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“Bürgerversicherung” (Citizens’ Insurance)

Every man on board the sinking ship!

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In the current political discussion, the idea of a citizen’s insurance has received wide approval across and political parties. And at first glance the idea appears to be cogent: can it be just that 90% of the population are forced into the mandatory health insurance system while the remaining 10%, composed largely of high-income earners with low risks, have the possibility to remain outside of this deliberately re-distributive insurance system?

Extending compulsory insurance to cover the whole population, according to the argument in favour of a citizens’ insurance, would create more justness in the system. At the same time, at least for a short period of time, it would serve to alleviate the problems of funding that exist in the compulsory health insurance, because those insurees with private insurance would pay above average contributions and – owing to their on average low cost risk – they would receive an under-average amount of services in return. It would seem that one cannot ignore the logic of this argument. And yet, nevertheless, it is fundamentally wrong. It is true that an expansion of the compulsory health insurance system, in the short term, will inevitably lead to relieving the burden for the existing insurance group if the “newcomers” are good risks in the sense mentioned above. But to what extent would this solve the problems that bedevil the compulsory health insurance?

The present financial problems of the compulsory health insurance system are merely a bland foretaste of what our society, in view of the demographic changes and the advances being made in the medical field, can expect to be faced with in the forthcoming decades. Serious estimates show that if the current principles for the provision of services are maintained, the base rate for calculating the price of contributions to the compulsory health insurance

will increase to 20–30% of earned income. The cause of this problem is rooted in the logic of the compulsory health insurance system which to a large extent relies on inter-generational redistribution: the system builds no capital reserves, but instead, funds the services in any given period by the contributions received in that same period. Since the costs for health care increase with age, health insurance is similar in its economic effects to the compulsory pension insurance, which is based on the same mechanism. The private health insurance is largely based on a different model. Either a part of the contributions of a young cohort is saved directly to meet higher expenses in old age, or the young cohort can reckon on increases in contributions in his old age. Every individual is then free to build up a capital stock when young in order to smooth effective contributions over the lifecycle. As a consequence, this type of insurance is far less vulnerable to demographic changes than the compulsory health insurance. As a consequence, every expansion of the group of individuals that are members of the compulsory insurance system today increases the extent of inter-generational redistribution. This, however, implies that the long-run problems of the health-care system will not be solved but indeed exacerbated. One is relaxing the short-run problems of the system at the price of destabilising that very system in the long run. We cannot save a sinking ship by taking more people on board to bail the water out. Though this may defer the moment of sinking, in the end, even more people will perish to their death. The only correct solution is to repair the leak. The current popularity of a citizens' insurance is not a result of its structural superiority in comparison with the system applied so far, but follows from the logic of the political system: politicians mainly focus on short-term solutions because this minimizes political pressures and, by the same token, maximizes the probability of re-election. This narrow-mindedness is not only fatal because it does not result in sustainable solutions to the current problems, but also because it makes it impossible for long-term planning of the citizens, and thus destabilizes the economy by destroying stable expectations. The announcement made by the Federal Health Ministry, just to take one example, that in the year 2010 at the latest the next fundamental reform will be necessary is an illustration of the current trend towards annual once-in-a-lifetime reforms.

Various reform options are currently under discussion in order to “solve” the crisis of the welfare state. All these reform options share a common feature, a hitherto unprecedented willingness of the politicians to sacrifice the liberal rights of the citizens. How else, for example, should we interpret the proposal to introduce a one-year period of compulsory social service? We cannot – as it has been claimed – educate the young generation in social responsibility by the introduction of forced labour (it is a fatal error to imagine that social capital can simply be prescribed by compulsory legislation). Instead, this is nothing more than a convenient opportunity for alleviating the state of emergency in the health care services.

In the end, such a path does not lead to new responsibility but rather to a centrally governed, bureaucratic society. But one cannot simply blame the politicians for acting in this way. In the end it is the general public that holds the responsibility in any democratic system. It must be the people that have to be fed up with short-termed “once-in-a-lifetime reforms” and that has to urge for sustainable, long-term solutions instead. What could

such a solution look like? There are only two options for system reforms that can solve the problems of the foreseeable future: an increase in the rate of contributions or a decrease in the services provided. If one assumes that there are limits to the acceptance of increased contributions, one is obliged to consider a reduction in services. The current proposals to exclude certain particularly cost-intensive forms of therapy appear unsuitable for two reasons. For one thing, we know from insurance theory that individuals prefer the insurance of unlikely but expensive risks to the insurance of likely but inexpensive risks, if both have the same expected value. This theoretical argument is supported by the empirical fact that individuals who are privately insured often opt for a co-payment. And secondly, cost-intensive forms of therapy, in a world with rapidly advancing progress in the field of medicine, are largely systemic risks, and markets do not work efficiently when faced with these type of risks. The reason is that increases in costs due to medical progress cannot be adequately anticipated. As a result, any market for insurance against these risks would either break down or end up with compulsory intergenerational redistribution.

What is the alternative? A reasonable operationalization of the principle of solidarity is to help those people that are in need. This principle does not imply that the general public should cover the costs for a routine visit to the doctor, except for in well-founded exceptional cases, of course. Instead, what the principle implies is to share the costs incurred through serious and expensive illness that exceed the financial capacity of the individual. Therefore, a viable way to reform the compulsory health insurance is to incorporate a substantial co-payment. Naturally, the savings potential of such a system of co-payment is limited because of the over-proportional increase in health-care costs over the lifecycle, assuming that there is an upper limit to co-payments. It nevertheless should be a substantial component of any reform.

The savings could be partially passed on to the insurees in the form of a reduction of contributions, but for the larger part they would have to be saved up so as to create provisions against future development. Such a model may give rise to a painful process of re-thinking when the costs of treatment of an ordinary cold is no longer financed by the general public and, of course, special regulations must be found to prevent social hardship. Such a reform of the system would be an important step towards financial sustainability and constitute a new, reasonable definition of the concept of solidarity.

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