Corporate Welfare

Would conservatives rather promote private competition or cut government spending? In Arkansas, they had to choose. By Margot Sanger-Katz

Bemused: Beebe will drop Medicaid recipients into insurance exchanges.

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A few months ago, Republicans in the Arkansas Legislature weren't interested in expanding their state's Medicaid program. Even though doing so through the Affordable Care Act would have brought health insurance to some 200,000 poor Arkansans at federal expense, they knew they'd have to start contributing to the program after three years, and they were already struggling with their Medicaid budget. Also, fiscal conservatives, worried about the nation's deficit, said they didn't want Washington's money.

Then, Democratic Gov. Mike Beebe announced a deal with the Obama administration: Instead of expanding the current Medicaid program, Arkansas could offer low-income residents the same insurance in the same marketplace where richer residents will buy commercial policies. The feds would still pay the tab—and they'd also pay for any care Medicaid usually covered that these policies didn't. The idea won instant support from expansion skeptics (and from insurance executives, who will receive a windfall). "We've intercepted the ball, and we're moving the ball in the other direction," says Davy Carter, the Republican speaker of the Arkansas House, who hopes the plan will pass. "We're not talking about adding more persons to the Medicaid rolls. We feel like that's a great first step."

There's just one catch: The private policies will cost about 50 percent more than traditional Medicaid, according to the Congressional Budget Office. And that doesn't even count the extra benefits Washington will cover. It turns out that government insurance is much cheaper than private coverage—pitting the GOP principles of fiscal prudence and private enterprise against each other. Buying commercial coverage for poor Arkansans will bring the state and nation closer to the Republican health care vision, in which everyone shops for individual policies in a competitive marketplace. Too bad that approach doesn't save money. "It's ironic," Beebe said during an interview, laughing as he spoke on the phone. "That's all I'm going to say about that."

Competition is conservatives' beau ideal for health insurance. It is the principle behind the premium-support Medicare plan that has made House Budget Committee Chairman Paul Ryan famous. His newest budget, expected next week, is certain to recommend changing Medicare from a single-payer system into one where seniors receive a fixed sum to pick their own plan from among private and public offerings. Ryan says such a system, with its emphasis on the market, will drive down the cost of coverage, making Medicare sustainable for future generations.

"Conservatives believe in more consumer-driven approaches," says Avik Roy, a senior fellow at the conservative Manhattan Institute and a former health care adviser to Mitt Romney's presidential campaign. Roy recently teamed with American Action Forum President Douglas Holtz-Eakin, a former top policy adviser to John McCain's presidential campaign, to advocate for a system that would put nearly everyone into the individual insurance marketplaces. Their plan would include something like the Arkansas model for Medicaid and an aggressively means-tested version of the Ryan plan for Medicare.

The trouble is, in Medicare—as in the Arkansas Medicaid program—available evidence suggests that private insurance will be more, not less, expensive than the public programs it would replace. Just as CBO estimated that private-exchange coverage would cost much more than conventional Medicaid, it also found that the Ryan plan would result in per capita Medicare costs that are higher than the traditional program could reach over time. (Should those costs rise in this way, Ryan's budget would keep the difference off the government's books by asking seniors to pay a growing share.) Advocates of premium support dispute these estimates, but they acknowledge a dearth of research to prove that costs would grow more slowly in a competitive system.

Choice and competition have worked well in other parts of our economy, but they have not demonstrated savings in health insurance. Compared with government programs, private insurers tend to pay higher prices to doctors and hospitals, to have higher administrative costs, and, in competitive sectors, to lack enough market share to render improvements in the delivery of care. "They're just paying a lot more money for an ideological opposition to public insurance," says Neera Tanden, president of the liberal Center for American Progress and a former health policy adviser to President Obama.

Some of the commercial market's higher cost structure is good for patients. There's a reason Medicaid is so cheap: It's notorious for paying doctors such low rates that few want to participate. In Arkansas, a patient in the new system may have an easier time seeing a specialist than a Medicaid patient in, say, California, where the Med-Cal program is slashing reimbursements rates. If every patient paid Medicaid rates, many doctors and hospitals would probably struggle to stay afloat.

But more-comprehensive coverage at greater government expense is not usually a Republican priority. As Congress and the president continue to fight about entitlement spending and the deficit, enthusiasm for the Arkansas plan in some conservative quarters is likely to be met by dismay in others. Several other states have suggested they may copy Arkansas; if enough do, it could cost Washington tens of billions of dollars. "What they did was pour gasoline on mandatory spending," says Rep. Bill Cassidy, R-La., a physician who has been developing proposals to limit Medicaid spending. To him, private enterprise is a means to less spending, not an end in itself. ■