

THE FINANCIAL PAGE STATUS-QUO ANXIETY

There are times when Americans' attitude toward health-care reform seems a bit like St. Augustine's take on chastity: Give it to us, Lord, but not yet. In theory, the public overwhelmingly supports reform—earlier this year, polls showed big majorities in favor of fundamental change. But, when it comes to actually making fundamental change, people go all wobbly. Just about half of all Americans now disapprove of the way the Obama Administration is handling health care.

In part, of course, this is because of the non-stop demonization of the Obama plan. But the public's skittishness about overhauling the system also reflects something else: the deep-seated psychological biases that make people resistant to change. Most of us, for instance, are prey to the so-called "endowment effect": the mere fact that you own something leads you to overvalue it. A simple demonstration of this was an experiment in which some students in a class were given coffee mugs emblazoned with their school's logo and asked how much they would demand to sell them, while others in the class were asked how much they would pay to buy them. Instead of valuing the mugs similarly, the new owners of the mugs demanded more than twice as much as the buyers were willing to pay. The academics Ziv Carmon and Dan Ariely showed the same thing in a real-world experiment: posing as ticket scalpers, they phoned people who had entered a raffle to win tickets to a Duke basketball game. People who hadn't won tickets were willing to pay, on average, a hundred and seventy dollars to get into the game. But those who had won tickets wanted twenty-four hundred dollars to part with them. In other words, those who had, by pure luck, won the tickets thought the ducats were fourteen times as valuable as those who hadn't.

What this suggests about health care is that, if people have insurance, most will value it highly, no matter how flawed the current system. And, in fact, more than seventy per cent of Americans say they're satisfied with their current coverage. More

strikingly, talk of changing the system may actually accentuate the endowment effect. Last year, a Rasmussen poll found that only twenty-nine per cent of likely voters rated the U.S. health-care system good or excellent. Yet when Americans were asked the very same question last month, forty-eight per cent rated it that highly. The American health-care system didn't suddenly improve over the past eleven months. People just feel it's working better because they're being asked to contemplate changing it.

Compounding the endowment effect is what economists dub the "status-quo bias." Myriad studies have shown that, even if you set ownership aside, most people are inclined to keep things as they



are: when it comes to things like 401(k)s, for instance, people tend to adopt whatever their company's default option is, and with things like asset allocation or insurance plans people tend to stick with whatever they start with. Just designating an option as the status quo makes people rate it more highly. Some of this may be the result of simple inertia, but our hesitancy to change is also driven by our aversion to loss. Behavioral economists have established that we feel the pain of losses more than we enjoy the pleasure of gains. So when we think about change we focus more on what we might lose rather than on what we might get. Even people who aren't all that happy with the current system, then, are still likely to feel

anxious about whatever will replace it.

Such anxieties have certainly been stoked by the reams of disinformation that have been spread about the Obama plan. They may also have been exacerbated by the Obama Administration's initial emphasis on the way the plan would help hold down health-care costs. This approach was understandable: most people think health care is too expensive, so the ability to hold down costs seems like a selling point for the plan. The problem is that once you start talking about cost-cutting you make people think about what they might have to give up. And that makes them value what they have more highly.

Still, just because you can't change human nature doesn't mean you can't change health care. The key may be to work with, rather than against, people's desire for security. That's surely one reason that Obama has consistently promised people that if they like the health insurance they currently have they can keep it. This promise will make whatever reform we get more inefficient and less comprehensive, but it also assuages people's anxieties. It might even be possible to use the endowment effect and the status-quo bias in the argument for change. After all, although people tend to *feel* that they own their health insurance, their entitlement is distinctly tenuous. Because it's hard for individuals to get affordable health insurance, and most people are insured through work, keeping your insurance means keeping your job. But in today's economy there's obviously no guarantee that you can do that. On top of that, even if you have insurance there's a small but meaningful chance that when you actually get sick you'll find out that your insurance doesn't cover what you thought it did (in the case of what's called "rescission"). In other words, the endowment that insured people want to hold on to is much shakier than it appears. Changing the system so that individuals can get affordable health care, while banning bad behavior on the part of insurance companies, will actually make it more likely, not less, that people will get to preserve their current level of coverage. The message, in other words, should be: if we want to protect the status quo, we need to reform it.

—James Surowiecki