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Happy Birthday, Obamacare

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One year ago today, the House of Representatives passed the final version of Obamacare. For proponents of the law, it is a time for sweet nostalgia, about overcoming the odds to achieve a cherished, long-time policy goal.

In some ways, for opponents of the law like me, March 21, 2010 was the health care version of Pearl Harbor. PPACA was a shocking and gigantic step backwards on policy, yes. But Obamacare's passage helped me and many others realize how we had not done our part to shape the debate, to provide a conservative vision of health care reform. We needed to mobilize.

I've tried to do my part since: not just to explore free-market ideas, but also potential areas of bipartisan agreement. On March 22, 2010, I committed myself to getting this blog going. Market-oriented health policy writers, who'd been carrying the torch all along, found a broader audience for their work. Conservative publications like *National Review* and *National Affairs* increased their coverage of the issue. Elected officials like Paul Ryan have articulated market-oriented approaches to entitlement and health reform.

There is much work yet to be done. Most Americans understand intuitively how PPACA undermines our fiscal stability. But equally important is how PPACA will achieve exactly the opposite of its stated goals: patient protection and affordable care. We talk a lot about the "unintended consequences" of major legislation. What is deeply troubling about Obamacare is that its most damaging consequences to the quality and affordability of health care have been predicted from the beginning.

In a tremendous piece worth reading in full, John Goodman discusses one of the most important "unintended consequences" of all: "a large migration of patients and doctors, and facilities and services out of the third-party payer system." Obamacare will do the exact opposite of what it is intended to do—it will drive the cost of insurance up, making it increasingly unaffordable, in turn increasing the vulnerability of the poor and the sick. Contrapuntally, the wealthy will increasingly seek consumer-driven care by independently contracting with doctors who don't take insurance:

> The single most important cause of this transformation will be the Affordable Care Act (ACA). That is especially ironic in four ways. First, the most important purpose of the act was to bring millions of people into the health insurance system, not to push millions of people (at least partially) out of it. A second purpose of the ACA was to change the way

> medicine is practiced — using electronic medical records, financial incentives and regulatory powers to goad providers into providing lower cost, higher quality, more transparent care. Yet all of these goals will be achieved more quickly, more completely and more effectively outside the system. A third goal of the ACA was to create a more egalitarian system in which all have access to the same care. Yet the world we are about to enter will be the exact opposite — a two-tiered system in which access to the best doctors and the best facilities will depend very much on your ability to pay. A fourth goal of the ACA was to create universal access to care. Yet our more vulnerable populations — the poor, the disabled and the elderly — are likely to have less access to care under the new reforms than they have today.

Goodman points out a number of PPACA's most problematic features, which I summarize below:

1. Rising costs will lead to stingier insurance, which will lead people to drop out and contract independently. Rising health costs, combined with the individual mandate, will force insurers and employers to radically restrict beneficiaries to the lowest-cost doctors and hospitals. This, in turn, will motivate many people to contract directly with the doctors and hospitals of their choice—kind of like how we all pay for public school, but many people contract with private schools on top.

2. Community rating incentivizes insurers to avoid the sick. Obamacare's version of health insurance exchanges require "community rating;" i.e., offering insurance to both the healthy and the sick at comparable prices. This gives insurance companies the perverse incentive to attract and retain healthy customers, while rejecting and hassling sick ones.

3. Employers will dump workers onto the government-subsidized exchanges. As I have discussed in the past, PPACA strongly incentivizes both employers and employees to give up on employer-sponsored insurance and seek subsidized coverage on the exchanges, which will dramatically increase the fiscal pressures on the law, and thereby further pressure on reimbursement to doctors and hospitals.

4. Access to high-quality physicians will become much more difficult. Another topic I have addressed recently is the fact that there is far more demand for medical services than there is supply of physicians. This imbalance leads doctors to reject insurers, like Medicaid, who underpay doctors for their services. Obamacare will accelerate this problem, and soon patients on Medicare and even some forms of private insurance will have trouble finding doctors' appointments, especially with specialists.

Even now, the best doctors refuse to take insurance, requiring their patients to pay out-of-pocket. This trend will only grow. Doctors who leave the insurance system get to see far fewer patients (whom they can serve better), for only slightly less income, with zero of the bureaucratic hassle. Patients with means will get the high-quality care they crave: personal attention, customer service, and more compassionate care. Observes Goodman, "Sadly, as doctors and patients seek better, more timely care, they will make matters worse" for those still stuck in Medicaid, Medicare, and third-party private insurance.

I can't improve upon Goodman's concluding paragraph:

> The new legislation may indeed cause the transformation of medical practice that the ACA seeks to bring about. But it will not occur because of the guidance Washington gives to providers in the third-party payment system. It will occur because of the competitive pressures that everyone who escapes from that system and practices outside it will face. And it won't be available to those who need it most.

This is what's at stake when people refuse to see how economic pressures impact the quality of health care.

When PPACA passed Congress, one year ago today, its enthusiasts predicted that the law would reduce the deficit; save hundreds of thousands of lives; significantly improve national life expectancy; dramatically reduce medical bankruptcies; and massively improve infant mortality. (I wish I could find the link to the *New Republic* editorial from the summer of 2009 arguing that passing Obamacare would mean that no one would ever again have to die of cancer.)

It's understandable that those who make these predictions would be resistant to the overwhelming evidence to the contrary. But if they genuinely care about protecting patients and making health care affordable, they owe it to themselves to take an honest look.

Year Two of the Obamacare Era will be similar, yet different, from Year One. It will be similar in that Americans will continue to strongly oppose the law. The law will continue to destabilize health insurance markets and government budgets, in ways foreseen and unforeseen.

On the other hand, a Republican presidential contest will emerge, and it will be incumbent upon the contenders to thoughtfully address what they would put in Obamacare's place. Paul Ryan has promised to put entitlement reform on the table in the House 2012 budget. PPACA proponents justly complain about the fluffiness of GOP health care proposals. This is the year when Republican rubber will hit the road.