

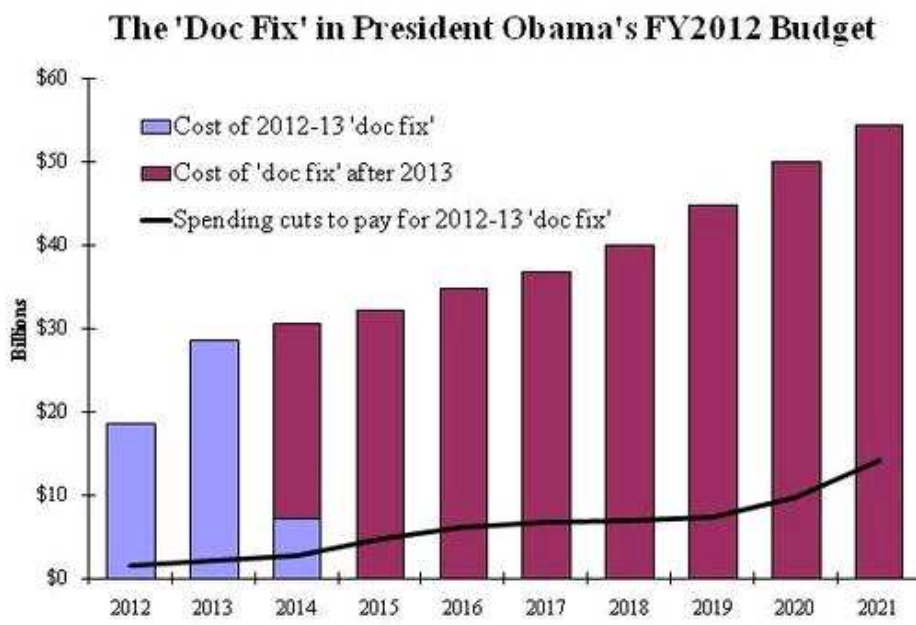


The Ever-More-Desperate Health Care Budget Gimmicks

By Megan McArdle

I attracted a lot of angry comments last October when I wrote that [I didn't trust the Democrats to be much more fiscally responsible](#) than the Republicans. What made people especially angry was that I argued that ObamaCare had made our fiscal problems worse--yes, even if its deficit-reduction measures all worked, a proposition of which I am deeply skeptical. That's because ObamaCare used up all the most obvious and politically feasible cuts in Medicare--and when that proved insufficient, some that weren't obvious or politically feasible, like requiring every small business owner in the land to issue 1099s to people they bought supplies from.

This graph from [Michael Cannon](#) shows exactly what I was worried about



What it shows is how Obama is paying for the two year "Doc fix", which will prevent scheduled cuts to doctor reimbursements from taking place. Congress has temporarily delaying the cuts (known as the

Sustainable Growth Rate, or SGR) on an annual basis since early last decade. Since the SGR is a cumulative mechanism that was supposed to restrain cost growth, the compounded cuts have now grown so big that they would amount to slashing doctor reimbursements by more than 20%. This is obviously politically impossible.

The fix for this year was paid by clawing back some of the subsidies that will be given to people on these exchanges whose income rises towards the end of the year. In other words, we paid for spending now by promising to spend less in 2014 and beyond. As Cannon says, "It's the same old story: dessert today, spinach tomorrow. (Or, never.)"

The new budget uses exactly the same trick. As I mentioned [yesterday](#), Obama's budget includes a two-year, paid for fix. But how it's paid for is pretty worrying: as Cannon's graph shows, the spending is all done in the first two years, but the cuts needed to pay for them take place over 10 years.

Limit the taxes that states can place on Medicaid providers, which has had the effect of increasing the federal contribution to state Medicaid budgets: \$18 billion over 10 years

Claw back "erroneous payments" to United Healthcare under Medicare Advantage: \$6 billion one time

Limit the ability of brand name pharmaceutical manufacturers to cut side deals with generic manufacturers to end patent challenges: \$8.8 billion over 10 years

Shorten the market exclusivity period for biologic drugs from 12 years to 7: \$2.3 billion over 10 years

Lower Medicaid reimbursements for home medical equipment: \$6.45 billion over 10 years

This is a dog's breakfast. First of all, as I noted yesterday, many of these things are having trouble getting through Congress as it is; and second of all, why on earth would you use this motley grab-bag of long-term pay-fors to cover short term spending?

The answer, I suspect, is that the cupboard is bare. They don't have any better revenue mechanisms left--everything that anyone even thought was plausible went into ObamaCare. And yet, they can't simply cut doctor's reimbursements by one fifth. So they scrambled for anything at all--and the only way they could come up with the necessary revenue was to stretch the cuts out over ten years, while covering the spending for only two years.

Obviously this is not a sustainable strategy, any more than I can simply pay for an increase in my annual restaurant budget by cutting back on my movie budget for the next ten years--eventually, you've zeroed out the rest of the entertainment budget, and the tab at Komi is still growing. Yet this seems to be the only plan the administration has to pay for the doc fix--a problem that wasn't addressed during health care reform, as far as I can tell, precisely because it was too expensive.

And that's kind of a problem, because in 2014, the looming cuts to doctor reimbursements will be even bigger, and even less politically feasible, than they are now. We're going to have to find even bigger cuts to pay for them. But since the Obama administration has used 10 years' worth of revenue out of the (say it with me now) easiest and most obvious pay-fors, we're going to have to find the money in some even less obvious, and more politically difficult, place.

This is why I've been saying [we have to be more budget-minded](#), instead of considering each program in isolation. We can afford any of the things our government is doing. But we cannot afford all of them. And focusing on whether an individual program "reduces the deficit", without looking at how it fits into the bigger budget picture, results in . . . well, about what we got yesterday.

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