California’s Single-Payer Initiative

Proposition 186 on the California ballot this fall would replace that state’s private health care system with a single-payer system. Under the measure, the government would pay for most health care through higher taxes, requiring the state’s entire health care system to be remade by state government and micromanaged by a new, all-powerful state health commissioner.

The results would be an economic disaster for the people of California. Let’s see why.

Tripling State Spending. The proposal would triple state government spending. When fully implemented in 1998, the proposal is projected to cost about $140 billion in state government expenditures. The entire state budget today is $58 billion.

Doubling State Taxes. The proposal would impose the following enormous new taxes on the state:

- A new payroll tax ranging from 4.4 percent on firms of 10 employees or less up to 8.9 percent on firms of 50 employees or more;
- A state income tax surcharge of 2.5 percent on everyone, with an additional 2.5 percent on those with incomes over $250,000 for individuals or $500,000 for couples; and
- A new state cigarette tax of $1.00 per pack.

These measures would increase taxes on California citizens by $54 billion in 1998. All state taxes today total $41 billion.

Unmanageable State Deficits. Despite these enormous new taxes, independent projections show that the proposal would produce overwhelming deficits in the state budget, ranging from $40 billion to $48 billion in 1998 under intermediate projections of two separate studies. Indeed, the projected deficit from the single-payer proposal is almost as large as the entire state budget today. Such a deficit would result in larger tax increases in the future.

Health Care Rationing: Price Controls and Global Budgets. A key component of the new system would be the imposition of global budgets that would limit the amount hospitals and doctors have to spend and thus force them to ration health care. In addition, there would be price controls on doctors, hospitals, medical services and drugs. Through both types of controls, the state government would arbitrarily dictate to Californians that their health care expenditures could grow no faster than the rate of growth of the state’s economy and population. Over time, this would sharply restrict the resources available for health care for the middle class and the elderly. For example, reducing the current health spending growth rate of 10 percent to 6 percent per year would — in just two decades — reduce health care resources to about half of what they would be otherwise. Such reductions in health care resources would cause similarly sharp and arbitrary reductions in the quality of care and access to care.

Health Care Rationing: Controls on Capital Expenditures. The measure would explicitly and directly ration access to modern medical technology, in a draconian manner. Prior authorization from the state health commissioner would be required for any capital expenditure by any hospital, clinic or doctor. This would apply to the acquisition of new equipment, the construction or expansion of facilities and any expenditure over...
$500,000. Moreover, under the strict global budget system, health providers would be allowed funds for such capital expenditures only from a special account, limited and controlled by the health commissioner. Most remarkably, all equipment and facilities financed by the account would be owned by the government rather than the doctors or hospitals!

The result would be far less access to advanced medical technology in California than elsewhere. As the figure shows, this already has been the result in Canada, which served as a model for the California system.

**Health Care Rationing: Other Controls.** The measure includes the following additional components:

- If funds under the global budget system ran short, the state health commissioner would have the power to identify and eliminate health care and services deemed wasteful and unnecessary by the government. The commissioner also would be authorized to restrict or impose charges on patients for services the government deemed “elective.”

- The commissioner would have the power at any time to deny health care or services the government deemed “not reasonable and necessary” or not “medically appropriate.”

- Specialists would not be fully reimbursed for patients who were not first referred to them by a primary care provider. Thus patient access to specialists would be limited and subject to the government rules and restrictions imposed on such primary care doctors.

- The state health commissioner would determine what drugs would be available under the new system, with the power to choose drugs the government deemed best and most cost-effective.

- The commissioner would have broad authority to regulate every detail of every hospital, clinic or medical practice in the state.

**Loss of Freedom of Choice.** Under the measure, most Californians would lose their current private coverage and be forced into the government-run system. They would not be barred from buying private insurance but would still be taxed for the government-run system. They would lose the freedom to choose the health plans and benefits they want. Every consumer would be compelled to pay for the benefits the government chose for them, including those they did not need or want. For example, all would be forced to pay for abortion, drug and alcohol abuse rehabilitation, open-ended mental health counseling, minimal deductibles, minimal copayments and routine services that would be cheaper if paid for directly.

**Loss of Medicare for Seniors.** The measure would push seniors out of Medicare and into the new state plan. Consequently, the elderly would be subject to rationing and the loss of free choice under that plan. The elderly also would have to bear the new payroll and income taxes imposed under the initiative, even though they already have thorough coverage under Medicare.

**Loss of Jobs and Economic Growth.** The new payroll and income taxes under the proposed initiative would destroy jobs and economic growth in California. The payroll tax is a tax on work. The new income taxes also would reach investment income and would cause capital and investment to flee California. A study by Spectrum Economics estimates that the measure would destroy almost 300,000 nonhealth care jobs in the state. The global budgets, price controls and other regulations would cause job losses in health care as well. But the number of regulatory and tax collecting state bureaucrats would rise.

The California initiative is based on the idea that health care should be organized and run centrally through the political system rather than by the decentralized free choices of individuals participating in an open market. Nothing could be more mistaken. People should not have to conduct broad political campaigns to get the health care and health insurance they want.

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