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## Politicians on Drugs

By PAUL KRUGMAN

**Y**esterday House Republicans announced their prescription drug plan for retirees. It was, of course, an election-year gesture. So, to be sure, was last week's rival announcement by Senate Democrats. Soon each side will be accusing the other of obstructionism. What's a voter to think?

The short answer is that the Senate Democrats have a plan that can be criticized but is definitely workable. The House Republicans, by contrast, have a plan that would quickly turn into a fiasco — but not, of course, until after the next election.

Why should we have prescription drug insurance in the first place? One answer is that the voters want it. A better answer is that it is needed to preserve Medicare's original mission: to ensure that all retired Americans have access to necessary health care.

The omission of prescription drug coverage from Medicare was less a policy decision than an oversight; when the program was created, prescription drugs were not a major expense. But since then there has been a pharmacological revolution in medicine, especially for the elderly. And with sustained use of expensive drugs so essential to millions of people, what was a small omission has become a gaping hole.

Patching that hole would be expensive, but not prohibitively so. The Senate Democratic plan would cost about \$500 billion over the next decade; if we could afford that \$1.35 trillion tax cut, we can afford prescription drug coverage — and if we can't afford both, why not reconsider some of the tax cut? Just by canceling future cuts for the top income tax bracket, and retaining current taxes on estates over \$3 million, Congress could save enough revenue to pay for the Senate Democrats' plan — and adversely affect only a handful of very affluent families.

Of course, the House Republican plan, with a price tag of \$350 billion, looks even more affordable. What's wrong with it?

One answer is that in order to save that \$150 billion, the Republican plan leaves many truly needy retirees behind. The Senate Democratic plan imposes fairly hefty co-payments, but then covers all subsequent expenses. The House Republican plan provides pretty good coverage for the first \$1,000 in expenses, much less coverage for the next \$1,000, and nothing at all after that

until you reach a \$4,500 annual limit. So a retiree with, say, \$6,000 in drug expenses would find himself paying the full \$4,500 — a crippling expense for many families.

Anyway, all that is hypothetical, because according to early reports the House Republican plan has an even bigger flaw: instead of providing insurance directly, it will subsidize insurance companies to provide the coverage.

The theory, apparently, is that competition among private insurance providers would somehow lead to lower costs. In fact, the almost certain result would be an embarrassing fiasco, because the subsidy would have few if any takers. The trouble with drug insurance, from a private insurer's point of view, is that some people have much higher drug expenses than the average, while others have expenses that are much lower — and both sets of people know who they are. This means that any company that tries to offer drug insurance will find that if it tries to offer a plan whose premiums reflect average drug costs, the only takers will be those who have above-average drug costs.

A similar problem of "adverse selection" affects all insurance, but in the case of ordinary health insurance the differences in predictable expenses among individuals are narrow enough that companies can still design policies that both protect individuals and pay their way. In the case of prescription drug coverage for the elderly, insurance companies have decided that there is no viable business model — and there is no reason to believe that the House Republicans have found a way to change their minds.

So that's the situation. Senate Democrats have a plan that is sensible and workable, but House Republicans surely won't agree to anything resembling that plan. Senate Democrats might be bullied into something resembling the House Republican plan, but since that plan is completely unworkable, that's the same as getting no drug plan at all — which, I suspect, is what the Republican leaders really want in any case.

Some retired Americans may still think that they'll soon be getting prescription drug coverage under Medicare. They should live so long.

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