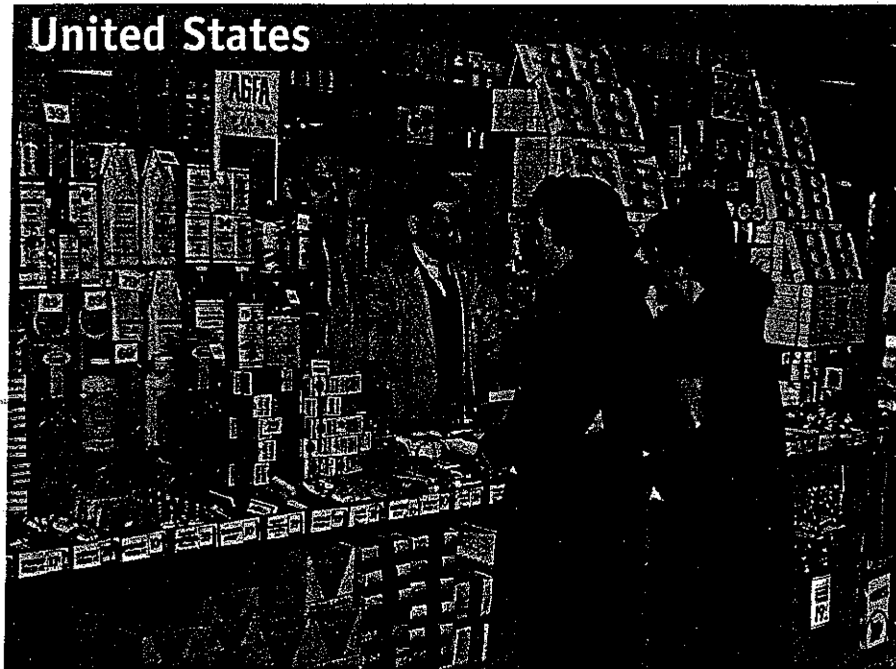

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Health care and the states

The federalist prescription

Extending health care to the uncovered, one state at a time

WITH his leg injured in a recent skiing accident, Arnold Schwarzenegger, California's governor, this week announced a plan that could change the terms of America's health-care debate. The Republican in charge of the country's most populous state, where 6.5m people, almost one resident in five, lack medical insurance, said he wants to introduce universal health-care coverage.

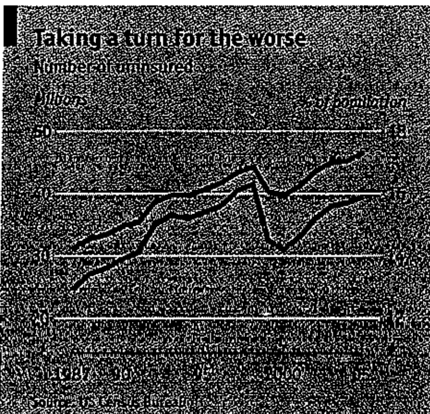
His recipe is a combination of insurance-market reform, government subsidies and—most important—compulsion. "Everyone in California must have insurance," Mr Schwarzenegger argued. "If you can't afford it, the state will help you buy it, but you must be insured."

Although the details are still sketchy, Mr Schwarzenegger's plan is very like another pioneering health-care reform that was successfully championed by another Republican governor in a strongly Democratic state. In April 2006 Mitt Romney, then the governor of Massachusetts and now a leading Republican presidential candidate, agreed on a plan for universal health-care coverage with the state's Democratic legislature. It too made health insurance mandatory, and it also included insurance reform and subsidies.

Massachusetts, and now California, have the boldest plans. But they are not the only states concerned with reducing the ranks of the uninsured. Illinois, Tennessee and Pennsylvania have pledged to insure all children. Half a dozen other states have official commissions charged with producing comprehensive reform plans this year. Could the states jump-start American health-care reform?

America has 47m people without medical insurance, around one sixth of its population. No one doubts that this is both morally vexing and economically inefficient. The uninsured get too little preventive medicine, but hospitals are, by law, obliged to offer them (expensive) emergency care, thus raising costs for everyone else. And as health-care costs have risen, and premiums with them, the ranks of the uninsured have grown (see chart).

Unfortunately, America's national debate about health-care reform has been stalled for more than a decade by a combination of ideology and political cowardice. The left argues that the solution is more government intervention; the right espouses deregulation and consumer choice to slow cost increases and so make insurance more affordable. Both sides are cowed by the memory of Hillary Clinton's disastrous failure to rewrite the rules of American medicine in 1994.



State governors have less ideological baggage. States have often been America's policy laboratories, pioneering changes that become national models. In the late 1980s and early 1990s, for instance, Wisconsin led the revolution in welfare, the system of government handouts aimed mostly at poor single mothers.

But health care has proved trickier. Massachusetts tried and failed to force employers to provide health insurance two decades ago. One problem is that the federal government controls most of the money. Medicare, the giant health scheme for the elderly, is federally financed and run. Medicaid, the scheme for the poor, is organised at the state level but co-financed with Uncle Sam. All told, state governments pay for only about 13% of America's medical spending. If you include the huge tax subsidies for employer-provided insurance, the federal government's share is almost 40%.

Nonetheless, three things suggest that state-led innovation has greater promise now than in the past. The first is the Schwarzenegger-Romney effect. Now that America's biggest state has put universal coverage at the top of its political agenda, the feds will have to take notice. Mr Romney will also ensure that health-care reform looms large in the presidential race that is already under way.

Second, the big federally-funded State Children's Health Insurance Programme ▸▸

(SCHIP) is up for renewal this year. Introduced a decade ago, it gives the states $5 billion in grants a year to help children whose families are just above the poverty line (and hence ineligible for Medicaid) get access to health care. The money comes from Washington, DC, but states can spend it as they wish. Many Democrats want to expand SCHIP. And third, several congressmen are now pushing laws that would explicitly encourage state experimentation by making it easier for states to innovate using federal money and, in some cases, by offering more money.

Bay State experimenting

A lot depends on whether the states' reforms actually appear to work. All eyes are on Massachusetts, since it is the first state actually to enact (rather than merely propose) comprehensive reform, particularly the mandatory purchase of insurance. From July 2007 every resident must have health insurance, or face a $1,000 fine. People with incomes up to three times the federal poverty threshold (almost $60,000 for a family of four) will get subsidies to buy insurance. Firms with more than ten workers must offer employees a health plan or pay the state a "contribution" of up to $295 per employee.

Massachusetts has also revamped the insurance market for individuals and small businesses. A new clearing house, the "Commonwealth Connector", is designed to offer more choice and cheaper plans for those outside big firms. People in this "Connector" will be able to offset their health insurance against tax, a perk until now available only to employers.

Forcing everyone to buy insurance is probably the only way to avoid the "adverse selection" problem that plagues health-insurance markets. Younger workers in good health avoid buying coverage, leaving higher-risk people in the insurance pool, thus driving up premiums. And if the uninsured workers fall really ill, they become free-riders on the others, since hospitals are required to treat them at public expense: had they been treated earlier, they might have been cured more cheaply.

Massachusetts's success will depend on whether its mandate actually prompts people to buy insurance. To avoid political uproar when the law kicks in, the state has left itself plenty of wriggle room. The individual mandate will not apply unless "affordable" insurance is available. But the greater the wriggle room, the less effective the mandates will be.

Experiments elsewhere in New England suggest that the voluntary route to universal health-care coverage is costly and difficult. Maine and Vermont are both trying to insure all their citizens. Both have rejigged their insurance market for individuals and small businesses. Both are offering subsidies to poorer people. But neither compels anyone to buy insurance. Vermont's plan was introduced less than a year ago. But Maine's plan has been up and running since January 2005, and its results have been disappointing. According to Cristy Gallagher of the New America Foundation, a Washington, DC, think-tank, only 15,000 people have enrolled so far. The state is a long way from covering its 130,000 uninsured citizens, while the subsidies are proving costlier than expected.

Besides, although obliging everyone to have health insurance can compensate for some of the extra cost of covering the uninsured, it does not offset it entirely. Massachusetts could push for universal coverage in part because only 10% of its citizens lack health coverage. The state was also blessed with lots of money to fund its reforms: an annual $385m pot of federal Medicaid funds, as well as $600m a year that was already being used to help reimburse hospitals for treating the uninsured. Most other states have less money and greater need. Covering California's 6.5m uninsured, for instance, will cost the public purse around $12 billion a year. Mr Schwarzenegger expects $5 billion of that money to come from the federal government. He plans to raise the rest from a mish-mash of taxes on employers, doctors and hospitals.

Going for kids

The cost of expanding health coverage explains why many states have set themselves less ambitious goals than universal insurance. One popular and attainable one is to insure all children. Only about 3% of children are both uninsured and ineligible for help under either SCHIP or Medicaid. Several states are simply expanding their SCHIP schemes to cover children higher up the income scale. Illinois allows any parents to buy into SCHIP if their children have been without health insurance for more than a year. Pennsylvania offers free coverage to families who earn up to twice the official poverty rate.

Other states, however, are concentrating on the much larger problem: low-paid workers in small firms. Only 50% of small businesses now offer health insurance, down almost 10 percentage points since 2000. Several governors are trying to stem this decline by subsidising bare-bones health insurance for these people.

Arkansas, for instance, has launched a scheme in which the state subsidises the premiums of poor workers in small firms provided every worker is enrolled. To control costs, the coverage is limited to six doctor visits and seven days in hospital a year, and two prescriptions a month. New Mexico has a similar subsidised deal for small employers with a $100,000 annual limit on coverage. Tennessee has set the premium rather than the coverage, creating an insurance plan that costs $150 a month, of which it will pay $50, though just what the plan will cover is not yet clear. The hope is that people will prefer cheap, if limited, health care to none at all.

It is tempting to pour cold water on all this state activity. The most radical innovation—forcing people to buy health insurance—may prove unenforceable. Will Massachusetts's new Democratic governor, Deval Patrick, really risk levying heavy fines on low-paid workers without health insurance? And even if the idea works at first, the model will surely collapse unless the ever-growing cost of treatment can be brought under control. As the plan's architects admit, that was not the main priority.

For now, however, such cynicism is misplaced. America's governors are focusing on an important issue that Washington has ducked for too long, and, in several cases, are tackling it with bold new ideas. Now it is up to President Bush and the new Democratic Congress to respond. ■

destruction of Israel and the deaths of a great many Jews does not seem to bother the Jewish lobbies; that, after all, is the theology of the future, and their job is the politics of today.

This knee-jerk defensiveness of Israel does not help the Jewish diaspora, at least in terms of keeping young Jews from leaving the faith. Some find the uncritical attitude to Israel distasteful; others simply find Israel irrelevant. Some strike out on their own, finding new and creative ways to explore their Judaism. But many are simply drifting away.

The tendency to stand by Israel right or wrong brings a second problem. It locks diaspora Jews out of the fateful and often bitter debates that rage inside Israel itself. Israel is an increasingly divided society. Secular and religious Jews used to have more beliefs in common, albeit for different reasons (eg, holding on to the occupied territories, whether for security or for religious redemption), but for decades their interests have been diverging. They disagree on the most basic questions: borders, who is a Jew, the role of religion, the status of non-Jews. Lately the traditional political boundaries have been melting down too. Israeli Jews swim in a sea of conflicting ideas about who they should be. Unless they agree on that, they cannot ultimately resolve their relationship with the Palestinians, including the Palestinians who are Israeli citizens.

Helping Israel should no longer mean defending it uncritically. Israel is strong enough to cope with harsh words from its friends. So diaspora institutions should, for example, feel free to criticise Israeli politicians who preach racism and intolerance, such as a recently appointed cabinet minister, Avigdor Lieberman. They should encourage lively debate about Israeli policies. Perhaps more will then add their voices to those of the millions of Israelis who believe in leaving the occupied territories so that Palestinians can have a state of their own, allowing an Israel at peace to return to its original vocation of providing a safe and democratic haven for the world's Jews. ■

Extending American health care

Sensible medicine from the states

America's governors want to expand health coverage. The federal government should help them

IF YOU had to sum up the problems of American health care in two words, they would be "cost" and "coverage". The country spends 16% of its GDP on health, around twice the average of other rich economies. Yet a sixth of the population lacks medical coverage. Most Americans receive health insurance through their employer. The government picks up the bill for the poor and elderly. But an estimated 47m people fall through the cracks—a number that is rising as premiums soar.

That so many people should be without medical coverage in the world's richest country is a disgrace. It blights the lives of the uninsured, who suffer by being unable to get access to affordable treatment at an early stage. And it casts a shadow of fear well beyond, to America's middle classes who worry about losing not just their jobs but also their health-care benefits. It is also grossly inefficient. Hospitals are forced, by law, to help anyone who arrives in the emergency room. Since those without insurance coverage usually cannot pay for that care, the bill is passed on to everyone else, driving up premiums. Higher premiums, in turn, swell the ranks of the uninsured.

Breaking that spiral would be a big step towards fixing American health care. And it is one that politicians at last seem ready to take. Not in Washington, DC, where reform is still stalled by an ideological stalemate between conservatives, who want more consumer choice, and those on the left, who think more government intervention is the answer. Instead, state governors are taking the lead (see page 27). This week Arnold Schwarzenegger laid out a plan for universal coverage in California, where 6.5m people, or almost 20% of the population, lack medical insurance. Massachusetts passed a similar plan last year, led by Mitt Romney, then governor and now a Republican presidential candidate. From Wisconsin to West Virginia, governors want to cut the ranks of the uninsured. Some are pushing reforms that might actually work.

The most promising idea is compulsion. Massachusetts was the first state in America to propose that every resident must have health insurance, or face a fine. Mr Schwarzenegger has proposed something similar. The logic is simple. Forcing people to buy health insurance eliminates free-riders, broadens the insurance risk pool and helps contain costs. No longer can the young and healthy gamble against needing a doctor, safe in the knowledge that they can free-load off those paying insurance if they find themselves in hospital.

Compelling people to buy insurance coverage will work only if several other conditions are met. Insurance markets need an overhaul so that it becomes easier for individuals to buy basic "bare-bones" coverage and harder for insurers to deny access to older workers or the chronically sick. Poorer people will need subsidies to pay their premiums. Above all, costs must be controlled; otherwise those subsidies will become prohibitively expensive and the government's programmes for the old and the poor will bust the federal budget.

In the ambulance together

States cannot meet these conditions alone, not least because the federal government foots far more of the health-care bill: Mr Schwarzenegger's numbers rely on $5 billion a year of new federal money. Expanding health coverage must be a joint effort, just as welfare reform in the early 1990s was pioneered by the states but largely paid for by the federal government. George Bush and the new Democratic Congress ought to loosen restrictions on how federal health-care money is spent and offer more cash to the boldest reformers. Federal reforms, in turn, should be focused on cost control, the area where the various state plans are weakest. Medicare and Medicaid ought to be leading the charge for cheaper treatments.

The federalist momentum may yet fizzle. Massachusetts is a small state, and Mr Schwarzenegger's ideas are far from being law. But after years of stalemate, a couple of ambitious governors have given America's health-care debate a jolt. They deserve help from Washington, DC. ■