

Cost Control and Health Care Reform

The Case for All-Payer Regulation

Joseph White Ph.D.
Luxenberg Family Professor of Public Policy
Case Western Reserve University
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Executive Summary

Successful health care reform requires effective cost control. Yet the cost control discussion to date has been dominated by proposals involving system reorganization which, however attractive in principle, have already been analyzed by the Congressional Budget Office and judged unlikely to lead to significant savings within the next decade.

The system reorganization agenda may eventually yield savings, and could be justified on other grounds. But the need to make health care more affordable requires that more immediately effective cost controls be implemented. Fortunately, a wide range of experience and evidence shows that improved price regulation based on increasing payers' market power could yield significant savings.

President Obama's campaign proposal included one way of increasing market power: creation of a voluntary, publicly-sponsored insurance plan that, building on Medicare, could control costs more effectively than private insurers have managed to do so far. Its advocates argue that private insurers would be forced to compete by finding new efficiencies, so that the combination of public and private plans would greatly improve the health care system. Representatives of the insurance industry, however, along with other interests, have protested the public plan precisely because they fear it could do a better job of controlling costs and so "unfairly" win the competition.

If that concern is serious, rather than simply an effort by existing insurers to exclude any further competitors, it can be met by *sharing the ability of the public plan to achieve lower prices*. Private plans that did not create alternative delivery models such as closed-panel HMOs or effective capitated chronic care case management would be able to pay providers by the same rates as the public plan. This kind of system of coordinated payment is known as *all-payer cost control*, and varieties of this approach explain the far superior cost control experience of countries such as France, Germany, Japan, and the Netherlands.

This paper provides evidence that rate regulation is fundamental to cost control, and on why the system reorganization agenda is quite unlikely to provide comparable savings in the necessary time frame. A companion paper (available from the author) addresses issues about how the combination of public and private plans with all-payer regulation could be implemented.