home and are self-sufficient. It is not until senior age that a person's personal medical expenses start to mount. The insurance companies know that younger families incur higher health costs than the single people who don't want it and therefore would not join the pool of insured, or middle-age working adults who no longer have the responsibility of providing for the health care of their children. That is why they raise the premiums so high. Duh! If premiums went up under the ACA, it is sophomoric to think that taking away regulation and making it "free market" will reduce the actual health care costs of these families sufficiently to bring down premiums.

Some people point to employer-provided health insurance as being reasonable cost because of the free-market, arguing that because employers are free to 'shop around' for a health insurance provider for their company, the providers compete and thus premiums are lower. Yes, BUT, this only works because as a condition for covering the company, the provider usually requires EVERYONE in the company to enroll. It's not the individual employee "shopping around" – it's the employer. Thus, the pool is larger and contains more "healthy" members not likely to incur a cost to the provider and thus subsidizing those who do. When considering an at-large population of individuals seeking insurance, such as those who cannot get employer-provided coverage, the pool is too small to make it worth a provider's while to compete. Sure, millions more individuals have health insurance under the ACA – but this 'non-group coverage' insurance group represents only 7% of all in America who are insured. About 87% of the insured are insured by employer (49%), Medicare (20%), Medicaid (7%), or other public insurance (2%)ⁱⁱ.

Republicans love to point to the number of small businesses who do not provide health insurance to their employees because it is too expensive. Why is that? Because an employer with only 100 employees does not give the providers a sufficiently large base of healthy people to cover the health care costs of those who will get sick. So, the smaller the company, the higher the premiums! Duh! A 'free market' means sellers, too, are free to shop around for their best profit chances and that is not small companies.

Automobile insurance is similar in that EVERYONE who owns a car is REQUIRED by state law to have at least liability insurance, thus creating a sufficiently large pool of "accident-free" drivers to subsidize the "accident-prone" drivers. However, when it comes to collision and comprehensive insurance (i.e., the payout for repairing your car), the premiums and deductibles are significantly higher than for liability.

When all arguments for a free market for any given scenario fail, Republicans always fall back on "but, it's free market" as though that term alone suffices to mean an unqualified truth. The truth is free markets are not free and never were free. A truly 'free' market means a perfectly competitive market in which you are selling the same commodity or service that your competition is selling, which means your price gets driven down and so does your profit.ⁱⁱⁱ Noone, especially health insurance providers, wants that. So, EVERY private company is constantly strategizing to gain the advantage over their competitors, through branding, differentiation, etc. – and political lobbying! The usual claim by free-market advocates is that they are trying to defend the market from politically motivated interference by the 'government', whoever that is. 'Government' is always involved and those 'free-marketers' are as politically motivated as anyone.^{iv} Do you honestly think that Paul Ryan and the Republican Representatives and Senators are going to recuse themselves from conferring special favors to certain

health insurance providers?! Whenever the Republicans evoke the name of ‘free market’ and ‘tax reform’, it is to hide the real reason for their legislation – to increase the wealth of the wealthy. If you don’t believe it, you need to read more about how the upper 3% wealth bracket would disproportionately benefit from the proposed American Health Care Act. Then read more about all the other legislation the Republicans have proposed, like Social Security ‘reforms’, 401K and retirement, and on, and on, and on! It will open your eyes!

So how do you create a sufficiently large pool of healthy insureds to subsidize the sick ones? Repealing the “penalty” tax for not having health insurance under the ACA is probably a good thing, but where would be the incentive to get coverage? It’s not in a compulsion to “shop around” for a good deal in health insurance! As we saw after Hurricane Katrina when FEMA simply wrote checks to the victims, people would much rather put money toward a new TV or having their nails done than buying food for their families.

~ Miles

ⁱ (<https://www.dol.gov/sites/default/files/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/fsdependentcoverage.pdf>).

ⁱⁱ Kaiser Family Foundation, Health Insurance Coverage of the Total Population, retrieved March 18, 2017 from <http://kff.org/other/state-indicator/total-population/>

ⁱⁱⁱ Ian Fletcher (2011). Why Free-market Economics Is a Fraud. Huffington Post. Retrieved March 18, 2017, from http://www.huffingtonpost.com/ian-fletcher/free-market-economics-critique_b_1155820.html

^{iv} Hajoong Chang, 2011. There Is No Such Thing as a Free Market, retrieved March 18, 2017, from <http://www.truth-out.org/news/item/1505:there-is-no-such-thing-as-a-free-market>