



Mandates Vs. Free-Riders

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Is a requirement for every individual to buy health insurance a good thing?

Put aside the Constitutional question for a moment. The Obama Justice Department is also arguing that a mandate is needed to make health insurance work. Are they right?

The basic idea behind their argument concerns the "free rider" issue. Suppose other people spend part of their income on health insurance every pay period so that insurance will be there if they have a serious medical problem. I, on the other hand, choose to remain uninsured — using all of my income for personal consumption.

By choosing to remain uninsured, I am making a gamble. If I bet right, I will stay healthy and be able to enjoy a higher standard of living than people with incomes similar to mine. I will have been able to consume more goods and services than others because none of my income will be sent off to insurance companies.

But suppose I bet wrong? Then I will need medical care I cannot afford. Are the rest of you going to heartlessly allow me to go without care? Or will you take pity? Because we are a generous and caring society, we don't want to see people go without medical care even if their predicament is the result of their own irresponsible decisions. But if you provide me with the care I didn't insure for, you allow me to become a free rider on your generosity.

Everybody else had to pay for their care by having less take home pay each pay period. I got my care for free. And if I get away with taking advantage of the system, won't a lot of others copy my behavior and try to become free riders themselves? Not only does such behavior seem unfair, it is argued, it could undermine the whole health insurance system.

How convincing is this argument?

For starters, let's acknowledge that it doesn't really apply to high-income families. People who have, say, \$1 million or more in assets — and that's about 1 in every 30 people — can afford to pay their own medical bills without insurance. Also, the argument for intervention becomes weaker the lower a household's income. People who cannot afford health insurance anyway are not willful free riders. They are not making choices that impose new costs on others. So there is no obvious social reason to force them to insure.

Low-income individuals will need health care from time to time. The evidence suggests that the best way to provide that care is not through an insurance plan, however. We don't have food insurance for the poor. We give them food stamps. They add their own money to the food stamps and they can buy in any store you and I enter and pay the same prices we pay. We could do the same in health care.

What if I earn an average income? Does that mean that it makes sense for the government to force me to buy health insurance? Actually, no. There is a better solution that is more practical and more efficient. The government can make me pay a tax that is equal to the expected amount of free care I (and others like me) are likely to get, if I get sick.

In general, people who are uninsured consume about half as much health care as those with insurance. Of that amount, they pay about half from their own resources, leaving the rest as bad debt. At the National Center for Policy Analysis, my colleagues have estimated that the amount of free care is about \$1,500 per uninsured person per year. So to prevent me from becoming free rider, the government could impose a tax on me equal to that amount.

Note, however, that uninsured middle-income families are already paying higher taxes because they do not have the tax-subsidized (employer-provided) insurance their neighbors have. Far from being free riders, these families appear to be paying their own way. Of course, the extra taxes the uninsured pay tend to go to Washington, while uncompensated care tends to be delivered locally. This mismatch of revenue and expense is not caused by the uninsured, however. It is the result of government not having its act together.

The ideal public policy is to formalize the government's role and make it fair. Instead of the hodge-podge of tax breaks and spending subsidies, give every individual a tax credit of, say, \$2,500 to apply to health insurance. For a family of four, the refundable tax credit would be \$8,000. Unclaimed credits would be available to safety net institutions to pay for care if the uninsured cannot afford to pay their own medical bills.

All this can be done without any mandate and without telling people what specific health insurance benefits they have to buy.

Bottom line: the case for trying to force everyone to buy insurance is not an easy one to make.