Why budget gap shouldn't derail health care reform

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As Gov. Arnold Schwarzenegger has released his budget threatened by $14 billion of red ink, many are asking whether California can afford the ambitious health care reforms that passed the state Assembly in December. Given the social and economic costs of leaving as many as 6.5 million Californians uninsured, the better question may be: Can we afford not to?

Those worried by the possible impact of the budget gap on health reform include Senate President Pro Tem Don Perata, whose chamber must vote for the health reform bill for it to move forward. Perata's concerns must be taken seriously. It would be hard to justify cutting back some social services while enacting a seemingly expensive health care plan.

But these doubts miss the larger picture: Health care reform will strengthen the economy, improve productivity and reduce long-run deficits. Over time, it actually costs more to let California continue to have one of the highest rates of un-insurance in the country than it would cost to cover everyone. The harm to individuals, business - and ultimately the state's bottom line in terms of total social cost - is unacceptable.

The most compelling reason to cover the uninsured remains the personal toll paid by those without coverage, and their families. The burden of medical costs, for example, is a major contributor to personal bankruptcies. Being uninsured leads to poorer health. A recent study by researchers at the Harvard Medical School found that previously uninsured Americans slowed declines in their health when they became eligible for Medicare. The American Cancer Society has linked lack of insurance coverage to later screenings for cancer and lower survival rates. A recent update to a report by the prestigious Institute of Medicine estimates that about 22,000 Americans, or roughly 3,200 Californians, die each year as a direct result of lacking health insurance.

Another IOM study calculated that the lost human capital related to lack of health insurance -including lost earning potential and the value of extra years of life - is as much as $170 billion nationally, updated to 2006 numbers, or about $26 billion for California's share. To be sure, this foregone value doesn't immediately translate into rosier budget projections. But it needs to be pointed out that covering the uninsured isn't only about absorbing new public costs but also about investing in future productivity gains and economic growth.

The insured are paying a hidden tax for the care of the uninsured, as the New America Foundation has frequently pointed out. Patients without coverage often allow basic medical conditions to go untreated. When their hope of getting better fades, they go to the emergency room where they receive the most expensive care available to treat their now serious conditions. When their bills go unpaid, the costs are passed on to Californians with insurance, increasing the cost of private health insurance by almost 10 percent.

The cost-containment measures in the governor's plan - including requirements that hospitals disclose cost and quality information - are a good first step toward getting health costs under control, making premiums more affordable and getting more bang for the health care buck. As a study released last year by the McKinsey Global Institute in San Francisco showed, even after adjusting for relative wealth, the United States spends hundreds of billions more on health care than other countries and delivers no better, and often worse, health outcomes.

Health-care reform promises to offer some relief for California's chronic structural deficit. State health spending is the fastest-growing area in the budget, rising almost 9 percent annually on average in recent years. Drawing on the tested example of other states, the reform proposal would bring in an estimated $4 billion in new revenues from the federal government for Medi-Cal, the state health program that covers almost 7 million Californians with low incomes. Shared responsibility for health funding will prevent individuals and employers from shifting their costs onto taxpayers.

Moreover, the California health reform bill identifies its own funding, including a tobacco tax, levies on businesses that fail to purchase health insurance for their employees, and individual premiums. This financing would have to be approved by voters and wouldn't go into effect until 2010, well after this year's budget debate.

From a fiscal standpoint, there will never be a perfect time to reform health care. The state's budget is chronically in crisis and lawmakers have perfected the habit of just getting by. But every day we delay in starting a new system actually damages our economy over the long-run and reduces our quality of life. If European countries, for example, could rebuild their health care systems to provide universal coverage out of the rubble of World War II, certainly California can strengthen our private health care system now.