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The Competition Cure

"Competition" has become a watchword of Team Obama's push for its health-care bill. Specifically, the Administration has defended its public insurance option as a necessary competitive goad to the private health insurance industry.

Health and Human Services Secretary Kathleen Sebelius routinely calls for more choice and competition in health care. In his weekly address this past weekend, President Obama raised the issue directly: "The source of a lot of these fears about government-run health care is confusion over what's called the public option. This is one idea among many to provide more competition and choice, especially in the many places around the country where just one insurer thoroughly dominates the marketplace." We take it this refers to a state in which one insurer holds most of the business.

It is no secret that this page is all for competition in the marketplace. If indeed that's the goal, allow us to suggest a path to it that will be a lot easier than erecting the impossible dream of a public option: Let insurance companies sell health-care policies across state lines.

This excellent idea has been before Congress since at least 2005, when Rep. John Shadegg of Arizona proposed it. It came up again recently in an exchange between Chris Wallace of Fox News Sunday and John Rother, executive vice president of AARP.

Mr. Wallace: "If you really want competition why not remove the restriction which now says that if I live in Washington, D.C. I've got to buy a D.C. health plan, and instead create a national market for health insurance, so that if there's a cheaper plan in Pennsylvania, I could buy in Pennsylvania?"

Mr. Rother: "There are states and localities where health care is much less expensive than others, and if we allow people to buy all their insurance from those places, it will raise the rates there. And it's called risk selection. It's a real problem, given the fact that health care costs can vary substantially from one place to another. So I think while the idea sounds appealing, the consequence would be it would make health care more expensive for those people who live in those low-cost areas."

How did Mr. Rother arrive at this conclusion?

His claim assumes that what makes insurance expensive in places like New Jersey—where the annual cost of an individual plan for a 25-year-old male in 2006 was \$5,880—is merely the higher cost of medical services in the Garden State. He sounds an alarm in the rest of the country by suggesting that an individual living in, say, Kentucky—where an annual plan for a 25-year-old male cost less than \$1,000 in 2006—would be asked to subsidize plan members living in high-priced states.

That's not how interstate insurance would work. Devon Herrick, a senior fellow with the National Center for Policy Analysis who has written extensively on this subject, notes that insurance companies operating nationally would compete nationally. The reason a Kentucky plan written for an individual from New Jersey would save the New Jersey money is that New Jersey is highly regulated, with costly mandated benefits and guaranteed access to insurance.

Affordability would improve if consumers could escape states where each policy is loaded with mandates. "If consumers do not want expensive 'Cadillac' health plans that pay for acupuncture, fertility treatments or hairpieces, they could buy from insurers in a state that does not mandate such benefits," Mr. Herrick has written.

A 2008 publication "Consumer Response to a National Marketplace in Individual Insurance," (Parente et al., University of Minnesota) estimated that if individuals in New Jersey could buy health insurance in a national market, 49% more New Jerseyans in the individual and small-group market would have coverage. Competition among

states would produce a more rational regulatory environment in all states.

This doesn't mean sick people who have kept up their coverage but are more difficult to insure would be left out. Congressman Shadegg advocates government funding for high-risk pools, noting that their numbers are tiny. The big benefit would come from a market supply of affordable insurance.

Mr. Rother also said "risk selection" is a problem. But the coverage mandates cause that. As more healthy people opt out of health insurance because it is too expensive relative to what they consume, the pool transforms into a group of older, sicker people. Prices go higher still and more healthy people flee. High-mandate states are in what experts call an "adverse selection death spiral."

Interstate competition made the U.S. one of the world's most efficient, consumer driven markets. But health insurance is a glaring exception. When the competition caucus in Team Obama has to look for Plan B, this is it.