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Will This Study Finally End Democrats' Magical Thinking About the 'Cadillac Tax'?

It's been a fascinating anthropological exercise to watch the health excise tax concept (the so-called "Cadillac tax") keep its popularity among Democratic and liberals, even as one study after another discredits the assumptions behind it. It's the Democratic equivalent of trickle-down economics - an idea that doesn't seem to die no matter how much it's contradicted by the facts.

The Senate health reform bill places a 40% tax on all employer health benefit costs above a certain threshold. This tax came with a set of assumptions which have been disproven one by one. We were told that the tax would target health plans with especially 'rich' or 'generous' benefits, for example, but a comprehensive analysis showed that wasn't the case. We were told that employers would cut benefits as a result of the tax and give the money saved back to employees as wages, but surveys showed that they plan to do no such thing (more here).

Then we learned that the tax would disproportionately affect plans with lots of older people, or more women, or people who live in higher-cost parts of the country. Who could support an unfair-sounding idea like that? Barack Obama, for one. After months of silence as the Senate eviscerated one of his campaign promises after another, he finally spoke up ... in favor of the tax which he had lambasted during the election.

A lot of bloggers and commentators continue to agree with him, too,as do his top economic advisors. Why? In part, it's because they oppose the idea of using employers to provide health care coverage. I do, too -- but I don't think you fix that problem by reducing people's current coverage, especially in such a discriminatory way. After all, there's no other option available for these employees. It's like trying to solve the problems of public housing by throwing people out into the street.

Proponents also imagine that the employees affected will somehow become "smarter health shoppers," despite the fact that doctors - who are *not* taxed by the bill - make the decisions that drive health care costs. So there's also a heavy dose of Cato Institute-style free-market ideology in the idea (although its proponents would be shocked at the comparison.)

Finally the unions stepped in and negotiated a compromise deal with the White House. By this time the tax's proponents were insisting this was a merely tax on "union benefits," and that the unions were a "special interest" acting selfishly. Now a new study from UC Berkeley punctures this final Cadillac-tax myth. Research conducted by Ken Jacobs and his colleagues at the Center for Labor Research and Education suggests that the vast majority of employees affected by the tax (at least 80%) would *not* be in a union.

It looks like the unions did *everyone* a favor by mitigating the effects of this tax. They've managed to reduce (though not necessarily eliminate) some of its more discriminatory effects. Yes, in some ways their negotiations would benefit union members slightly more, but only temporarily. And most of the people who benefit by the concessions they've won are *not* in unions.

The unions managed to raise the tax's thresholds, and they got agreement in principle to adjusting the threshold for age, gender, and residence in 17 high-cost states. Yet major problems remain: The increase in threshold levels is less than one year's medical inflation. There's no adjustment for active workers over 55, who are an especially costly group. The potential adjustments for state and gender haven't been spelled out yet, but political experience raises doubts about whether those adjustments will fully account for cost differences.

The tax's proponents have embraced the CBO's conclusion that it will raise $149 billion in revenue over ten years, mostly by taxing those extra wages workers will supposedly get (but employers say they don't plan to give). Fact is, you can't collect taxes on wages that aren't paid - and if benefits are cut back, which is likely, you can't collect taxes on people's lack of health care coverage, either.

Jacobs *et al.* have other reasons to doubt the CBO's figure, too. They believe that the total number of employees affected by the plan is less than that the CBO projected. That, plus a lower estimated per-employee revenue figure, gives them a top number of $90 billion even without the union-won agreements.

So here's the likeliest scenario under the "Cadillac tax": A number of employees, mostly non-union, will find that their health benefits are either being taxed or (as is more likely) cut back. Their out-of-pocket costs (copayments and deductibles) will be raised, leading them to see the doctor less often. And their overall health costs may stay the same or even go up!

Oh ... and one more thing about the tax: The public hates it. Yet despite all that, if a health reform bill passes this year Democrats are expected to keep the Cadillac tax in it.

Why isn't this idea dead? Why doesn't somebody put it out of our misery? There are four reasons: The first nobody thinks the Senate can be talked out of it. The second is that it's one of the few remaining measures in the bill that even *looks* like cost containment, even though it isn't, and Dems want to be able to say they're cutting costs. The third is that the House's alternative is to tax high earners, and for whatever reason some Democrats are reluctant to do that.

The last reason is the most potent of all: Zombie ideas like the Cadillac tax and trickle-down economics are hard to kill. If they're "intuitive" - that is, if they sound good to you the first time you hear them - then you fall in love with them. And if the idea you love one day leaves millions of employees without the coverage they need? Well, then I guess it's like the old saying goes:

Love means never having to say you're sorry.

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