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OPINION

What to Do When ObamaCare Unravels

Health insurance should be individual, portable across jobs, states and providers, and lifelong and renewable.

By JOHN H. COCHRANE

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The unraveling of the Affordable Care Act presents a historic opportunity for change. Its proponents call it "settled law," but as Prohibition taught us, not even a constitutional amendment is settled law—if it is dysfunctional enough, and if Americans can see a clear alternative.

This fall's website fiasco and policy cancellations are only the beginning. Next spring the individual mandate is likely to unravel when we see how sick the people are who signed up on exchanges, and if our government really is going to penalize voters for not buying health insurance. The employer mandate and "accountable care organizations" will take their turns in the news. There will be scandals. There will be fraud. This will go on for years.



David Gothard

Yet opponents should not sit back and revel in dysfunction. The Affordable Care Act was enacted in response to genuine problems. Without a clear alternative, we will simply patch more, subsidize more, and ignore frauds and scandals, as we do in Medicare and other programs.

There is an alternative. A much freer market in health care and health insurance can work, can deliver high quality, technically innovative care at much lower cost, and solve the pathologies of the pre-existing system.

The U.S. health-care market is dysfunctional. Obscure prices and \$500 Band-Aids are legendary. The reason is simple: Health care and health insurance are strongly protected from competition. There are explicit barriers to entry, for example the laws in many states that require a "certificate of need" before one can build a new hospital. Regulatory compliance costs, approvals, nonprofit status, restrictions on foreign doctors and nurses, limits on medical residencies, and many more barriers keep prices up and competitors out. Hospitals whose main clients are uncompetitive insurers and the government cannot innovate and provide efficient cash service.

We need to permit the Southwest Airlines, Wal-Mart, Amazon.com and Apples of the world to bring to health care the same dramatic improvements in price, quality, variety, technology and efficiency that they brought to

air travel, retail and electronics. We'll know we are there when prices are on hospital websites, cash customers get discounts, and new hospitals and insurers swamp your inbox with attractive offers and great service.

The Affordable Care Act bets instead that more regulation, price controls, effectiveness panels, and "accountable care" organizations will force efficiency, innovation, quality and service from the top down. Has this ever worked? Did we get smartphones by government pressure on the 1960s AT&T phone monopoly? Did effectiveness panels force United Airlines and American Airlines to cut costs, and push TWA and Pan Am out of business? Did the post office invent FedEx, UPS and email? How about public schools or the last 20 or more health-care "cost control" ideas?

Only deregulation can unleash competition. And only disruptive competition, where new businesses drive out old ones, will bring efficiency, lower costs and innovation.

Health insurance should be individual, portable across jobs, states and providers; lifelong and guaranteed-renewable, meaning you have the right to continue with no unexpected increase in premiums if you get sick. Insurance should protect wealth against large, unforeseen, necessary expenses, rather than be a wildly inefficient payment plan for routine expenses.

People want to buy this insurance, and companies want to sell it. It would be far cheaper, and would solve the pre-existing conditions problem. We do not have such health insurance only because it was regulated out of existence. Businesses cannot establish or contribute to portable individual policies, or employees would have to pay taxes. So businesses only offer group plans. Knowing they will abandon individual insurance when they get a job, and without cross-state portability, there is little reason for young people to invest in lifelong, portable health insurance. Mandated coverage, pressure against full risk rating, and a dysfunctional cash market did the rest.

Rather than a mandate for employer-based groups, we should transition to fully individual-based health insurance. Allow national individual insurance offered and sold to anyone, anywhere, without the tangled mess of state mandates and regulations. Allow employers to contribute to individual insurance at least on an even basis with group plans. Current group plans can convert to individual plans, at once or as people leave. Since all members in a group convert, there is no adverse selection of sicker people.

ObamaCare defenders say we must suffer the dysfunction and patch the law, because there is no alternative. They are wrong. On Nov. 2, for example, New York Times columnist Nicholas Kristof wrote movingly about his friend who lost employer-based insurance and died of colon cancer. Mr. Kristof concluded, "This is why we need Obamacare." No, this is why we need individual, portable, guaranteed-renewable, inexpensive, catastrophic-coverage insurance.

On Nov. 15, MIT's Jonathan Gruber, an ObamaCare architect, argued on Realclearpolitics that "we currently have a highly discriminatory system where if you're sick, if you've been sick or you're going to get sick, you cannot get health insurance." We do. He concluded that the Affordable Care Act is "the only way to end that discriminatory system." It is not.

On Dec. 3, President Obama himself said that "the only alternative that Obamacare's critics have, is, well, let's just go back to the status quo." Not so.

What about the homeless guy who has a heart attack? Yes, there must be private and government-provided charity care for the very poor. What if people don't get enough checkups? Send them vouchers. To solve

these problems we do not need a federal takeover of health care and insurance for you, me, and every American.

No other country has a free health market, you may object. The rest of the world is closer to single payer, and spends less.

Sure. We can have a single government-run airline too. We can ban FedEx and UPS, and have a single-payer post office. We can have government-run telephones and TV. Thirty years ago every other country had all of these, and worthies said that markets couldn't work for travel, package delivery, the "natural monopoly" of telephones and TV. Until we tried it. That the rest of the world spends less just shows how dysfunctional our current system is, not how a free market would work.

While economically straightforward, liberalization is always politically hard. Innovation and cost reduction require new businesses to displace familiar, well-connected incumbents. Protected businesses spawn "good jobs" for protected workers, dues for their unions, easy lives for their managers, political support for their regulators and politicians, and cushy jobs for health-policy wonks. Protection from competition allows private insurance to cross-subsidize Medicare, Medicaid, and emergency rooms.

But it can happen. The first step is, the American public must understand that there is an alternative. Stand up and demand it.

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