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Medicare for All: Buyer Beware

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Introduction

There is wide agreement that health care costs are too high in the United States. The policy debate revolves around how these costs can best be controlled. One plan recently has garnered a lot of media coverage: a so-called "Medicare for All" (M4A) program, proposed in Congress by Senator Bernie Sanders (I-VT). A poll released at the end of August by Kaiser Family Foundation found that about six in ten adults would favor Sanders' idea.

However, there are substantial costs for the program that will require the government to raise a lot of new revenue to pay for it. And while the backers of the plan insist that the new taxes to finance national health care will fall on the wealthy, make no mistake, the costs are so enormous that taxpayers at all income levels will be forced to pay more. Medicare for All would be an unprecedented expansion of outlays, taxes, and government power.

The Cost of Medicare for All

Think tanks across the political spectrum have produced cost estimates for Senator Sanders' Medicare for All proposal. Though they each include different assumptions, the analyses are all in agreement that the plan will add trillions to the federal budget.

If implemented, a $30 trillion Medicare for All plan would cost more than twice as much as projected defense spending for the next decade.

Sanders himself has admitted that the plan will be costly, disclosing during the 2016 campaign that M4A "has been estimated to cost $1.38 trillion per year." This estimate was based on an analysis by Gerald Friedman, an economics professor at the University of Massachusetts at Amherst.

More recently, Charles Blahous of the Mercatus Center at George Mason University released an analysis of Sanders' plan and estimated that it would cost $32.6 trillion over ten years – over twice as much per year as Sanders' estimate. The left-leaning Urban Institute completed its own analysis of M4A in 2016 and its numbers were in line with Mercatus's. Urban Institute's scholars projected that the plan would cost $2.5 trillion in the first year and $32 trillion over a decade. In case there are any lingering doubt regarding the astronomical costs of M4A, other organizations and scholars have also produced similar estimates:

- The Committee for a Responsible Federal Budget: $2.8 trillion per year.
- Kenneth Thorpe of Rollins School of Public Health of Emory University: $2.4 trillion per year.
- The Center for Health and Economy (CHE): between $3.5 trillion and $4.8 trillion per year.

The reports may have some differences in methodology, but there is no doubt that enacting this program would result in a monumental expansion of the size and scope of the federal government. Taking the average of the independent estimates (with CHE's low-range cost), Medicare for All would add just over $3 trillion in new annual spending.

Budgetary Context of $3 Trillion in Higher Spending

The Congressional Budget Office (CBO) projects that the federal government will spend $4.5 trillion in FY 2019 and $56.6 trillion over the next ten years. Medicare for All would become by far the largest single federal program. The cost of Sanders' plan would be enormous, dwarfing the costs of the Affordable Care Act:

- If fully-implemented in FY 2019, outlays would see a 70 percent hike, boosting outlays as share of GDP from 21 percent to 35 percent. Only during the height of World War II, between 1943 and 1945, has spending ever exceeded 24.4 percent of GDP, much less 35 percent.
- $3 trillion would exceed the FY 2019 projected outlays for Medicare, Social Security, Medicaid, and all other mandatory entitlement programs combined ($2.7 trillion).
- This would be tantamount to adding 16 Departments of Veterans Affairs to the budget (FY 2018 outlays of $176.8 billion).
- Adding $30 trillion in new spending would expand the ten-year budget by over 50 percent.
- If implemented, a $30 trillion Medicare for All plan would cost more than twice as much as projected defense spending for the next decade ($14.4 trillion).
- Adding $30 trillion in mandatory spending would nearly double currently-projected mandatory spending over the next decade of $35 trillion.
- A single year of the program exceeds the combined cost since 2000 for the Departments of Commerce, Education, Energy, Interior, and Justice ($2.6 trillion).
- The ten-year cost would exceed total combined outlays since 1962 for Medicare, Medicaid, and the Children's Health Insurance Program ($21.8 trillion, in constant FY 2009 dollars).

There is good reason to believe that the actual figures, if the massive new entitlement program were ever enacted, would be on the higher end of the range of cost estimates. In fact, one need look no further than the existing Medicare program to identify the potential for runaway cost escalation. After all, if "Medicare for some" is on track to break the federal bank absent significant reforms, it's fair to expect that "Medicare for all" will suffer from the same flaw on an even larger scale.

Paying for Medicare for All

Sanders' latest legislative version (introduced in the Senate as S. 1804) of M4A does not include any details on financing his program, but his 2016 campaign platform laid out a list of taxes to finance the massive new program (the figures below in parenthesis are estimates from Sanders' 2016 campaign):

- A new 6.2 percent payroll tax on employers ($630 billion per year).
- A new 2.2 percent income-based premium paid by households ($210 billion per year)
- A massive hike in income tax rates, including the following new brackets ($110 billion per year):
    - 37 percent on income between $250,000 and $500,000.
    - 43 percent on income between $500,000 and $2 million.
    - 48 percent on income between $2 million and $10 million.
    - 52 percent on income above $10 million.
- Higher rates on capital gains ($92 billion per year).
- An enormous increase in the death tax ($21 billion per year).
- A new limit on deductions for individuals earning over $250,000. ($15 billion per year).
- An elimination of tax breaks for employer-provided health insurance ($310 billion).

Taxes needed to pay for Medicare for All would spike U.S. tax receipts from one of the lowest in the OECD to one of the highest – surpassing the burdens in Germany, Canada, Spain, and the United Kingdom.

In total, the taxes that Sanders proposed in 2016 to finance Medicare for All would impose a $1.3 trillion annual burden. The taxes would roll back the relief provided Tax Cuts and Jobs Act that has already contributed to an expanding economy. And even before considering the dynamic impact of enacting such massive levels of taxation, the revenues would fall short of covering the full cost of providing universal coverage through Medicare. To be fully-financed, upwards of $3 trillion in tax increases would be needed.

Budgetary Context of $3 Trillion in Higher Taxes

- A $3 trillion tax hike would nearly double total federal revenues projected by CBO for FY 2019 ($3.5 trillion).
- CBO's baseline forecasts that revenues will comprise 16.5 percent of GDP in FY 2019. Hiking taxes to pay for the full annual cost of Medicare for All would boost revenues to over 30 percent of GDP. By contrast, since World War II, revenues as a share of GDP has

exceeded 20 percent only twice, in 1944 and 2000. Revenue has never topped 20.5 percent of GDP.

- According to the most recent data compiled by the Organization of Economic Cooperation and Development (OECD), the United States' total federal, state and local tax receipts comprised 26 percent of GDP, below the OECD average (34.3 percent). Adding the new Medicare for All taxes would spike U.S. tax receipts to 40 percent of GDP, bumping the U.S.'s ranking from 31st to 9th highest among OECD nations, surpassing the tax burdens suffered in Germany, Canada, Spain, and the United Kingdom.
- This would pile on $30 trillion in higher taxes over the next decade – two-thirds higher than CBO's revenue baseline.
- As Brian Riedl of the Manhattan Institute notes, repealing the 2017 tax cuts would cover just $1.8 trillion of the cost for M4A. Fully-financing the program would require piling on "a new 31 percent payroll tax on top of the current 15.3 percent tax; imposing a 72 percent value-added tax (like a national sales tax); or raising income-tax rates by 35 percentage points across the board."

The dynamic impact would also have to be considered. Sanders' estimates presume optimistic forecasts of the revenue that would be raised from M4A's tax hikes. In reality, the burdensome tax hikes would lead to lower growth, wages, and ultimately, fewer tax receipts. Higher rates to compensate for the "lost" revenues would only exacerbate the fiscal gap, sending the deficit and economy into a downward spiral. Furthermore, any attempts to broaden the price controls inherent in single-payer schemes would drive many top-quality doctors out of the system. Medicare's Trustees have already warned about the likelihood of this happening in the current system - piling on the kinds of price controls for Medicare For All would exacerbate the situation.

Conclusion

Supporters claim that a single-payer system would on paper lead to efficiencies that would save money. The reality under a single-payer system is that politicians and unelected bureaucrats would establish damaging price controls, leading to longer wait times and fewer treatment options. In recent years, the prohibitive costs have led to the demise of single-payer plans in several states.

The public is being sold a bill of goods through Medicare for All, but *caveat emptor*: be sure to read the fine print for the costs, and consider the ramifications on the federal budget, tax burdens, and the expansion of the government's regulatory power. A better remedy to ensure affordable health care would be to find ways to increase market forces that foster competition and stimulate innovation.

About the Author

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