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The Ghosts of Clintoncare

By Ezra Klein
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Barack Obama's strategy to pass health-care reform seems based on a simple principle: Whatever Bill Clinton did, do the opposite.

Where Clinton and his team crafted their health-care reform plan in the executive branch, Obama has left the details of his effort almost entirely to Congress. Where Clinton pursued an ambitious reconstruction of the entire sector, Obama has sought to preserve existing insurance arrangements and win the support of industry players. Where Clinton spent a year developing his bill before even getting to Congress, Obama lashed his efforts to a tight (and apparently unrealizable) timetable. Even the atmospherics offer contrasts: Clinton's big push for reform came in a soaring 1993 speech before a joint session of Congress, in which he offered painstaking details of his plans; Obama made his argument to the nation at a news conference last week, addressing concerns more than specifying proposals.

Obama's reluctance to follow Clinton's example is understandable: Few legislative failures have been as catastrophic as Clinton's on health-care reform. Yet the ghosts of the early 1990s still hover over today's debates.

Much as opponents derided the Clinton effort as Clintoncare or Hillarycare, some now speak of Obamacare, and Sen. Jim DeMint (R-S.C.) recently chortled in a conference call that a defeat on health care would be Obama's "Waterloo." The president, for his part, told PBS's Jim Lehrer last week that some Republicans are engaging in a 1994 redux. "They explicitly went after the Clintons, said: 'We're not going to get this done.' . . . It was a pure political play, a show of strength by the Republicans that helped them regain the House," Obama said. "I think there are folks who think that we should try to dust off that old playbook."

Yet there are aspects of Clinton's approach that could, and should, inform Obama's effort -- and not just as examples of what not to do. Clinton's attempt to remake health care may be remembered now as a moment of colossal hubris and epic political misjudgment, but his project was bedeviled by a greater sin: prescience. Clinton got the politics of reform wrong, but in important ways, he got the policy right. He just got it right too soon.

By the time Clinton and his team took office, the insurance market was changing. American consumers had traditionally relied on the most straightforward of insurance products: indemnity insurance. You went to the doctor or hospital of your choice, and that doctor or hospital sent your insurer the bill. Hopefully, your insurer paid it. That was that. The plans weren't confined to networks tangled in deductibles and co-pays. But they weren't holding down costs, either, and the system was becoming unaffordable. Managed care, a new system that was rapidly emerging, envisioned a more central role for insurers. After all, they were paying for your treatment, so why shouldn't they get some say in how it was conducted?

The managed-care revolution of the mid-90s was, by the early years of that decade, clearly inevitable; the financing and delivery of health care could not remain separate forever. But this was a dangerous change. Insurers make money by denying claims. Money they spend on health care is money they lose (they even have a name for it: the "medical-loss ratio"). Private insurance is a bit like a fire department that turns a profit by letting buildings burn down.

So Clinton sought to cage managed care inside managed competition, which would regulate the behavior of insurers and force them to compete for patients. This would give consumers more power against their insurance companies, drive the bad actors from the market and generally protect against the excesses of managed care. Clinton's plan also included a handful of other safeguards, like out-of-pocket caps and an independent appeals process, designed to protect consumers from deficient insurance.

"Clinton attempted to grapple with that change that was coming," recalls Sara Rosenbaum, director of George Washington University's School of Public Health and Health Services and one of the lead drafters of Clinton's bill, "but to also make sure that there would be a higher power than just the market."

But if Clinton's team of enlightened wonks could glimpse managed care over the horizon, the public wasn't as farsighted. Bill and Hillary weren't seen as meeting and taming the managed-care revolution. The act of writing legislation that included managed care made it seem as if they were proposing it. And there was no political margin in that. Managed care, after all, means less choice. It means provider networks and insurance bureaucrats and complexity. It would have been a hard sell under any circumstances, but the Clinton administration's chaotic political operation and continual drip of scandals made the job virtually impossible. The plan died a painful and public death in Congress and contributed to the GOP's huge gains in the 1994 elections.

But then a funny thing happened: Managed care came anyway. By last year, only 7 percent of American workers were in "traditional" indemnity health plans, while the rest of us -- or at least those of us fortunate enough to have insurance -- were swimming in the alphabet soup of HMOs and PPOs and HDHPs. We're all in networks now. We don't get our choice of doctor. There's no appeals process. No out-of-pocket caps. Nothing to stop insurers from rejecting our coverage applications based on preexisting conditions. And if we don't like our insurer? Tough.

"We got managed care," says Chris Jennings, who was one of Clinton's top health-care staffers. "But we didn't get the things that would protect us from managed care. We got the Wild West version of it."

In the modern health-care system, there is no higher power than the insurance market. And the insurers who populate that market have grown all the stronger. The Justice Department judges an industry "highly concentrated" if a single company controls more than 42 percent of the market. By that definition, 94 percent of statewide insurance markets are highly concentrated. A recent study by the advocacy organization Health Care for America Now showed that in Indiana, WellPoint controls 60 percent of the insurance market; in Iowa, Wellmark accounts for 71 percent; and in Alabama, Blue Cross/Blue Shield holds 83 percent. In the past 13 years, there have been more than 400 corporate mergers involving health insurers.

Economics textbooks tell us that concentrated markets reduce the competitive behavior that benefits consumers and lead to outsize profits for the dominant firms. Predictably, health-care premiums shot up more than 90 percent between 2000 and 2007, while the profits of the 10 largest insurers increased 428 percent over the same period. Clinton had promised us managed care within managed competition. Instead, the insurers took control of our care and managed to effectively end competition. Neat trick.

This has not gone totally unnoticed in the political system. In September 2007, a young senator lamented that the number of insurers had fallen by 20 percent since 2000. The senator? Barack Obama.

All of this has led to an interesting reversal in this year's health-care debate. In 1994, people feared that Clinton would restrict their choices. In 2009, people want Obama to bring their choices back. On June 2, Obama sent Sens. Ted Kennedy and Max Baucus, key players on reform, a letter laying out his "core belief" on a health overhaul: "that Americans should have better choices for health insurance." He's tapping into something. A Washington Post-ABC News poll last month showed that 62 percent of Americans support the choice of a public insurance option. It's one of the most popular aspects of health-care reform. But if the public option would drive private insurers out of business and reduce consumer choice, the numbers flip, with 58 percent opposing it.

What people support, in other words, is not public or private insurance, but choice in insurance. That, along with protection from escalating costs, is the inviolable principle of health-care reform.

The irony is that some of the health reform proposals on the table this year are a bit of back to the future. The health insurance exchanges that Obama envisions -- regulated markets that the government would set up where insurers would compete for business -- are the successors to the managed competition that Clinton sought. The regulations on insurer behavior and the out-of-pocket caps are direct descendants of the Clinton bill.

There are important ways, however, in which the bills currently working their way through Congress do not go as far as Clinton's plan did 15 years ago. In attempting to ensure that Americans can keep the coverage they like, they do not always ensure that people can leave insurers they do not like. The insurance exchanges, in particular, are limited to the self-employed, the uninsured and small businesses. Someone who works for a larger employer would not have any more choice under these proposals. Indeed, the problem with trying to make sure that everyone can keep what they have is that you can't change very much. This makes it hard for advocates to explain exactly how health-care reform will improve conditions for the insured, at least in the short term.

Many in the White House say this is not a bug in the proposed system; it's a deliberate feature. The lesson of Clintoncare was that even if the American people want reform, they do not necessarily want change. And so Obama's health-care strategy involves a delicate effort to answer the question that doomed Clinton: How do you reform the health-care system without substantially changing it?

But this is not the early 1990s. The indemnity insurance that most Americans enjoyed then is virtually nonexistent today. The mergers and takeovers and consolidations in the insurance market have given people less choice and thus less power. Today, the cost issue is more acute, the president is more popular, the Democrats have more seats in Congress, and the Republicans are more fractured. Obama, in other words, was right to dismiss those who would "dust off that old playbook."

But the ghosts still hover. Republicans are fixated on what worked for them in the last health-care battle, and Democrats are overly concerned with what contributed to their failure. Just as Clinton's plan was weighed down by the impression that it would change too much, history may leave Obama's effort vulnerable to the charge that it is changing too little.

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