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Romney's Folly - Health-care mandates are a middle-class tax

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Amid negotiations with leading Democrats over health-care reform, Iowa senator Chuck Grassley, ranking Republican on the Senate Finance Committee, commented, "The federal government is in the process of nationalizing banks, nationalizing General Motors -- I'm going to make sure we don't nationalize health insurance, and the 'public option' is the first step to doing that."

Grassley is correct, and conservatives are right to oppose Pres. Barack Obama's proposal to create a "Fannie Med." But when it comes to nationalizing health insurance, there is more than one way to skin the consumer. Indeed, there is talk on Capitol Hill that Grassley and other Senate Republicans may be close to a deal that would nationalize health care smack dab in the middle of the private sector. For an example of how that can be done, look to Massachusetts.

In 2006, Gov. Mitt Romney teamed up with Beacon Hill Democrats and the Heritage Foundation to enact the most sweeping health-care reform in the nation. Governor Romney made Massachusetts the first state to require that its residents purchase health insurance under penalty of law (the "individual mandate") and the second state (after Hawaii) to require that employers make a minimum level of health insurance part of employee compensation (the "employer mandate"). Romney created new government subsidies and expanded Medicaid to help residents comply with those mandates. He also created a health-insurance "exchange" -- a government-managed marketplace -- called the Commonwealth Connector.

Although Romneycare included no insurance program explicitly run by the government, it gave Beacon Hill politicians so much power over the health care of Massachusetts residents that it might as well have. The individual and employer mandates, operating entirely within the private sector, imposed what amount to new tax burdens, gave government the power to regulate all aspects of health insurance and medical practice, and subjected residents' access to medical care to political calculation. Moreover, the fruits of Romneycare have been exactly what you'd expect from a government program. Before reform, Massachusetts's health-care sector was rigid and expensive, with some of the longest waiting times in the nation. Since reform, it has grown even more rigid and expensive -- though the politicians have managed to hide more than half of its $2 trillion cost. Waits are longer as well, though they hardly merit a mention compared with the more odious forms of rationing imposed elsewhere in the world.

All of this makes Massachusetts a case study in the reforms that President Obama and congressional Democrats are trying to ram through Congress. Both the House and Senate health-care plans include individual and employer mandates, new government subsidies, a broader Medicaid program, and a new government-managed health-insurance exchange -- as would the potential deal under consideration by Grassley and Finance Committee chairman Max Baucus (D., Mont.). As goes Massachusetts, so would go the nation.

Like any government health-care program, Romneycare has spurred its share of garden-variety "send a check to Uncle Sam" tax increases. Yet those taxes don't account for even half of Romneycare's costs. Individual and employer mandates are the taxes that politicians prefer when they don't want you to realize they're taxing you. As President Obama's National Economic Council chairman, Larry Summers, wrote in 1989, employer mandates "are like public programs financed by benefit taxes. . . . There is no sense in which benefits become 'free' just because the government mandates that employers offer them to workers." The same is true of an individual mandate: To the extent that government forces people to purchase something they do not value, it is a tax, even if the money never enters the treasury.

That means that Romneycare achieves near-universal coverage mostly by taxing middle-class earners. Massachusetts forces employers to offer workers a minimum level of health benefits or pay an annual $295-per-worker penalty, while individuals who do not obtain coverage face annual penalties as high as $1,068. Since employers pay for employment taxes and employee benefits by reducing wages, Massachusetts residents can face a tax of nearly $1,400. Depending on their income, married couples pay up to twice that.

Obama is hardly oblivious to the coercive nature of mandates. Take him at his own word: During the presidential campaign, he attacked Hillary Clinton's proposal for an individual mandate by likening it to Romney's Massachusetts model. Under an individual mandate, Obama explained, "you can have a situation, which we are seeing right now in the state of Massachusetts, where people are being fined for not having purchased health care but choose to accept the fine because they still can't afford it, even with the subsidies. And they are then worse off. They then have no health care and are paying a fine above and beyond that."

Since individual and employer mandates are simply disguised taxes, imposing them would violate Obama's pledge not to tax the middle class. During the presidential campaign, he vowed, "I can make a firm pledge: Under my plan, no family making less than $250,000 a year will see any form of tax increase." Yet House Democrats would force non-compliant employers to pay a tax equal to 8 percent of payroll, while uninsured individuals would pay a tax equal to 2.5 percent of income.

An uninsured worker earning $50,000 per year with no offer of coverage from his employer would therefore face a 15.3 percent federal payroll tax, plus a 25 percent federal marginal income-tax rate, plus an 8 percent reduction in his wages, plus a 2.5 percent uninsured tax. In total, his effective marginal federal tax rate would reach 50.8 percent.

In late June, Obama declared, "If any bill arrives from Congress that is not controlling costs, that's not a bill I can support. It's going to have to control costs." Last week, Congressional Budget Office director Douglas

Elmendorf explained that simply forcing people to purchase health insurance would bend the "cost curve" -- in the wrong direction. No one who has been paying attention to Massachusetts was surprised.

Prior to reform, Massachusetts already was known for extravagant health-care spending. In 2004, per capita spending was a quarter to a third higher than the national average and was growing faster to boot. According to a study funded by the BlueCross BlueShield Foundation of Massachusetts, Romneycare caused spending growth to accelerate further. The study indicates that without reform, spending would have grown by just 6.4 percent in 2007. Instead, it grew by 10.7 percent -- two-thirds faster.

A report by the Massachusetts Taxpayers Foundation titled "Massachusetts Health Reform: The Myth of Uncontrolled Costs" tried to put a happy face on the reform's expense. It explained that in 2009 Romneycare is covering 432,000 previously uninsured residents while increasing state outlays by just $409 million -- which seems like a bargain. Of course, the full cost of Romneycare includes not only increased state spending but increased federal spending (in the form of matching Medicaid funds) and mandated private spending by individuals and employers. In total, the foundation conservatively estimates that the full cost will exceed $2.1 billion this year. That is, Romneycare is covering the uninsured at a cost of about $6,700 each. For comparison, in 2007 the average cost nationally of an individual policy was just $2,600. That's a bad deal, even by government standards.

Note also that only about 40 percent of the cost of Romneycare actually appears in any government budget. The lion's share is borne by the private sector. Massachusetts politicians are nonetheless struggling to scrape together the direct government funding. Of necessity, they have begun rationing access to care.

For all that additional spending, many Massachusetts residents are finding it harder to see a doctor. One survey of wait times to see a specialist, such as a cardiologist or orthopedic surgeon, reads like a dispatch from Canada. In 2004, specialist wait times in Boston were already among the highest in the nation. Over the next five years, wait times fell in most U.S. cities and averaged 21 days, but in Boston they rose to an average of 50 days, even though Massachusetts has more doctors per resident than any other state. Those wait times may be exacerbated by state officials' decision to impose price controls.

The individual and employer mandates give Massachusetts the ability to ration care in a deliberate and systematic fashion. When government mandates that individuals purchase health insurance, it must define "health insurance" so that people can know whether they are complying with the mandate. That not only gives government the power to dictate what types of coverage health plans must offer but also enables it to regulate the relationships between insurers and health-care providers. In July, a legislative commission recommended that Massachusetts use that power to impose price controls as a means of rationing care in the private health-care sector.

At first, the proposed price-control regime would dictate the unit of payment that insurers and providers must use. Instead of paying providers a fee for each particular medical service -- $50 for a flu shot, $300 for patching up a broken finger, whatever -- Massachusetts would dictate that all insurers pay providers a "global payment" that covers all of the patient's medical needs for an entire

year. There's nothing dangerous about this method of paying providers as long as insurers using other payment methods are free to compete. But if government mandates that "global payment" is the only legal method, you get Canada. In effect, "global payment" becomes the government's way of delegating medical-rationing decisions to doctors and hospitals, which must accept a flat fee per customer and then decide what they will and will not do for the money they receive.

Over time, the state would no doubt seek to control not only the method of payment but the prices themselves.

When the Massachusetts legislature needed to trim $130 million from the cost of Romneycare, it canceled coverage for 30,000 legal immigrants -- suggesting that politicians charged with rationing care will do so at the expense of those who are least politically powerful.

In 1989, Summers wrote, "Conservatives tend to prefer mandated benefits to public provision, as evidenced, for example . . . in proposals in the 1970s to mandate employer health insurance as the 'conservative' alternative to national health insurance." The experience in Massachusetts should teach conservatives that individual and employer mandates are socialized medicine with a private façade. We'll know by watching Senator Grassley whether that lesson has been learned.

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