

The privatization of Wisconsin Blue Cross Blue Shield: Public and private goods

Dennis L. Dresang, PhD

Fundamental to sound policy analysis is the distinction between public goods and private goods. This is a distinction that should be made when considering the privatization of Wisconsin Blue Cross Blue Shield. A key component of the dissolution of Wisconsin Blue Cross Blue Shield was the transfer of its assets to a foundation, the Wisconsin United for Health Foundation. This foundation was established to review plans of the Medical College of Wisconsin and the University of Wisconsin Medical School (today the UW School of Medicine and Public Health) for the use of the funds and then provide them with the funds.

The transfer of assets to an educational and research organization was designed to keep public goods as public goods. As the term implies, public goods serve everyone, whereas private goods benefit individuals. Organizations may register as nonprofit and receive tax exemptions if they demonstrate that they are serving public interests. Blue Cross obviously met the criteria when it was first chartered.

It is important to note that public policies regarding nonprofit organizations are sensitive to the possibility that some of these institutions may outlive their usefulness. One scenario—which applies to Wisconsin Blue Cross Blue Shield—is that

for-profit organizations may start offering the same services as the nonprofit. Our country generally prefers the efficiencies to be gained by market competition and feels uncomfortable having nonprofit organizations compete with businesses. The tax-exempt advantages available to the nonprofit are typically considered unfair. It makes more sense to dissolve the nonprofit and benefit not only from market competition, but from the taxes levied on businesses, like insurance companies.

The transfer of funds from the Wisconsin United for Health Foundation to the state's medical schools kept those assets as investments in the public sector. The education of health care professionals and medical research are clearly public goods. We all are better off when there are breakthroughs in basic and applied medical science. Not only individuals, but families, communities, and society generally benefit from well-trained health care professionals.

A narrow analysis of the privatization of Wisconsin Blue Cross Blue Shield is bound to be faulty and misleading. A focus on severance payments to executives and earnings of investors in private insurance companies fails to include the most important feature—in funds and in concept—of the privatization process: the significant enhancement of the capacities of the 2 major research and educational institutions in the state to serve the public interest. An assertion, without supporting evi-

dence, that the poor were neglected while the rich got richer does not include in the benefit-cost equation the public goods reaped from substantial new resources provided to our medical schools. Those schools are spending 35% of these resources on public health and 65% on education and research—each of which provides long-term as well as immediate benefits to society.

There are, of course, some linkages between public and private goods. We, for example, tax the earnings of businesses and use the revenue for public services. Individuals, as well as societies, benefit from medical research and a good supply of trained health care professionals. But the distinction between public and private goods remains, despite the linkages. This is especially true for research. Breakthroughs emerge from lots of misses and near-hits. Societies and economies that benefit from breakthroughs must be willing and able to invest considerable funds in basic and applied research projects, knowing that not every project will contribute to our knowledge and abilities.

Wisconsin—and the world outside of our borders—is fortunate to have gotten a major infusion of resources into our medical schools. A critique that fails to consider the public goods served by the privatization of Wisconsin Blue Cross Blue Shield is not only flawed, but blinds us to the central concern of applicable public policies and the major contributions of our medical schools.

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