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State health exchange will slash, not boost, choice

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Anticipating repeal, states are using a variety of tactics to oppose Obamacare, but in California the Legislature is trying to rush it into existence. That should concern every Californian, especially Gov. Arnold Schwarzenegger.

Unless repealed, Obamacare will require every American not dependent on government health plans like Medicaid or Medicare, or enjoying employer-based benefits, to purchase health insurance in a state-based "exchange" as of January 2014. On Aug. 24 and 25, the Legislature sent two bills to Schwarzenegger. These bills would create California's exchange and supporting bureaucracy, which would be led by a board of five political appointees.

The governor's signature on these bills would harm Californians' access to health insurance. The best-case scenario for the California exchange is similar to the outcome in Massachusetts, where an April 2006 law created an exchange called the Commonwealth Connector, which also deploys a politically appointed board to limit people's choice of coverage. Not surprisingly, limited choice means higher costs.

Economists John Cogan and Daniel Kessler of Stanford University, and R. Glenn Hubbard of Columbia University, found that premiums in Massachusetts increased by 6 percent more than in the rest of the country, and 14 percent more for small businesses, between 2006 and 2008. California's exchange is likely to have significantly worse outcomes because of our Legislature's commitment to government-monopoly (so-called "single-payer") health care.

Fortunately, Schwarzenegger has vetoed this twice, in 2006 and 2008. President Barack Obama and Kathleen Sebelius, the U.S. secretary of Health and Human Services — along with many congressional Democrats — share our Legislature's passion for government-monopoly medical care. Although they did not have the votes to pass a single-payer bill, they view Obamacare as an important step toward this goal and have left the door open for states to apply for "waivers" to keep moving toward single-payer.

Schwarzenegger should understand that the California exchange would soon embark on this mission. Its most important power would be to "selectively contract" with insurers to offer policies in the exchange. This is fundamentally different from traditional insurance regulation,

which concerns solvency, fraud and good-faith claims processing by insurers. Instead, the exchange's bureaucrats would choose the policies available to Californians that Obamacare will force into the exchange.

That will be most of us. John Goodman of the National Center for Policy Analysis concluded that any household earning less than $80,000 annually will lose its employer-based benefits and be driven into an exchange.

Schwarzenegger shouldn't be fooled by the notion that the federal government will grant California oodles of cash to start up and operate the exchange. Right now, Sebelius has no more than $1 million to grant to each state. With polls indicating a Republican majority (committed to repeal) in at least one congressional chamber after the midterm elections, California should not expect any further grants.

Polls show that between 50 and 60 percent of Americans oppose Obamacare. Most Americans know that Obamacare will increase costs to governments, employers and individuals. These higher costs will not lead to better health care or innovation. Instead, every doctor's decisions will be second-guessed by layers of new government bureaucracy.

Worse, the California exchange would persist even after Obamacare is repealed, implementing a government takeover that the nation will have rejected. Even if Obamacare survives, there's more than enough time for the next governor to bring the state into compliance with its onerous rules. Schwarzenegger has twice vetoed a government-monopoly health system. He would leave Californians a bitter legacy if he allowed the Legislature to sneak it past him in the last few months of his administration.