

Health Insurance vs. Healthcare

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Do you care whether I have health insurance? If you do care, do you also care if I have other kinds of insurance?

While you're thinking about the initial question, here are a few follow-up questions:

Do you care whether I have life insurance?

What about disability insurance?

Homeowner's insurance?

Auto casualty insurance?

Auto liability insurance?

What about retirement insurance? (A pension or savings plan.)

Do you care whether I keep my money at an FDIC-insured institution?

Or whether I bought an extended warranty on my car?

Or whether I bought travel insurance before taking a scuba-diving trip to Palau? (It pays off if you get sick and can't go.)

As discussed in my new book, *Priceless: Curing the Healthcare Crisis*, there is actually a rational reason (based on economics) why you should care about some of my decisions and not others. Most of us basically don't care whether people insure to protect their own assets (at least we don't care enough to try to make them insure). But we do care about decisions that could create external costs for the rest of us.

Through Social Security, we force people to pay for life insurance benefitting dependent children (who could potentially become wards of the state) but not for a working-age spouse. All but three states force people to have auto liability insurance (covering harm to others) but not casualty insurance (covering their own cars). We basically don't care whether people insure their own homes, but we force them to contribute to retirement and disability schemes to prevent their accidental dependency on all the rest of us.

Here is the principle: Government intervenes in those insurance markets where an individual's choice to insure or not insure imposes potential costs on others. Because of our basic human

generosity, we're not going to allow people to starve or live in destitution. So when people don't insure in some areas, society is going to step in and help (where help is needed). Implicitly, we have a social contract that socializes the downside of certain risks. If we leave the upside to individual choice, we have privatized the gains and socialized the losses. When people don't bear the social cost of their risk-taking, they will take more risks than they would otherwise.

Another way to think about the problem is in terms of the opportunity to become a "free rider" on other peoples' generosity. Consider people who have no life insurance (for dependent children), no disability insurance, and no retirement savings program. Because they are not paying premiums or saving for retirement, they can consume all of their income and enjoy a higher standard of living than their cohorts. But if they bet wrong (die while children are still minors, become disabled, reach retirement with no assets), they are counting on everyone else to help them out.

How does all of this apply to health? Considering the extensive interest in insuring the uninsured, you would expect an exhaustive literature. But aside from Robin Hanson's thesis that healthcare is different,[1]there is virtually nowhere you can go to find a rational, well-thought-out, consistent analysis of why you should care whether or not I have health insurance.

If we are concerned that the uninsured will impose an external cost on the rest of us, there is a simple remedy: impose a fine equal to the expected cost of any unpaid medical bills they might incur. 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.

For high-income families, it's not clear why we should be concerned. 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. They will need healthcare from time to time, however.

What is the best way to get healthcare to people with low incomes and few assets? Not Medicaid or state-run Children's Health Insurance Plans (which you can think of as Medicaid for children). Nor is it any other system, inappropriately modeled on the insurance approach to healthcare.

Bottom line: the case for trying to get everyone insured is not an easy one to make. Nonetheless, most people I know in health policy are obsessed with the idea. In fact, they are more concerned with whether people are insured than whether they get healthcare.

