

Case Briefing #1: Obamacare

Do Hacker and Pierson offer a reasonable argument for the government having a role in the economy? Why or why not?

Hacker and Pierson offer a well-reasoned argument that a mixed economy is one where there is a healthy mix of private and public sectors; and that advanced states generally always have a healthy mix of the two sectors (Hacker, 2016, p.71). To better understand the private sector, it “plays the dominant role in producing and allocating goods and innovating to meet consumer demand” (Hacker, 2016, p.71). Markets were compared in an analogy, by Charles Lindblom, to “nimble and dexterous” fingers (Hacker, 2016, p.72). These fingers grow high and can move freely similar to companies developing and fulfilling market needs. On the other hand, Lindblom compared the government to a strong thumb, that was “powerful but lacking subtlety and flexibility” (Hacker, 2016, p.72). The government provides support for advancement and regulation for the greater good of society, within private sector. The government “plays a dominant or vital role in the many areas where markets fall short” (Hacker, 2016, 71).

Hacker and Pierson offer a reasonable argument for the government having a role in the economy as the government steps in to take on tasks, that the private sector will not do, due to lack of incentives. “The government is doing things that people need to get done but can’t or won’t do themselves.” (Hacker, 2015, 78) The government invests in supporting the private sector and some of the most important public goods being technical advancements, education, infrastructure, basic scientific research, to name a few (Hacker, 2016, 72). The public sector also keeps companies accountable to adhere to rules, to be trustworthy, to pay for or take care of externality debts, etc. (Hacker, 2016, 72). The government also can be utilized to enable

economic growth in the private sector, encouraging free markets, and protecting citizens from harm.

Hacker and Pierson advocate that the role of government encourages investment and economic growth, and the mixed economy as the reason for the general betterment of the standards of living as well as doubling life expectancy in the United States in the early 1900's (Hacker, 2015, p.82). Over the past century, the United States and other advanced democratic countries overcame short, nasty, and brutish lives, by leaping across the great divide during the Progressive Era, between 1890-1920 (Hacker, 2015, 88). During this time, the government stepped in to provide a backbone for the privatized business, by creating an environment for trade and markets to grow as well as fostering industrialization and economic development (Hacker, 2015, 88). Privatized business would not take as many risks without government backing, and the government was committed to bettering privatized businesses to better serve human needs. (Hacker, 2015, 88). The mixed economy can be attributed for the doubling of life expectancy in the United States, as the support of government led to rapid industry growth in the private sector, proving the importance of government's role in society.

What market failures was the ACA intended to address and how did the ACA address them?

There were two market failures Obama planned to address with the Affordable Care Act (ACA), when he took office in 2008. First, a large subset of the American population lacked accessibility to healthcare coverage, and second, the cost of healthcare premiums was increasing at high rates and in need of regulation to cap rising costs (Weinzierl, 2015, p. 2-3). Obama emphasized a need for the ACA, otherwise known as Obamacare, claiming, "We spend one and a half times more person on healthcare than any other country, but we aren't any healthier for it"

(Weinzierl, 2015, p. 3). To understand the need for universal health insurance, we can look at the insurance options available to U.S. citizens and population representation.

In the United States, there are four insurance options available to citizens. Employer sponsored insurance accounts for 60% of the U.S population (Weinzierl, 2015, p. 3&15). Elderly and poor citizens are provided with state funded Medicare and Medicaid, which accounts for 27% of the U.S. population (Weinzierl, 2015, p. 3&15). There is an option to purchase non-group health insurance, for people that can afford it, which accounts for 8% of the U.S. population (Weinzierl, 2015, p. 3&15). Finally, there were people who didn't want to purchase or couldn't afford insurance, which accounted for 18% of population (Weinzierl, 2015, p. 3&15).

The lack of coverage, with 18% of the population or 60 million uninsured people, was a major market failure Obama set out to resolve with the enactment of ACA (Weinzierl, 2015, p. 3 &15). Of the 60 million people who were uninsured, "75% came from working families, while 40% of people earned below the poverty line" (Weinzierl, 2015, p.3). Even though the United States was a powerhouse when it came to medical advancements, the provider system did not represent all United States citizens. Obamacare or ACA set out to resolve the issue of accessibility, by mandating that all US citizens purchase this new option in healthcare or another available option. If the U.S. citizen failed to purchase healthcare, there would be a penalty in tax withholdings (Weinzierl, 2015, p.6). ACA would also provide a subsidy for the poor population that simply could not afford to even purchase the plan on their means, as it imposed a significant financial constraint (Weinzierl, 2015, p.6).

The second major issue in the healthcare system Obama set out to fix with the Affordable Care Act was the rising costs of healthcare. If no regulation were to be put in place, hospitals

would continue rising prices, in turn rising prices for insurance companies and relaying higher premiums onto companies and their employees; or alternatively force increased government spend on Medicare and Medicaid. (Weinzierl, 2015, p.4) Additionally, insurance companies increased costs for people who incurred a medical emergency. (Weinzierl, 2015, p.6). ACA tried to curtail instances of insurance premium increasing by 10% at one given time, and if greater increases did take place, the “increase would have to be publicly justified and could be reviewed and blocked by the state” (Weinzierl, 2015, p.6). Additional efforts were made to avoid injustices from taking place on the insurance company level. The Affordable Care Act mandated that insurance companies were required to spend 80% money brought in on research and development and that profits and operating costs, were allocating closer to 20% for most medium sized insurance companies (Weinzierl, 2015, p.6). Costs for research and development are expensive but have allowed the United States to develop some of the best medical technology and services available to those with coverage. This allocation in funding ensures that we are more efficient with our spend, focusing efforts on medical advancements and not on big insurance business.

In addition to the three pillars, there were additional efforts made on a strategic level to ensure true healthcare reform. For example, there was a tax on the premium required on most generous plans to disincentivize people from purchasing (Weinzierl, 2015, p.7). Also, there would be a new panel in place to assess Medicare spending in addition to other provisions to the current health care system (Weinzierl, 2015, p.7). The ACA healthcare reform took great measures to ensure the accessibility of health insurance to all U.S. citizens, as well as develop a more efficient health care system that would be subject to less rapid price increases.

Considering everything you know about the ACA, do its benefits outweigh its costs? Why or why not?

The enactment of the Affordable Care Act provides the benefits that all American citizens have access to affordable and accessible healthcare, which outweighs the initial financial costs it takes to enact the new health care policies. While the Affordable Care Act is costly, with the expansion of insurance coverage projected to cost over one trillion dollars in the next 10 years (Weinzierl, 2015, p.7), there will be a re-allocating of funds as the healthcare system becomes more efficient with viable competition and fundamental restructuring over time. With additional provisions to Medicare and Medicaid, taxes on premium insurance offerings, as well as income to fund insurance from the state-run ACA options, the government will reallocate funds and continue to prevent injustices in the healthcare system from taking place while attempting to reduce excess costs (Weinzierl, 2015, p.7).

ACA will reduce health care system rapid price increases, making insurance more affordable. Not having to rely on an employer to provide health care, or to have a job to afford healthcare, is a truly amazing advancement in modern society. This now means that when someone is sick and cannot work to afford healthcare, he or she will be provided basic medical coverage to get back on their feet. Franklin D. Roosevelt would be very happy to have seen ACA be enacted (Weinzierl, 2015, p.2), as it provides US citizens with the right to accessible medical care and ability to lead a healthy life, as he first tried to enact a similar notion that healthcare is a fundamental right in 1944 but did not prevail. Accessible health coverage outweighs the initial financial burdens inflicted on society upon enacting the new healthcare policies. Healthcare should be a universal right in the United States, and that further measures should be pursued, to

further reallocate money and jobs, to make health care reform with the Affordable Care Act possible.

Resources

Hacker, J. S., & Pierson, P. (2016, May). Making America Great Again: The Case for the Mixed Economy. *Foreign Affairs*. <https://www.foreignaffairs.com/articles/united-states/2016-03-21/making-america-great-again>

Weinzierl, M. W., & Flanagan, K. F. (2015). Obamacare. *Harvard Business School*, 1–23. <https://www.hbs.edu/faculty/Pages/item.aspx?num=45917>

Who pays the lowest taxes in the US? (2019, December 20). [Video]. YouTube. <https://www.youtube.com/watch?v=kXCGbAv8YPw&feature=youtu.be>