Can You Keep Your Healthcare Plan?

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The lessons of Austrian economics never penetrated the great universities of the US or the lessons that the teachers and professors at these universities taught their students. As a result, the progressive products of those institutions, to various degrees and extent, lack the ability to comprehend the significance of the original President’s promise that “you can keep your healthcare plan.” Correspondingly, they lack the ability to evaluate the President’s most recent affirmation of that promise.

Even many self-proclaimed Austrian economists lack the necessary tools. In light of this, I begin this essay with lessons from Austrian economics. Next I turn to the task of tracing the effects of the Affordable Care Act on the panoply of markets that people call healthcare services and healthcare insurance. Then I discuss the crude metaphor that the Affordable Care Act released a genie from a bottle and that the difficult task facing the President now is to find the genie and put him back. Finally, I consider the conditions that would be required for the President to keep his recent promise that individuals can keep the healthcare plan that they had before the Affordable Care Act was passed.

1. Lessons from Austrian Economics

Complexity

One of the most important lessons in economics is about what the Austrian economists call “complexity.” Complexity at the human level means that the economy is a connection between two sets of minds. The first is comprised of individuals as consumers each of whom has a multitude of wants that are in some way different from each other. The second is comprised of the equally voluminous number of distinct and different entrepreneurs located at different “links” along the numerous and interconnected supply chains. The entrepreneurs are responsible for supplying the consumer goods in accord with the principle of consumer sovereignty. A simple article that demonstrates the complexity of supply chains is Leonard Read’s “I, Pencil.” A deeper analysis of complexity is provided in my essay Explaining Obamacare.

Continuous Change in Demand and Supply Conditions

A second important lesson is that the market process is continually changing due to
changes in demand and supply conditions in the various markets. “Disruption of the market process,” so to speak, is a continuing phenomena. Each change alters the profit prospects of the entrepreneurs. The function of these entrepreneurs is to adjust to the new conditions according to the principle of consumer sovereignty. This involves making a continuous effort to innovate.

2. Responses to the Affordable Care Act

The Affordable Care Act jolted the markets for the myriad of different insurance providers, healthcare providers, and merged insurance-healthcare providers. The variety of economic responses can be said to have fallen within a range between two extremes. First there were providers who actually believed that the provisions of the Act would be implemented as announced. These providers, seeking to profit, alertly and quickly responded by restructuring in order to outdo their rivals. They formed expectations about the consequences of different parts of the act for the expected times that those parts would become operational. At a second extreme were providers who were skeptical that many provisions of the act would be implemented in the way or at the time that was initially announced. These providers made moderate adjustments as the provisions rolled out over time. All providers responded economically in some way. Each fell somewhere between these two extremes.

There was also a political response. Some insurers and healthcare services providers are very large, while others are members of large organizations. The larger ones already had connections to the white house, Kathleen Sebelius, the Justice department, the IRS, etc. Others, particularly smaller ones, did not. Plus, the President and Sebelius took an active role in making connections where that had not previously existed or were weak. Like the economic responses, the responses by providers to both the economic pressures and the political pressures were diverse and particularized. Some providers were greatly intimidated by government; others less so.

The initial act imposed new coverage requirements on insurers, such as maternity benefits and the coverage for children up until the age of 26 years old. To allow insurers to adjust to the new requirements, the act granted insurers the legal right to produce new insurance plans containing the new coverage and then to change the price, the size of the deductible and the size of co-pays. Each insurer acted differently depending on her expectations about the implementation and timing of the various provisions in the act. But each adjusted.

As each adjustment occurred, signals were sent up and down supply chains throughout the entire complex of the market process. Most profit-seeking entrepreneurs throughout the economy know nothing, or next to nothing, about the Affordable Care Act or its effects. Yet they adjusted their actions in light of the signals sent by the insurance and healthcare services providers. The tendency of their actions was to best serve the set of consumers in their satisfaction of their most urgent wants. We can call this the tendency toward serving consumers during the pre-you-can-keep it period. This period ended when the President announced that he would now allow insurance companies to offer the same insurance plans as last year and exempt the insurers from the new mandated coverage of maternity benefits, etc. The question is: what tendency exists now in light of the President’s announcement?
3. There Is No Bottle and There Is No Genie

The newscasters write about “putting the genie back in the bottle.” It will be tough, they say, to put it back in. But, as the metaphor goes, it is possible to do so. The newscasters have no clue. Market conditions – the demands for healthcare services and insurance and the costs of supplying those demands – are always changing. At the very time when the President announced that “you can keep your healthcare plan,” the healthcare services providers and insurers were adjusting to the changes they had recently identified. They were also adjusting to conditions which had recently upset their previous expectations. No president or law can freeze changes in market conditions without establishing complete centrally planning. In that case he must abolish market interaction entirely.

First, changing demographics are continuously changing the demands for different types of healthcare. The number of different types of healthcare services demanded is practically unfathomable. A team of investigators could not even identify them yet determine how they have changed. The same is true for the demographic changes that affect supply. In population-increasing areas, entrepreneurs identify and implement economies of scale that are previously unprofitable and in many cases were unknown. In population-decreasing areas, they have experimented and implemented innovative techniques of supply such as the direction of surgeries from remote locations.

Second, healthcare is one of the most technologically dynamic "industries" in the world. It would be almost correct to say that each of the particular treatments for each of the particular health conditions has undergone, and is currently undergoing, a sea change in costs and methods of supply.

Third, technological change and product innovation have been characteristic of the insurance industry. New products have been offered and continue to be offered. With the expansion of information technology, new and different factors of production have been employed and are being employed everyday. In addition to improvements in the tools, procedures and treatable diseases, there are new, cheaper, and more powerful computer hardware and software to facilitate record keeping and accounting.

Fourth, massive changes have been occurring in the supply of the combined product of health insurance and treatment. Entrepreneurs have formed, and are forming, large regional treatment centers for their customers that supply practically all of the healthcare services they expect people to demand during a year. These centers compete with Medicare and smaller insurance companies that offer networks of different independent specialists. The new centers pride themselves with offering the most modern and effective services. They invest heavily in discovering the most up-to-date information about current technology and the technology that is on the horizon.

In light of these changes and the entrepreneurial adjustments to them, it is obvious that the bottle metaphor is mischievous. The “genie” – the promise that individuals can keep their plan – could never be credible in a capitalist system. So there could be no genie. And the “bottle,” which is a metaphor for market interaction, is never stationary and has no observable substance. It only produces results.
4. Can the President Keep His Promise?

In reality, the President’s recent promise is like his original promise. To the extent that the President believes it, he demonstrates his ignorance of capitalism and his full acceptance of a centrally planned system. To the extent that he does not believe it, it is lies.

Could he actually keep his new promise? Suppose that he assigned government agents the task of assuring that healthcare service providers and insurers offered exactly the same plans they offered one year ago. How could he secure compliance?

No Legal Authority
Legally, this is a non-starter. He has no legal authority to mandate healthcare services or insurance for companies that are located only in a particular state. He cannot force insurers to reset their prices or the panoply of healthcare services they cover. Accordingly, he cannot legally order them to provide the same policies that they provided in the past. He may have the power to impose such a mandate on a subset of providers who are involved in interstate commerce, however. If he was successful, he would impose additional costs on many of the interstate providers, giving the instate providers a temporary competitive advantage. The result would be a temporary restructuring of the profit prospects for interstate providers vs. instate providers. The extent of restructuring would depend on what these insurers expected the President to do in the future.

The President as Dictator
Suppose, for the sake of argument, however, that the President is a dictator of the US, who controls the monopoly over coercion and compulsion that is the government. He instructs the FBI to effectively prosecute every insurance company that does not comply with his you-can-keep-your-healthcare promise. He mandates that every insurer must offer the same verbal contracts for insurance that she did, prior to the cancellation, and at the same prices. For simplicity, assume that he also prohibits any change in insurance offerings. If an insurer offered contract “A” last year, it must offer the same contract “A” this year and at the same price and to the same potential customers.

What is likely to happen? In answering this question, it is essential to recognize that, there is no way to develop an objective measure of the quality of the panoply of healthcare services. Accordingly, there is no way for the government to clearly differentiate a healthcare service supplier or insurer who provides a lower quality package from one who provides a higher quality package. For example, suppose that an insurer uses a specific network of doctors, testing services, hospital services, clinics that are run by nurses or physicians’ assistants, medicines, and preventative services. The insurer knows that the network includes some service providers who charge higher fees than others. For example, one doctor may charge a higher fee than another for the initial screening of a prospective heart disease patient. The insurer may not know whether the higher-fee doctor provides higher quality service. But she judges that including him in her network will attract, or help her retain, customers vis a vis her rivals.

Now add the Affordable Care Act, which requires that all insurance policy include additional coverage whether customers want it or not. Each competing insurer must raise rates in order to avoid losses. Even if the costs and demands for insurance services had not changed, she could not afford to offer the same policy with the same network of providers. The mandate makes this unprofitable. The insurer then will consciously decide to change the
suppliers of these services in order to avoid losses. She will drop the higher-fee doctors, testing services, hospitals, clinics, medicines and preventative services.

The result is that many customers will be less satisfied. They will complain to the government that they have lost their doctor, that they must go to an inferior hospital, and so on. But the government is in no position to judge quality. If it tries to force higher-fee doctors hospitals, etc. to reduce fees, the likely result is longer queues, lower service quality, and, in the long run, a reduced supply of what most insurers would judge to be a higher-quality network of services. Because there is no objective way for a government to detect quality changes, its agents have no objective way to assure that the people who bought insurance contracts last year can have contracts that offer the same service quality.

An Impossible Promise to Keep

Thus, even if the President had the power of a dictator and could enforce his “you-can-keep-your-plan” promise, it would be impossible for him to keep the promise. Moreover, a serious effort to do so would take the US down the path toward centrally planned socialism. With every step in that direction, technological advance would be set back until, in the end, it was halted entirely.