The #1 Reason Bernie Sanders' Medicare-for-All Single-Payer Plan Is A Singularly Bad Idea

Chris Conover

September 28, 2017

There seems to be a groundswell of support for Senator Bernie Sanders' single-payer health plan which he has called Medicare-for-All. For example, 16 Senators (one-third of Senate Democrats) now endorse the plan. And a new POLITICO/Morning Consult poll shows a plurality (49%) of Americans favoring “a single-payer health care system, where all Americans would get their health insurance from one government plan.”

In light of this apparent growing enthusiasm for single-payer health care, I thought it would be useful to review the top 5 reasons single-payer is a singularly bad idea. Today's post will focus on the most important reason, albeit the one least understood by the average policymaker or member of the public. In economic jargon, that reason is termed the "excess burden" of taxes, more popularly known as "deadweight losses."

This may sound complicated, but it's actually quite simple. With one exception, every tax known to man shrinks the economy to some extent resulting in a loss of welfare for consumers and producers [1]. That is, “whatever you tax, you get less of,” whether that be labor, consumption of various products, capital or anything else policymakers have figured out how to tax. The exact amount the economy shrinks (which in turn determines the size of the associated welfare losses to consumers and producers) depends upon exactly what is taxed.

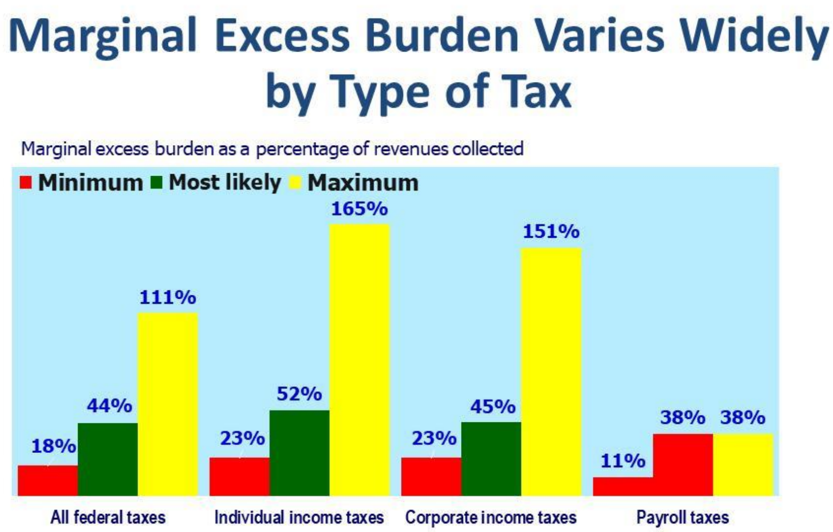
How Big Are the Deadweight Losses from Taxation?

Deadweight losses are the #1 reason single-payer is a bad idea simply because of their sheer size. Such losses are typically expressed as a fraction of revenue raised. The excess burden does not include the *entire* dollar amount that the economy shrinks as a consequence of a tax, but simply the consumer and producer surpluses associated with that lost output.

- The *average* excess burden represents the entire amount of such losses as a fraction of the entire amount of tax revenue raised.

- But it is well established the excess burdens rise with the tax rate: thus the excess burden associated with increasing income taxes from 35% to 40% is much larger.

- Since we already have an established tax system and rates that raise trillions of dollars a year, what matters for policy purposes is the *marginal* excess burden associated with the tax increases that would be needed on top of what we already collect.
  - I have estimated that at the margin, deadweight losses for the federal tax system amount to 44 cents for every dollar of revenue raised. That means that if we financed the entire $3.5 trillion American health economy using federal taxes, we'd have to be prepared to accept welfare losses amounting to $1.5 trillion a year! That certainly should at least give pause to anyone who thinks letting Uncle Sam bankroll all health spending is good idea.
  - As I noted earlier, the actual degree to which the economy would shrink depends heavily on how Senator Sanders plans to bankroll what would constitute by far the biggest free lunch in American history (easily dwarfing Medicare, Medicaid or even Social Security in terms of annual spending).



Source: compiled from estimates reported in Christopher J. Conover, Congress Should Account for the Excess Burden of Taxation. Cato Institute *Policy Analysis* No. 669, October 13, 2010.

  - Produced by Christopher J. Conover, Duke University, using estimates reported in Christopher J. Conover, Congress Should Account for the Excess Burden of Taxation. Cato Institute Policy Analysis No. 669, October 13, 2010.
  - *Fig. 1*
  - Note that there are plenty of alternative ways to raise revenue. Some of these others have smaller excess burdens. Custom duties, for example, may have excess burdens as low as 2.6%, but such duties also constitute a mere penny of every dollar in federal taxes collected. There is no realistic prospect such duties could ever generate trillions of dollars in annual tax revenues.

Can Deadweight Losses be Avoided? The only way to avoid deadweight losses entirely would be to impose a uniform head tax (even economists are not cynical enough to believe people would commit suicide to avoid such a tax). But it is ludicrous to expect progressives to support an additional annual tax on all Americans of $7,800 per person, which is the amount that would be required in 2017 [2].

Of course, precisely because of deadweight losses, it is lunacy for us to be bankrolling Medicare expenses for people such as Warren Buffett and his wife. Such a couple in the same income bracket as Warren Buffett but who turned 65 in 2015 would be expected to collect $427,000 in lifetime Medicare benefits despite having paid only $111,000 in lifetime taxes into Medicare. So the net amount financed by taxes for such a couple is $316,000. This is transparently indefensible on equity grounds since this couple could easily afford to pay for their own post-retirement health expenses. but it also implies that we're willing to accept $139,000 in deadweight losses simply for the privilege of saying that the wealthiest among us has the same Medicare card as everyone else. How crazy is that?

From where I sit, we would be much better off restricting the use of tax dollars to finance a safety net for the poor rather than any sort of universal entitlement (including Medicare). Consider Switzerland, which provides universal coverage, but restricts government subsidies only to families who would otherwise spend more than 10% of family income paying for mandatory health insurance. The consequence is that the Swiss government pays for only 31% of health spending (compared to about 65% in the U.S.).

How Large Would the Deadweight Losses Be Under Medicare-for-All?

There is no way to answer this question with precision since Senator Sanders has refused to endorse a single approach to bankrolling his fantastically expensive plan (the left-of-center think tank, Urban Institute, has calculated this plan would add $32 trillion--yes *trillion*--to federal health spending just in its first 10 years; by way of comparison, Uncle Sam is expected to collect a mere $3.6 trillion in federal revenues during the upcoming fiscal year).

Payroll Tax Increases? That said, Senator Sanders has offered a variety of options for financing his plan, including a payroll tax of 7.5%. This approach would have the advantage of reducing the excess burden, but not by much: 38% (read: $1.33 trillion) still would represent an enormous loss of potential GDP--including jobs and wages most likely to benefit the working class workers that single payer health care is supposed to help.

Income Tax Increases? Moreover, since this approach would require roughly doubling the amount workers now see deducted from their paychecks, it seems much more likely that single-payer enthusiasts would champion any of the several "Options to Make the Wealthy Pay Their Fair Share" that have been proposed by Senator Sanders. But as you can see, raising income taxes would increase deadweight losses the most. This is especially true if tax increases are targeted at the highest-income taxpayers since the "maximum" estimates shown in Fig. 1 generally represent what the literature says about the magnitude of excess burdens arising from higher taxes on in the highest income brackets.

All of the Above? Here's a harsh reality for progressives. According to Senator Sanders' own staff's estimates, a 7.5% payroll tax would raise only $3.9 trillion over 10 years, eliminating the tax exclusion (which I admittedly highly favor) raises another $4.2 trillion, and making the personal income tax more progressive (taking the highest tax rate north of 50%) adds a mere $1.9 trillion. Even adopting all three would fall very far short of the $32 trillion in new federal tax revenues needed to fund Medicare-for-All according to the Urban Institute.

As an illustration, the Urban Institute analysis suggests that if the Sanders single-payer plan were currently the law of the land, an added $2.5 trillion in federal revenues would be required to finance it just in 2017. This compares to expected federal tax receipts in FY2017 of $3.46 trillion (Table S-1). In short, we'd need an increase in federal tax revenues of 72.2%! Worse, Sanders' Medicare-for-All plan would have a hidden cost of $1.1 trillion in deadweight losses in 2017 alone . Per year! (for readers who might be wondering, that's $3,400 per U.S. resident or $13,600 for a family of 4).

Bottom Line

Remember how President Obama promised his health plan would save the typical family of 4 $2,500 a year? His plan barely squeaked by on a party-line vote. Are Americans really prepared to get behind a single-payer plan that would impose deadweight *losses* that are more than 5 times as large as the mythical Obamacare savings?

I do not doubt that among the most fervent single-payer advocates, $1.1 trillion or more is merely a worthwhile price to pay for the communitarian benefit of putting all Americans on a completely equal footing when it comes to paying for health care. But I am guessing that if the average American were well-informed about this unavoidable cost of the single-payer approach, public support for single-payer health care would sink like a stone. Spread the word...