

REVIEW & OUTLOOK

Arnold's Health Flop

After Arnold Schwarzenegger unveiled his universal health-care plan for California in January, almost everyone was laying down palms in Sacramento. Here was a Republican Governor putting aside political squabbling and "doing big things that Washington has failed to do," as Time magazine put it. What a change seven months later, with the plan on the cusp of collapse. There's a lesson here about health-care "bipartisanship" when it's merely a cover for bad policy.

The California legislature is now in the second month of the fiscal year without a budget. Deadlocks are routine because the state requires a two-thirds majority of each house to pass spending bills, though they rarely drag on this long or bitterly. Republicans are taking a hard line on spending and a \$1.4 billion operating deficit; and even though the budget is just one Senate Republican vote shy of passage, a deal is unlikely before a recess ends on August 20.

Since the legislative session ends in September, that would mean it's curtains for Governor Schwarzenegger's health-care reform. The estimated \$12 billion in new taxes that the plan requires also need a two-thirds majority of both houses. Which is unlikely when the legislature can't even agree on a budget without them. To get around that, the Governor calls them "levies," not taxes. Nice try.

The health-care plan is one reason for the gridlock, which speaks to a political as well as policy failure. In trying to round up Democrats, the Governor ended up alienating Republicans. No wonder: His plan was never that conservative or market-based. Like former Governor Mitt Romney's plan in Massachusetts, it turns on an individual mandate. That is, it requires all residents to buy insurance or get it from the state or their employers—or otherwise face penalties such as garnished wages.

Once again, a state's universal health-care dreams have run up against fiscal realities. Besides the budget fight, the plan's viability was contingent on \$3.7 billion in annual subsidies the Governor has been requesting to expand MediCal (Medicare) and "Healthy Families," part of the State Children's Health Insurance Program. This money is unlikely to materialize, given that the 2006 federal budget called for \$4.6 billion in health-care cuts to California over the next decade.

The plan also ran into a buzzsaw because of the damage it would do to California's employment and insurance markets.

In what's called "play or pay," businesses would have to cover their employees or pay a 3.5% payroll tax to fund a new state-run insurance program for low-income workers. Doctors would be required to pay 2% and

hospitals 4% of gross revenues to fund the same—assuming they could stay in practice at all.

Governor Schwarzenegger's "bipartisanship" also provided an

opening for state Democrats, who have long desired, but have usually been frustrated in passing, a liberal overhaul of the health-care system. They saw his plan and raised, proposing a 7.5% payroll tax—another example of "play or pay" becoming "pay or pay." It would also compel onerous insurance regulations like mandated coverage levels and premium ceilings.

The Governor has tried to make the Democratic plan a selling point for his "less burdensome" alternative. But he would merely over-regulate insurance in other ways. He wants "guaranteed issue," which means insurers must accept all comers, allowing people to wait until they're sick to buy insurance. He also wants "community rating," which means that insurance premiums cannot vary based on age or health status. Cost-drivers like these are already a main reason between four million and 6.5 million Californians are uninsured now.

In beating the drum for his plan, Mr. Schwarzenegger has often deplored what he calls the "hidden tax" of the current health-care system. Supposedly that describes the extent to which the costs of treating the uninsured shift to those who have insurance, thus making an argument for universal care.

Yet researchers at Stanford led by Dan Kessler ran the figures and demolished this claim. The total burden of this "cost shifting" in California amounted to only 2.8% of premiums in the 2000s. That's not nothing, but in the Governor's hands this modest hidden tax is an excuse for larger unhidden taxes. Perhaps the puncturing of this argument will prevent it from being deployed in the 2008 health-care debate, though don't count on it.

If Arnold's plan does fail, it will join "universal" health-care dreams in Illinois, Wisconsin, Pennsylvania and other states that were also unveiled to hosannas but flopped once the fine print and costs were exposed. Alas, the failure of these state reforms probably won't diminish political agitation for similar attempts that Democrats or Mr. Romney might propose in Washington. But it should.

Another 'universal' health-care plan hits the skids.