The Mercatus Center's Estimate of the Costs of a National Single-Payer Healthcare System: Ideology Masquerading as Health Economics

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The Mercatur Center's estimate of the cost of implementing Sen. Bernie Sanders' Medicare for All Act (M4A) projects outlandish increases in the utilization of medical care, ignores vast savings under single-payer reform, and fails to even mention the extensive and well-documented evidence on single-payer systems in other nations – which all spend far less per person on health care than we do. Moreover, the Mercatus Center admits that universal first dollar coverage under Sen. Sanders' bill would cause little increase in the nation's total health expenditures; it would merely shift expenditures from private to public sources.

We outline below some of the most glaring errors in the Mercatus Center analysis of Medicare for All, which was led by Charles Blahous.

1. Administrative savings, Part 1: Blahous assumes that insurance overhead would be reduced to 6 percent of total health spending from the current level of 13 percent in private insurance. Although overhead in Canada's single payer system is only 1.8%, Blahous justifies his 6 percent estimate by citing Medicare's current overhead, which include the extraordinarily high overhead costs of private Medicare HMOs run by UnitedHealthcare and other insurance firms. However, Sen. Sanders' proposal would exclude these for-profit insurers, and instead build on the traditional Medicare program, whose overhead is less than 3 percent. Moreover, even this 3 percent figure is probably too high, since Sanders' plan would simplify hospital payment by funding them through global budgets (similar to the way fire departments are paid), rather than the current patient-by-patient payments. Hence a more realistic estimate would assume that insurance overhead would drop to Canada's level of about 1.8 percent. **Cutting insurance overhead to 2 percent (rather than the 6 percent that Blahous projects) would save approximately $2.9 trillion more than Blahous estimates over a 10 year period.**

2. Administrative savings, Part 2: Blahous seems unaware of the extensive literature documenting the huge administrative burden - and resulting costs - borne by U.S. doctors and hospitals, and the savings that would be realized under a streamlined single-payer system. Every serious analyst of single-payer reform has acknowledged these savings, including the Congressional Budget Office, the Government Accountability Office, the Lewin Group (a consulting firm owned by UnitedHealth Group), and Prof. Kenneth Thorpe.

These provider savings on paperwork would, in fact, be much larger than the savings on insurance overhead. At present, U.S. hospitals spend one-quarter of their total budgets on billing and administration, more than twice as much as hospitals spend in single payer

systems like Canada's or Scotland's. Similarly, U.S. physicians, who must bill hundreds of different insurance plans with varying payment and coverage rules, spend two to three times as much as our Canadian colleagues on billing.

Overall, these administrative savings for doctors and hospitals would amount to about $3.4 trillion over 10 years. Additional savings of almost **$2.0 trillion** from streamlined billing and administration would accrue to nursing homes, home care agencies, ambulance companies, drug stores and other health care providers.

In total, the Blahous analysis underestimates administrative savings by about **$8.3 trillion over 10 years.**

3. Drug costs: Blahous projects that the only drug savings achievable through a single-payer plan would come from switching patients from brand name drugs to generics. He assumes that the prices of drugs - both generics and brand name drugs - could not be lowered through the price negotiations called for in Sen. Sander's bill. Blahous claims that the savings achievable through negotiations cannot be estimated, ignoring the price reductions of about 40-50% that have been achieved by the VA and by many other nations that use the methods called for in the Sanders legislation. .

Reducing drug prices to the levels currently paid by European nations **would save at least $1.7 trillion more than Blahous posits over 10 years**.

4- **Utilization of care:** Blahous projects a massive increase in acute care utilization, but does not provide detailed breakdowns of how big an increase he foresees for specific services like doctor visits or hospital care. However, it is clear that the medical care system does not have the capacity to provide the huge surge in care that he posits.

For instance Blahous' figures for the increase in acute care suggest that Sanders' plan would result in more than 100 million additional doctor visits and several million more hospitalizations each year. But there just aren't enough doctors and hospital beds to deliver that much care. Doctors are already working 53 hours per week, and experience from past reforms tells us that they won't increase their hours, nor will they see many more patients per hour.

Instead of a huge surge in utilization, more realistic projections would assume that doctors and hospitals would reduce the amount of unnecessary care they're now delivering in order to deliver needed care to those who are currently not getting what they need. That's what happened in Canada. Doctors and hospitals can adjust care to meet increasing demand, as happens every year during flu season.

Moreover, no surge materialized when Medicare was implemented and millions of previously uninsured seniors got coverage. Between 1964 (before Medicare) and 1966 (the year when Medicare was fully functioning) there was absolutely no increase in the total number of doctor visit in the U.S.; Americans averaged 4.3 visits per person in 1964 and 4.3 visits per person in 1966. Instead, the number of visits by poor seniors went up,

while the number of visits by healthy and wealthy patients went down slightly. The same thing happened in hospitals. There were no waiting lists, just a reduction in the utilization of unneeded elective care by wealthier patients, and the delivery of more care to sick people who needed it.

Bizarrely, despite projecting a $2.213 trillion increase in total payments to providers over 10 years, Blahous claims that the program would lead to massive financial losses for doctors and hospitals (top of page 19).

5- Long Term Care - Blahous estimates that the Sanders bill would increase expenditures for long term care by $1.849 trillion over 10 years. He provides absolutely no justification for this estimate, and seems to be unaware that the Sanders bill would not immediately implement major changes in the long term care financing system.

In summary, Blahous grossly underestimates the administrative savings under single payer; projects increases in the number of doctor visits and hospitalizations that far exceed the capacity of doctors and hospitals to provide this added care; and posits that our country would continue to pay much more for drugs and medical equipment than people in every other nation with national health insurance. His thus overestimates national health expenditures by about $12 trillion over 10 years.

Blahous also neglects to mention that massive savings would accrue to businesses, households, and state and local governments that would no longer be saddled with health insurance premiums or out-of-pocket costs. These savings would more than compensate for the increased federal government expenditures. The Sanders bill would, in reality, shift spending from private to public sources, and from state and local governments to the federal government. Over ten years, our nation would surely pay less overall under Sen. Sanders bill than under current arrangements.

Moreover, even Blahous admits that Sanders' program would cover all of the uninsured, and upgrade coverage for the vast majority of Americans who currently have private insurance or Medicare, with little increase in total spending for the nation. For instance, even his inflated cost projections foresee a NET increase of only $17 billion in 2022, equivalent to about a one-third of one percent increase in national health spending.

In effect, Blahous admits that covering the uninsured and upgrading coverage for most others could be achieved at virtually no additional cost through a single payer reform.

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