

THE UNINTENDED CONSEQUENCES OF SINGLE-PAYER HEALTH CARE

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Life is full of uncertainty. Everyone knows this, and devotes most of their energy in both personal and professional lives to actions and decisions that reduce their feelings of insecurity. With the middle class shrunken and destabilized by rising income inequality (the 400 richest Americans now own more than the bottom 150 million¹), wide swaths of the population have lost their sense of security and confidence in their future. Insecure people will seek new and often unconventional solutions to relieve their fears, which explains the public's newfound interest in single-payer health care.

Now that some form of universal health care is a topic of everyday political debate, it's important to consider certain realities:

1. None of the proposals being considered will be enacted in their current form. Aside from Republican opposition to single-payer based on ideological resistance to the growth of central government, the health care and insurance industries have already mobilized to assault it.²

The innocuously named Partnership for America's Healthcare Future³ has more than 25 members, including the American Medical Association, the American Hospital Association, and the nation's Blue Cross and Blue Shield plans. It has issued a barrage of online and print advertising that revives the argument (previously used against the Affordable Care Act) that Medicare for all will require tax increases and give politicians and bureaucrats control of medical decisions now made by doctors and patients.

The core message on their website³ is that "Every American deserves access to affordable, high-quality health care. It's time we build on what's working in our health care system and fix what's broken – not start over with a one-size-fits-all, new government health insurance system we can't afford. We should work together to lower costs for every American by increasing competition in the free market and giving everyone greater choice and control over their coverage and care."

Superficially, that sounds like one reasonable approach to health care reform, except that our experience over the past 100 years has convincingly proven

that the unregulated free market cannot lower health care costs. That's why the original plan for the ACA included a government option that would have put downward pressure on insurance premiums. I wish that restoring the government option is what they mean by "increased competition," but I don't think so.

Even if the next president is a Democrat who favors radical reform, he or she will face an annual budget deficit of a trillion dollars, and the impetus will be to cut spending. Further, predictions about the financial consequences of single-payer are entirely hypothetical, and published estimates of its cost range from "over the long term it will cost trillions of dollars," to "it will save trillions of dollars." Clearly, no one knows.

When Sen. Bernie Sanders introduced HR 676 (single-payer health care), the *Wall Street Journal* proclaimed that it would increase federal spending for health care \$15 trillion over 10 years.⁴ Since the WSJ opposes measures that expand the federal government, they avoided mentioning that the increase in federal spending would reduce comparable expenditures by individuals and state and local governments.

Sanders' supporters counter that as a country we would instead save nearly \$5 trillion over 10 years in reduced administrative waste, lower pharmaceutical and device prices, and – possibly – by lowering the rate of medical inflation. Beyond the financial savings of eliminating insurance premiums, co-payments and deductibles, HR 676 would save lives by expanding access to health care for the uninsured and underinsured.

No one can be certain about the cost numbers, but one thing is certain: the average American will not gain security without giving up something in return. Under any single-payer system there may be less choice of physician, longer waits for procedures, and some rationing of care (although it certainly won't be called that). Only the public knows what it values most, and that differs among individuals. In discussing the popularity of different proposals to change health care, it is well to remember the axiom that "economists know the cost of everything but the value of nothing."

Lastly, it's relevant that – contrary to conventional

wisdom – our high cost of health care isn't the financial burden on our economy it is made out to be, because health care is almost entirely a domestic industry that employs 10%-15% of the labor force, depending on the state. The salaries, wages, and fringe benefits that make up an average of 50%-60% of a hospital's operating costs flow back into the economy.

2. The main drivers of high cost in our current system are high prices and administrative overhead, which currently takes about 20 cents of every health care dollar. Any single-payer system will reduce prices and sharply reduce administrative overhead, which will shrink but not eliminate the role of insurance companies, since even Medicare uses regional insurers to administer its payments. Regardless, there will be massive unemployment for certain health industry employees.

To an economist, Schumpeter's "creative destruction" means that in a capitalist economy you can't make an omelet without breaking eggs. But for the workers displaced in the process, it's not a theory. Still, it has been credibly argued that our patchwork health care system is a wildly inefficient jobs program,⁵ and the loss of as many as 2 million jobs will actually be good.

3. Any single-payer system would have obvious and largely positive consequences in terms of access and affordability, but it would also have unforeseeable (and largely negative) consequences that are obscure and largely undiscussed. (There are surely many that Donald Rumsfeld would have termed "unknown unknowns," but – by definition – we don't know anything about them so we can't discuss them.)

When President Trump said, in February 2017, "no one knew health care could be so complicated," most were amused, since even those outside the health care system know it's complex. But you must be inside it to realize it's even more complex than it seems, with so many interacting parts.

For example, if you lower physician's fees, how will doctors repay their massive education loans? If you forgive loans, you've provided an incentive for everyone to borrow money in school, even if they can afford tuition. Maybe you'll just pay younger doctors more because they're the ones with loans, but then you're saying that

doctors will make less as they get more experienced and presumably more skilled. And where will the money come from to forgive those loans? From the same education budget that's going to give everyone free college tuition?

Unintended consequences also will follow any reduction in hospital reimbursements. Current Medicare payments are inadequate, and hospitals rely on the higher payments they receive from private insurers and on patient co-pays to meet their operating expenses and accumulate capital for improvements. Depending on a hospital's local market dominance, which affects their negotiating strength, payments from private insurers can be more than double Medicare rates. Single-payer proposals to pay 115% of Medicare won't make up the difference even for strong hospital systems. Many smaller hospitals, particularly in rural and otherwise underserved areas, will close, not only hurting access to care, but destroying the economy in many small communities where the hospital is a major, or even the largest, employer.

4. Finally, regardless of the reasons why health care costs so much now, the main driver of future increases in cost is the relentless advance of medical science and technology. CT scanning, magnetic resonance imaging, and proton beam therapy have been exorbitantly expensive innovations, and more will follow. Hospitals need the capital to acquire and maintain them, as well as to train and pay the skilled staff that operate them.

The consequences of lack of capital for hospitals won't arrive with a thunderclap, but will be insidious, playing out over time at different rates for different hospitals, depending on the age of their existing facilities, equipment, and technology. There will be a slow downward spiral that may take a decade before the full extent of the damage is manifest.

5. As a final word on unintended consequences, the looming threat of climate change will have such catastrophic and still unknown threats to health that any long-term plans for our health care system are likely to be disrupted in ways we cannot now imagine.

Clearly, any pronouncements about the future of health care should be viewed with extreme skepticism.

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