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The Managed Competition Act of 1992: A Wolf in Sheep's Clothing

The collapse of socialism in Eastern Europe has led policy makers throughout the world to turn to free markets to improve social wellbeing. On the banks of the Potomac, on the other hand, the inclination seems to be to go to more government management. To be sure, the rhetoric that policy makers use has changed; the language of free markets is now being used to repackage the same old big government solutions.

The latest example is H.R. 5936, the "Managed Competition Act of 1992," being proposed by a group of congressmen known as the Conservative Democratic Forum (CDF). The proposal's chief sponsor, Rep. Jim Cooper (D-Tenn.), argues that this bill "gives markets one last chance" to solve the nation's health care problems. However, this proposal represents a market approach only in the trivial sense that it is somewhat less intrusive of private decision making than the proposals that are being offered by other Democrats. In reality this proposal would significantly increase the role of government in the provision and financing of health care services.

A test of any so-called market based proposal for health care reform is to see whether or not it expands individuals' choices and reduces government control. The CDF proposal fails this test absolutely.

There are several clues that suggest that this bill would move health care in America away from market based decision making and toward greater government control. First, it would involve large tax increases. The CDF proposal is proof positive that the power to tax is the power to control. Limitations would be placed on the amount of health insurance premiums that companies could deduct from their taxable income. These limitations have two purposes. The first is to exert control over health insurance and the second is to raise revenues by $30 billion per year for additional spending.

The CDF believes that the government should dictate the kind of health insurance that can be included in workers' compensation packages. They have decided that all Americans would be best served by what the Act calls "Accountable Health Plans" (AHP) which resemble HMOs (Health Maintenance Organizations). If a company participates in an AHP the premiums are considered a legitimate business expense and would be deductible for tax purposes. If the employers and employees of a particular company think otherwise, the CDF apparently believes that such misguided preferences must be discouraged. For plans other than the officially approved AHPs, no deductions would be allowed. Self employed individuals could also deduct health insurance premiums, but with the same restrictions.

Furthermore, even for AHPs, deductions would be limited to the cost of the lowest priced plan in the area in which the company is located. Not only does the CDF apparently know what kind of health insurance is right for all citizens, it also knows the appropriate amount. The cost of any coverage that is not part of the basic AHP would be taxed. This is not what the founding fathers meant when proclaiming that all men were created equal.

An additional tax increase would come from lifting the $130,200 cap on wages that are subject to the Medicare health insurance tax. This would be equivalent to increasing the marginal tax rate for individuals with higher incomes by 2.9 percent and

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would expose many at this level of income to nearly a 40 percent marginal tax rate. The economic effects of this provision have not been considered. There would be a reduction in both work effort and in savings, which in turn would have a negative impact on economic growth. The sponsors of the bill estimated that this provision would generate $7 billion in revenues. Since its negative effects on economic growth were not factored into the calculations, however, its actual revenue impact could be significantly less. It is typical for such soak-the-rich tax schemes to generate much less revenue than their advocates anticipate.

As noted, the additional tax revenues are intended to pay for a hefty $30 billion per year in new federal spending on an array of new health care programs. While allegedly the Act would not increase the deficit, assuming that the new taxes would raise the projected revenues, it would expand government control over resources that would otherwise be used in the private sector. Such a large transfer of revenues from market-allocated private sector uses to politically-allocated public-sector uses would reduce overall economic efficiency, slowing economic growth and reducing employment. This is no way to help the economy recuperate from a period of prolonged economic stagnation.

Another indication that this Act would be a non-market power grab by the government is that it calls for a new level of bureaucracy, referred to as a "national health care board." Its purpose would be to certify AHPs as having met with government approval and therefore eligible for tax deductible status. "Experts" would decide the benefits such plans should provide and the national health care board would make sure that actual consumer preferences don't get in the way.

Needless to say, as has already happened with respect to similar state controls on health insurance, special interests will be lobbying to insure that their particular approach to "medical" treatment, no matter how outside the mainstream, is included in the board's mandates. Instead of employees and employers choosing the kind of coverage that best suits their needs, these choices would be made for them by a combination of Washington bureaucrats and special interests who would gain the most from having their special treatment or favorite exotic disease included in the mandatory AHP.

A test of any so-called market based proposal for health care reform is to see whether or not it expands individuals' choices and reduces government control. The CDF proposal fails this test absolutely. It is solidly based on the model of government command and control. The sponsors of the Act tip their hand in the title. Any truly market-based solution would not be based on "managed" competition but on free competition.

The health care market has, for most of this century, been under extensive government control and influence. Through the Medicare and Medicaid programs, the government has contributed to escalating health care costs by severing, for many in the population, any relationship between paying the bills and receiving the health care benefits. This has encouraged consumption with no consideration of costs, which has contributed to the escalating demand for health care services. Because of state laws that mandate health insurance coverage of procedures such as acupuncture and medical conditions such as alcohol and drug addiction, the cost of such insurance is becoming increasingly unaffordable. Many without health insurance have been priced out of the market because of these expensive mandates.

The CDF proposal does nothing to ameliorate these problems. In addition, the bill would heap new costs on a private sector that has already been unduly burdened with new taxes and regulations. A true market approach to health care that includes deregulation of both health insurance and the provision of health care services would certainly be welcome. Such an approach might also include the use of saving vehicles like medical IRAs that would not only ease access to health care and health insurance but would also enhance the potential for economic growth by reducing the tax burden on saving in general. Unfortunately, the CDF proposal is not even a step in this direction.

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