

## John Hood's Daily Journal



### Adverse Reactions to Reform

By John Hood

January 19, 2010

RALEIGH – The intended consequences of ObamaCare will be bad enough – a [federal takeover](#) of health-insurance regulation, the [destruction of consumer-driven health care](#), and the vast expansion of a [Medicaid program](#) that is already costly and unsustainable. North Carolinians should oppose the monstrous bill on those grounds alone. But the unintended consequences will be even worse.

The Cato Institute's Michael Cannon details one of these consequences in [a new paper](#): an increased tax burden on low- to moderate-income workers.

That's not at all what President Obama promised during the 2008 campaign and the 2009 congressional debate on health care. Any new government outlays in the bill were supposed to be offset by taxes on The Other – on rich individuals, on medical providers, and on employers. Average “working people” (an old Marxist term for class solidarity that should always be treated with disdain) were supposed to be net beneficiaries of the plan, getting new health benefits at The Other's expense.

Demagogues have promised the public something for nothing for generations. The promises eventually prove hollow, but not before taking lots of people in and allowing the demagogues to get the power they seek. ObamaCare is based on the same cynical ploy. Fortunately, the truth of the matter is emerging before rather than after the fact.

In his paper, Cannon explains several mechanisms that are likely to function far differently in practice than ObamaCare proponents are claiming now. For example, the bill includes a requirement that all Americans purchase a minimum level of health insurance as determined by Washington. I think such a mandate is illiberal and [unconstitutional](#), but assume for the sake of argument that it is enforced. The result is supposed to be near-universal purchase of health insurance.

But because of other regulations in the bill forbidding insurers from pricing their products accurately, according to the health conditions and behaviors of the individuals being covered, the bill will actually create a strong incentive for many Americans to refuse insurance coverage, pay the required fine, and then enroll only when they expect to make an insurance claim. The fine will often be lower than the premiums these individuals will expect to pay without making substantial claims on the system. For singles earning more than \$16,000 a year, choosing to be uninsured could save them nearly \$3,000. For families of four with incomes above \$38,000, the savings would approach \$8,000.

Such adverse selection is already a problem in the insurance market, particularly in states that have previously

enacted laws forbidding insurers from pricing their products rationally. Rather than fix the problem, ObamaCare will make it worse. One of the consequences, then, will be that many people of modest incomes will end up paying new federal fees and taxes.

In addition, the bill creates a new structure of subsidies based on household income. While intended to help families afford the new, more-expensive health insurance Washington will mandate, the subsidies will actually create strong incentives for many workers either to avoid accepting some pay raises or promotions – because the subsidy lost would exceed the salary gained – or to move more of their work “off the books,” encouraging black or gray markets in labor, goods, and services.

“Real health care reform,” Cannon concludes, “would not discourage Americans from purchasing health insurance, discourage low-income workers from climbing the economic ladder, or create an unstable environment that would lead to higher premiums, more government spending, and higher taxes.”

ObamaCare is not [real health care reform](#).

*Hood is president of the John Locke Foundation.*