



11350 Random Hills Road, Suite 800, Fairfax, Virginia 22030 Phone (703) 934-6101 Fax (703) 352-3678

fff@fff.org www.fff.org

Obama the Health-Care Reformer Should Grow Up **by Sheldon Richman**

Barack Obama insists he does not want the government to run the medical system. He insists that he wants only to fix what's broken while leaving what works intact.

Taking him at his word, this is typical of Obama. His desires are a primary, things that can be achieved if only we want them badly enough. All that prevents fulfillment are the obstacles created by uncooperative, ideological, and perhaps evil people.

If Obama really believes this — and is not merely engaging in demagoguery (a strong possibility) — then he has the maturity of a child. In no way is this unique to Obama. Most politicians are either children in this respect or demagogues. You may decide which is worse.

The great achievement of the first economists was their realization that there are natural *laws* of economics. They noticed real-world chains of cause and effect rooted in the logic of human action. Prices are set by supply and demand. If the supply of a commodity fell or the demand rose, other things being equal, the price rose, activating processes to increase supply either of the commodity in question or alternatives acceptable to consumers. And if the king forbade a price rise, there would be bad consequences for consumers: chronic shortages, queues at shops, and rationing.

So the development of economics was bad news for rulers who thought they were omnipotent. The new discipline told them their powers were limited. They could not decree an abundance of cheap goods into existence. Naturally, rulers did not like that information, so they and their court intellectuals (today we all them *New York Times* and *Washington Post* op-ed writers) denied there *was* such a thing as objective economic theory.

But there is, and it continues to thwart public policies that attempt to defy it. Price ceilings (such anti-gouging laws) will produce shortages. Price floors will produce surpluses. Minimum-wage laws will make jobs more scarce or more unpleasant for the unskilled. And so on.

This is why even a sincere wish by Obama not to have the government run the medical system will mean nothing if he pursues the policies he seems intent on pursuing.

He wants a “public option.” That’s a euphemism for a government-run health-insurance program that is to provide a competitive alternative to private, for-profit insurance. This rationale is misleading because there is already competition among insurers — and there would be far more if state governments did not restrict intrastate competition and prevent interstate competition. For example, a resident in Minnesota, whose insurance policy is burdened with dozens of state-mandated provisions for coverage he may not want (for instance, alcoholism/drug rehab and breast reconstruction), may not legally buy a policy offered in Idaho, which has far fewer mandates.

So there’s no need for a public option to create competition. All government needs to do is *get out the way*.

What effect will the public option have, then? Remember what it is: a government bureaucracy. That tells us something right off the bat: It will not face the market’s discipline of profit and loss or the risk of bankruptcy. It will have the taxpayers in its back pocket and thus, unlike private insurers, won’t need to charge premiums high enough to cover its expenses. In other words, in the name of keeping private companies “honest,” the public option will be able to engage in predatory pricing, with the taxpayers making up the losses.

The government’s program will also be able to strong-arm pharmaceutical companies and other vendors and providers into lowering their prices below market level. To make up for those artificially low prices, they will have to charge others more than they would have otherwise, putting private insurers at an additional disadvantage. As the disadvantaged providers and insurers exit the market, consumers will have little choice but the public option.

The upshot is that just by acting like the government bureaucracy it will be, the public option will make it difficult if not impossible for private insurers and service providers to remain in the market. Government will end up running the medical system by default if not by design.

*Sheldon Richman is senior fellow at The Future of Freedom Foundation, author of **Tethered Citizens: Time to Repeal the Welfare State**, and editor of [The Freeman](#) magazine. Visit his blog “Free Association” at www.sheldonrichman.com.*

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