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ECONOMY

Why Public Health Insurance Could Help, Even if You Don’t Want It

Economic View

By SEEMA JAYACHANDRAN SEPT. 29, 2017

It is anyone’s guess whether Democrats will unite around the goal of creating a single-payer health care system or even take a less ambitious approach — introducing a public health insurance option.

Adding public insurance as an option in the complex American health care system has been treated as a consolation prize for those who really favor single-payer health care, but the lighter approach might pack much more punch than you might think. What’s more, the best way to see that is by looking at the Indian labor market and the Mexican grocery market.

Why should jobs in India or food in Mexico have anything to do with health care in the United States? They are linked by the logic of supply and demand, which applies in the United States and in countries very different from it — countries that the United States doesn’t turn to often enough for policy lessons.

In fact, India’s and Mexico’s experiences offer some of the best evidence on what happens when we add a public option to a marketplace: The private sector is forced to improve its game to retain customers, so more people benefit than just those who directly use the public services.

Here's how a public option could play out in American health care.

The government would begin to compete with private insurers by giving people the opportunity to buy health care coverage through an existing program like Medicaid or through an entirely new plan. Some people will buy the publicly run insurance, but many others will stick with the private insurance to which they have grown accustomed.

But the people who stick with private plans could still be helped by the public option because its mere existence will be a jolt to private insurers, which will need to reduce prices or improve quality to retain market share. Consumers who stick with private plans will enjoy those benefits — even if they never buy the public plan.

We can't really know for sure that these predictions about the health care market will materialize until we try it, but the experience of the rural labor market in India is instructive.

For the last decade, the Indian government has been running a workfare program in villages throughout the country. The program offers people welfare payments in exchange for work on infrastructure projects, like digging irrigation ditches. Every household in rural India is entitled to 100 days of this publicly paid work a year. For many families, the extra earnings are a lifeline, though these public works jobs are a small part of the total employment in most villages.

One of the program's most striking effects has been indirect, maybe even inadvertent: It has led private employers to increase the wages they offer workers. Workfare is often thought of as welfare with strings attached. But you can also think of it as the government getting into the rural employment game, hiring tens of millions of people each year. The Indian government has essentially offered a "public option" for employment.

The program has paid a daily wage that was often higher than what local employers had offered. As a result, private-sector employers needed to make their jobs more attractive to retain workers.

The government's wage served as a de facto floor on the wage others could offer for similar work. Several studies found that the program caused local wages to increase 4 percent to 5 percent when it was active. In Indian states that carried out the program most effectively, the increase in the private-sector wage was even bigger.

That higher wage applied to a vast amount of private employment, so it has added up to a lot: For each $1 the government paid out in wages, workers earned an additional 50 cents to $4.50 from higher wages in private sector jobs. The Indian government, in effect, created a matching program: For each $1 it paid out, the private sector kicked in 50 cents to $4.50 more. And this from a government program that has many deficiencies in how it is run. It suggests that even if the United States were to provide health insurance in an inefficient way, the indirect benefits to consumers could be substantial.

Shaking up the private market is especially useful if the labor market isn't very competitive to start with. Powerful employers in such a market can get away with paying a lower wage, allowing them to earn fatter profits (although this entails a probable sacrifice in output). Adding a public option to a market like this is not a zero-sum game where higher wages just shift money from employers to workers. Instead, with better paid workers, the size of the economic pie, or "surplus," increases.

In fact, there is evidence that India's workfare program has increased both wages and private employment levels. This result goes against the most familiar supply-and-demand reasoning that by increasing employers' costs, a higher wage decreases employment. That reasoning breaks down when a market isn't competitive. Lack of competition also helps explain the related counterintuitive finding that raising the minimum wage sometimes increases employment in supposedly efficient markets like the United States.

The story plays out similarly among grocery stores in Mexico. In work with colleagues, I found that the few stores that sell beans, vegetable oil and other food staples in Mexico's poor, remote villages often have considerable market power. We studied a program in which the Mexican government trucked boxes of staple foods into villages and delivered them to poor families.

For those families, the main benefit was the free food, but there was another boon: Local stores responded by reducing prices, and those prices dropped the most in villages with relatively few stores and little competition.

The counterparts to the Mexican villages with only one or two grocery stores — where prices fell a lot — are parts of the United States where only one or two insurers offer plans on the health exchanges that have come into being under the Affordable Care Act.

In Mexico and India, when the government entered the market and started competing with private businesses, those businesses felt the pressure and offered their customers or employees a better deal. If the same thing happens with health insurance in the United States, a public option might help millions of people who don't end up buying it.

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