THE WALL STREET JOURNAL.

September 22, 1993

Pricing Health Care: Biggest 'Sponger' of Health Care? Government Itself

By DOUGLAS J. BESHAROV

As part of the hard sell for their health-care reform proposals, the Clintons have complained about the "free lunch" enjoyed by companies that do not provide health-care coverage for their employees. They're right. But who's the biggest health-care sponger of all? The federal government.

In an effort to frame the coming health-care debate, the administration has focused on the unfairness of some employers paying for health coverage while others do not. The 47-page briefing book it prepared for Democratic members of Congress argues that "small businesses that provide coverage should not have to compete against other businesses that don't cover their employees. . . . When a competitor's employee doesn't have coverage and ends up in the emergency room, companies that provide insurance pick up the tab; that's just not fair."

But it is not just small businesses that do not provide health insurance. The federal government -- the biggest employer of them all -- does not provide health benefits to its temporary employees, and there are a lot of them. One in 15 federal employees is temporary; that's more than 150,000 men and women.

Some of these "temporary" employees are just that, but many others serve much longer. Recently, the nation was touched to learn about James Hudson, a 43-year-old groundskeeper at the Washington Monument who, as a temporary employee, had died without life insurance coverage for his wife and seven children. Mr. Hudson died on the job the day after working a 16-hour shift cleaning up from the Fourth of July fireworks celebration.

Mr. Hudson had been a temporary federal employee for eight years. Yes, eight years. Like so many other workers in private industry and government, he was forced to choose between low pay with fringe benefits or a decent wage with no benefits at all, including health insurance. Like millions of other low-skilled workers, he chose a decent wage.

Medicare and Medicaid also sponge off of private insurance. Using their market power, they force hospitals and other health-care providers to accept payments that are lower than the cost of their services. This is not some esoteric issue. According to the federal government's Prospective Payment Assessment Commission, Medicaid pays 82% of in-patient and out-patient costs;

Medicare pays 88%. The commission estimates that hospitals lose $15 billion a year serving these patients. In contrast, hospitals spend only about $11 billion on uninsured patients. The federal government gets this "free ride," as Mrs. Clinton would put it, only because most hospitals can charge off the difference to employer-provided private insurance.

The hidden cross-subsidies and indirect taxes that characterize our current system create many inequities and inefficiencies. But it is no solution simply to say that something is unfair and, therefore, should not be. A universal employer mandate, for example, would inexorably lead to fewer jobs for low-skilled workers and less pay for those who get them. In Hawaii, all employers are required to provide subsidized health insurance to their workers. A recent Kaiser Family Foundation survey of small businesses in that state found that 40% said that mandatory benefits forced them to reduce the number of their employees; more than 50% said that they had to restrict wage increases.

Will a universal employer mandate cause the federal government to fire some of its temporary employees? Or lower their wages? And what will happen to the hidden subsidy now given to Medicaid and Medicare by hospitals and private insurance companies?

The Clintons have promised a reformed health-care system that provides universal coverage, maintains quality and gains control over costs. They might begin by appreciating the many levels of ambiguity in our current system, including the government's own contradictory role.

Mr. Besharov is a resident scholar at the American Enterprise Institute and a visiting professor at the University of Maryland School of Public Affairs.