
Why Not Medicare for All?

By Randall Wray *Wed, Aug 9, 2017*

The debate over 'repeal and replace' has made it clear that if we are serious about providing universal healthcare to Americans, the only sensible option is single payer, writes our guest columnist, an economist at the Levy Economics Institute of Bard College.



Republicans have so far failed to make good on their promise to repeal Obamacare—or even to replace it with a mean-spirited version that would kick tens of millions off insurance. Obamacare itself however left 28 million Americans completely uninsured and tens of millions more with unaffordable copayments, deductibles and uncovered services.

That's why the Affordable Care Act has been vulnerable to Republican attacks. Obamacare is ultimately politically unsustainable because it relies too much on a private, for-profit insurance system to pay for healthcare. It is time to abandon this overly complex and expensive payments system and reconsider a single-payer system.

Basic healthcare is not insurable

The provision of healthcare is far more expensive (as a percentage of GDP) in the U.S. than in other developed capitalist countries, with no better outcomes. Other nations use a variety of methods of provisioning and paying for healthcare, ranging from full-on “socialization” with government ownership of the hospitals to market-based private ownership of medical practices.

Many use a single-payer system (whether provision of healthcare is nationalized or privatized), with government covering the costs, while some use private insurers. The U.S. is unique in relying so extensively on private *for-profit* insurers. In other countries that allow participation by private insurers, these are run more like heavily regulated, not-for-profit charities.

It is important to understand that insurance is supposed to be a bad deal for the insured. The idea behind it is that you pay small premiums to cover rare but expensive calamitous events. You pay for fire and auto insurance, for instance, over most of your life and hope that you will never have to collect benefits. Your premiums cover the insurance company's payouts, plus their administrative costs and profits. Insurance is a good deal only when you're unlucky.

Healthcare is much different from losses due to fire or automobile crashes. It is not rare. Most of our healthcare needs are routine (prenatal, birthing, and well-baby care; braces for the kids' teeth; annual checkups and vaccinations) or due to chronic illness. Routine healthcare is not analogous to an “act of god” that destroys your house: it is predictable, welcome, and life enhancing.

Because it is both common and expensive, basic healthcare is not an insurable expense. Pre-existing conditions are not, in principle, insurable either: it is like purchasing insurance on a house that has just

caught fire. The premiums that should be charged to cover a chronic, preexisting condition would be equal to the expected cost of treatments plus the insurer's operating costs and profits. The patient would be better off simply paying for the healthcare costs out of pocket.

Everyone into the pool

Social Security and Medicare provide a model for reform along single-payer lines. Social Security's old-age retirement plan is nearly universal, with the federal government acting as the single payer. Medicare is universal for those over age 65 and the main part of it is single payer, with the federal government making the payments.

Both of these programs impose a payroll tax and both build reserves to provide for an aging population. This is simultaneously a strength ("I paid in, so I deserve the benefits; it is not welfare") and a weakness (intergenerational warriors continually foresee bankruptcy).

But we can look at the taxes another way, from the perspective of the economy as a whole. Taxing today's workers reduces their net income, which reduces their spending. This frees resources that can be redirected to caring for the needs of today's elderly; government spending on retirement and healthcare ensure that some of the resources are directed to satisfying those needs.

Since wages today account for less than half of national income, it would be better to broaden the tax base beyond payrolls. We should also tax other income sources, such as profits, capital gains, rents, and interest.

What is the right balance between spending and taxes? Let us pose two extremes. In the first case, the economy has enough spare resources to provide healthcare for all. The single-payer government simply spends enough to provide adequate healthcare with no additional taxes required.

In the second case, let us presume the economy is already at full employment of all resources. To move some of the employed resources into the healthcare sector, the government needs to impose taxes sufficient to reduce consumption and investment spending to free up resources for healthcare. It then spends to reemploy those resources in the healthcare sector.

The more likely case is somewhere between those two extremes, so that a combination of increased taxes and spending by the single payer can free up and move resources to provide healthcare for all. This insight can help us understand what's wrong with a system that relies on a large number of private, for-profit insurers, and how such a system might be fixed.

Competition among for-profit insurers works to exclude those who need healthcare the most—simultaneously boosting paperwork and billing costs even as it leaves people under-covered. If we do not allow insurers to exclude preexisting conditions, and if we could somehow block insurers' ability to deny payments for expensive and chronic illnesses, then each insurer needs young and healthy people in the pool to subsidize the unhealthy.

The best way to ensure such diversification is to put the entire nation's population into a single pool. If the "insured" pool includes all Americans, there is no possibility of shunting high-cost patients off to some other insurer. And total costs are much lower because billing is simplified, administrative costs are reduced, and no profits are required for operating the payments system.

This is essentially what we do with Medicare, albeit only for those over age 65. Medicare for all would provide the truly diversified pool needed to share the risks and distribute the costs across the entire population.

Medicare is a proven, cost-efficient payments system, and it is compatible with the more market-oriented system that Americans seem to prefer. A single-payer Medicare-style universal program is also compatible with the existence of private health insurance that can be voluntarily purchased to supplement the coverage offered by the single payer.

Just a few months ago, few politicians aside from Senator Bernie Sanders were willing to stand up for single-payer healthcare. However, the debate over "repeal and replace" has made it clear that if we are serious about providing universal healthcare to Americans, the only sensible option is single payer.

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