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Not Insured, and Not Worried

by ROBERT H. FRANK

ITHACA, N.Y. -- Last week we learned that poverty in the United States has been declining of late, but now we're told that the number of Americans without health insurance has risen to 44.3 million -- 833,000 more than a year ago and 4.5 million more than when Bill Clinton took office in 1993. Even in households with annual incomes of at least \$50,000, the number of people without insurance increased last year, to 12.2 million.

In the midst of the longest sustained economic boom in history, with the lowest unemployment rate in 30 years, how is it possible that the ranks of the uninsured keep swelling?

The simple answer is that millions of American families continue to experience day-to-day financial distress. Last year, for example, one of every 68 families filed for bankruptcy, more than the number of families with children graduating from college.

Under the circumstances, it is easy to see why many families that have enjoyed good health are tempted to press their luck. After all, health coverage for a family of four with no pre-existing medical conditions costs upward of \$3,000 a year, which is almost always far more than what such a family spends on medical services. The extra cash could help pay for a move into a better school district, for example, or at least keep creditors at bay.

Of course, in the event of a catastrophic illness, the hoped-for savings would vanish, and then some. Yet many Americans ignore this possibility. In fact, most of us have an unwarranted, not to say preposterous, degree of optimism regarding our own future well-being.

Surveys reveal that we see ourselves as far more likely than our peers to earn large salaries in the future, for example, and far less likely to get divorced or suffer from lung cancer. We may know that *some* families will have health problems, but we don't think we'll be among them.

As more people cancel their health coverage, going without insurance becomes more socially acceptable. Parents who didn't buy health insurance for their families were once viewed as irresponsible, but this stigma inevitably loses its sting as the number of uninsured grows.

Making matters worse is the changing composition of the pool of the insured. As more healthy families forgo coverage, those left tend to be sicker and more costly to treat, forcing up premiums.

A similar dynamic is at work on the employer's side. Not long ago, many workers would never have considered a job that didn't offer health insurance. As more employers, particularly small businesses, offer jobs with no coverage, however, it becomes more difficult for workers to avoid them. In turn, these employers have lower operating costs, allowing them a competitive edge and putting further pressure on businesses that continue to offer such benefits.

In short, our health-insurance system is in a death spiral. Despite President Clinton's effort to expand coverage for uninsured children, we now have more uninsured children than ever. Vice President Al Gore's plan to broaden children's coverage is only a marginal improvement. Former Senator Bill Bradley's proposal would substantially broaden coverage for both children and adults, but as even he concedes, it probably would not be enough. Gov. George Bush has yet to weigh in on this issue.

The good news is that the Government could eliminate the death spiral by simply reimbursing each family up to \$3,000 a year for health insurance. Government bureaucrats would not need to prescribe which doctors we see or micromanage any of the other details. They would simply process insurance receipts and send out reimbursement checks.

This plan sounds expensive, but would actually be far less costly than the current system. The principal savings would come from delivering more cost-effective care to those who are now uninsured.

As it stands now, the untreated minor illnesses of the uninsured often develop into major illnesses, which are far more costly to treat. And when such illnesses befall the uninsured, we almost always treat them, often in costly emergency rooms. The resulting burden on hospitals leads to higher fees and increased Government support -- both of which now come largely out of the pockets of high-income taxpayers with health insurance.

The total budget needed to finance a \$3,000 health insurance reimbursement for every American family -- some \$200 billion a year -- would obviously require higher taxes. But for those whose employers currently provide health insurance, these taxes would be offset by an increase in salaries.

After all, companies offer insurance not because they are charitable, but because they find doing so an effective way to compete for workers. Any company that did not offer higher salaries to previously insured workers would risk losing them to a company that did.

A universal reimbursement program would impose no net burden on taxpayers, because of both salary adjustments and reductions in the high cost of care for the uninsured. And by providing a powerful incentive for all families to buy insurance, it would reverse the current downward spiral.

Critics of health-care reform will say that if some people want to save money by going without health insurance, that's their problem or their choice. Perhaps, but it's a problem for the rest of us as well, one that if left untended will grow steadily worse. Our unwillingness to deal with this problem is even more profoundly irrational than the uninsured family's belief in its immunity from serious illness.

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