

'1099' Repeal Speaks Volumes About ObamaCare



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When 34 Senate Democrats [joined](#) all 47 Republicans last week to repeal ObamaCare's 1099 reporting requirement, their votes confirmed what their talking points still deny: ObamaCare will increase the deficit, no matter what the official cost projections say.

The measure repealing the 1099 mandate may itself increase the deficit slightly. It will reduce federal tax collections by [\\$17 billion](#), and the offsetting spending cuts are highly questionable. This vote's real significance, however, is that it shows why ObamaCare's entitlement spending would survive the political process while its revenue-raising provisions would not.

It's a paradox that democracies often adopt policies that enrich minorities at the expense of the majority. For example, Massachusetts Institute of Technology economist Jonathan Gruber [reports](#) that in 2007, federal farm supports cost consumers \$26 billion in higher taxes plus another \$16 billion in higher food prices. One can hardly imagine a worse policy than increasing the price of food, and consumers vastly outnumber farm-subsidy recipients. Yet farm subsidies survive, decade after decade. Why?

The key, economists explain, is the problem of *concentrated benefits* and *diffuse costs*. Farm subsidies cost the average household \$390, yet the average farm-subsidy recipient rakes in nearly \$20,000 in direct subsidies alone. Thousands of "farmers," including some Fortune 500 companies, rake in more than \$100,000 per year.

The prospect of a \$100,000 payout creates an incentive for these "farmers" to organize, contribute to politicians' campaigns, hire the best lobbyists and ad men, and testify before Congress. For consumers, however, the expected gain from repealing farm subsidies isn't enough of an incentive to learn about them, much less organize to defeat them.

The federal budget and Federal Register contain thousands of programs that achieve near-immortality by (1) taking small amounts of money from people in large, hard-to-organize groups, and (2) giving large amounts of money to small, easily organized groups.

The 1099 mandate got this formula backward. It would have required businesses to track all purchases and file a 1099-MISC form whenever they purchased more than \$600 in goods from a

vendor. The IRS's taxpayer advocate [worried](#) that compliance costs would dwarf the \$17 billion in additional tax collections.

Both the taxes and the compliance costs would have been concentrated on 38 million corporations, charities, churches, government agencies, and farms(!) – nearly all of which are organized and have armies of lobbyists in Washington.

In contrast, it's hard even to identify, much less mobilize, any specific group that might have benefited from the 1099 mandate. Congress "paid for" its repeal by assuming the administration will make \$17 billion in unspecified rescissions. If those cuts aren't even specified, who will lobby against them?

When the political process "goes to work" on the rest of ObamaCare's various provisions, the revenue-raisers will fall because they get the formula wrong, while the entitlement spending will survive because it gets the formula right.

The revenue-raisers target Medicare enrollees, health insurance companies, hospitals and medical device manufacturers. Since these spending cuts and tax increases are not directly tied to any particular government expenditures, there will be almost no organized constituencies to push back against what former senator Tom Daschle calls the "patient-provider pincer movement."

Conversely, the benefits of ObamaCare's entitlement spending will be concentrated on a segment of the middle class plus the health care sector (which spends more on lobbying than any other), while its costs will be diffused across all taxpayers (i.e., financed from general revenue).

When spending rises and revenue doesn't, Congress makes up the difference by increasing the deficit, because there's no less-organized constituency than people who aren't even born yet.

The 1099 mandate is actually the second ObamaCare revenue-raiser to fall. Worried about the political fallout from private insurers exiting the Medicare program, the Obama administration rather [transparently](#) forestalled cuts to Medicare Advantage by granting \$1.3 billion of "quality-based" bonuses to [mediocre and low-performing MA plans](#).

This public-choice dynamic is why the [Congressional Budget Office](#), the [chief Medicare actuary](#), and even the [International Monetary Fund](#) have discredited the idea that ObamaCare will reduce the deficit. It is one of the principal reasons why, as Thomas Jefferson [wrote](#), "The natural progress of things is for liberty to yield, and government to gain ground." In other words, the game is rigged in favor of bigger government.

It also explains why the Obama administration is sprinting to implement ObamaCare in spite of a federal court having struck down the law as [unconstitutional](#). As that and similar cases work their way toward the Supreme Court, the White House needs to get some concentrated interest groups hooked on ObamaCare's subsidies – fast.

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