Individual Mandate:
Inevitable, Unsustainable or Both?

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Education
• University of Virginia: BA
• College of William and Mary: MA
• Virginia Commonwealth University: MSHA
• Columbia University: MPhil, PhD

Currently
• National Federation of Independent Business (2007-date): Senior Health Care Advisor
• Virginia Commonwealth University (1999-date): Adjunct Associate Professor
• University of Virginia (2005-date): Clinical Associate Professor

Previously
• University of Richmond (2001-2007): Economics professor
• Federal Reserve Bank of Richmond (1989-2002): Economist/manager
• Virginia Department of Taxation (1989): Economist, revenue forecaster
• Chase Manhattan Bank (1983-1988) Economist/2VP; Economist for Subsaharan Africa; asset portfolio modeler

Miscellany
• National Center for Policy Analysis: Senior Fellow
• American Institute for Economic Research: Research Fellow
• Kazakhstan School of Public Health: Visiting Scholar
• National Association for Business Economics: Chair, national Health Economics Roundtable, 2004-06; Chapter President, Richmond, VA, 1989-1991
• Global Interdependence Center: Member, Global Health Committee
Why am I here?

• NFIB is wrestling with the individual mandate
  – So am I: today – my transient, personal views
• Inevitable? Unsustainable?
• California
  – Aware, but not expert
  – John Kabateck, NFIB/CA Executive Director
• ERISA: tourist
Between the jaws

• British Columbia possibility
  – Wait times (biopsy/surgery, 4/10 weeks)
  – Return to the U.S. (shutout scenarios)
• Worthy, but conflicting goals
  – Insulation (catastrophic? first dollar?)
  – Affordability (says who?)
• Economic problem: pick any two
• Growing consensus on universal coverage
  – NFIB, I favor private care, private insurance
Why not status quo, single-payer?

• Status quo
  – Falling short on 2, maybe 3, dimensions
  – Can’t credibly threaten denial of coverage
  – Funereal mandate problem
  – Will splinter as boomers age

• Single payer
  – For me, for NFIB, an axiomatic “no”
  – Canada’s Supreme Court slammed Quebec
  – Dynamics: cost growth, state budgets, beware
EBHI problems (I)

• History: Truck system
  – “Sixteen Tons” Merle Travis (1947): “St. Peter don’t you call me, ‘cause I can’t go. I owe my soul to the company store.”
  – Workers got necessities through employers
    • Food, clothing, housing, credit
    • Paid out of wages
  – Complicated employment decision
  – Job lock: Leave the job, lose food and housing
  – Crushed competition: high prices, low quality, onerous credit
  – Dependency poisoned employer/employee relationship
  – American labor movement hated it
EBHI problems (II)

• Same effects from EBHI
  – Dependency
  – Muddled employment decisions
  – Job lock
  – Breaks in coverage
  – Consumer detachment from product
  – No motive for transparency
  – Fragmented consumer pool
  – Shorter time horizons – no wellness incentives
EBHI Problems (III)

• Historical accident, growing out of wage-price controls
  – Ironically, started buying health insurance from the company store around 1947
  – Cemented in place by tax code, labor regulations

• Bad for small business
  – Huge fixed costs in managing plans
  – No expertise
  – Uninsured employees
  – Creates competitive disadvantage
  – Risk puddles
• Individual mandate is left on menu

• Consistent with other forms of insurance

• What do we mean by “individual mandate?”

• Developing a taxonomy

• Now, Hawaii, Switzerland, MA & CA? , ???

• [4] and [5] retain EBHI problems

• [3] interesting
“Individual mandate” meaningless in isolation

– Is it coupled with an employer mandate or stand-alone?
– How is it financed?
  • Payroll tax?
  • Play or pay?
– Is the enforcement unobtrusive and cost-effective?
– Who determines the qualifying package?
Mandate and Financing Are Separate

- Payroll tax
  - Detrimental to labor: Encourages capital-intensive processes and outsourcing
  - Detrimental to small businesses: thin margins
- Arbitrarily bestows windfall gains and losses
  - Hits employees, employers differently across firms, across years
  - Hits whomever is more vulnerable. (yacht tax)
- Political factors
  - Other states copy and go beyond
  - Politically easy to adjust rates and firm sizes
Individual Mandate: Enforceability

• Enforcement problems with mandates
  – Easiest are one-time (e.g., vaccination)
  – Health insurance tough -- monthly
  – Hawaii health insurance
  – Auto insurance
  – Income tax
  – Immigration
  – Swiss health insurance

• So what? Great vs. good
Individual Mandate: Basic package

• Problem:
  – State orders mandate
  – State can escalate costs of mandate at will
• Oregon problem
• Massachusetts providers today
• CAHI treatment mandate annual report
Are there mechanisms?

• Separate the two functions
  – Interstate purchases of insurance
  – Regional compact (like banking)
  – Federal Reserve-type structure
  – Base closing model
  – Pay or play for individuals; priced at some percentile of the overall population
Lessons

- Political environment is changing
- Dollar figures are set to soar
- Flexibility must be built in
- Appropriate enforcement institutions
- Control over qualifying package
- Awareness of dynamic environment