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Will Health Care "Reform" Really Lower the Deficit?

By [James Picerno](#)|Mar 22, 2010, 10:03 AM|[Author's Website](#)

The health care reform bill has passed the House and the only thing standing in its way from becoming law is the Senate. Although Republicans are expected to put up a fight, it's unlikely that they'll succeed in keeping the bill from the President's desk, where Obama will sign it and proclaim victory.

Among the many questions that surround the health care legislation is cost. At a time when the U.S. budget is already saddled with hefty doses of red ink, there's a growing debate about how the new health care bill will help, or hinder, the cause of fiscal probity.

Advocates of the legislation argue that the deficit will fall under with the arrival of health care reform as currently packaged. The bill is set to spend some \$950 billion over the next decade, but it would also raise revenue. If you buy into the embedded assumptions in the legislation, the deficit outlook via the Congressional Budget Office will be lower, thanks to the various revenue-raising efforts.

"Could this really be true?" [asks](#) Douglas Holtz-Eakin, a former director of the Congressional Budget Office and

currently the president of the American Action Forum, in a New York Times op-ed over the weekend. No, he warns. "The health care legislation would only increase this crushing debt," he predicts, offering several examples of why he thinks this is the future that awaits.

The Everyday Economist [raises some doubts](#) about whether the revenue raising assumptions in the bill will pan out. As one example, he considers the excise tax on "Cadillac" health care plans. But expecting this will generate revenue is premature because...

The tax is not implemented until 2013. This suggests that, in the near-term, firms that offer top-of-the-line insurance have an incentive to reduce the coverage extended to their employees to avoid the tax. This shift could potentially reduce health care spending as these individuals would then have to spend more in out-of-pocket costs – effectively raising the price and reducing the quantity demanded. Such a shift, however, would also imply lower tax revenue as these plans are eliminated.

Of course, even the analysis of the excise tax above makes important assumptions. For example, it was assumed that the tax was actually implemented and not repealed by subsequent legislation. In addition, the most vehement detractors of this provision have been labor unions as they tend to offer their members better benefits that could potentially be subject to the new tax. As a result, there has been discussion about creating an exemption to the excise tax for members of labor unions. Such an exemption, however, would result in lower tax revenue and a lesser reduction in health care spending.

But as a broad brush piece of legislation, supporters of the bill assert that net effect will be one of deficit reduction. "Americans think the bill is too expensive because they don't understand its cost controls," [complains Ezra Klein of Newsweek](#). "The fact that the cost controls are complicated and numerous doesn't mean they're absent, or that they won't work." With that, he proceeds to offer a list of the bill's "best ideas" for controlling costs, including these two items:

Outlawing the bad kind of competition while enabling the good kind, which the bill does, is more than just a humanitarian measure. It's a cost control. The insurance "exchanges" imitate the market in which federal employees (including congressmen) purchase their health care insurance. Participating insurers can't discriminate based on pre-existing conditions, they have to answer to regulators if they attempt to jack up premiums, and consumers will be able to rate their insurers, a rating that everyone else will see when shopping for their insurance.

...The next cost control worth mentioning is an effort by Congress to solve the problem of, well, Congress. Medicare's cost problem is, in many ways, a political problem: Saving money means cutting someone's profits or someone's benefits, and politicians are afraid to do either.

Enter the Independent Medicare Advisory Board. Modeled off of the highly-respected (but totally toothless) Medicare Payment and Advisory Commission, IMAC is a 15-person board of independent experts chosen by the president, confirmed by the Senate, and empowered to cut through congressional gridlock. IMAC will write reforms that bring Medicare into line with certain spending targets. Congress can't modify these proposals, it can't filibuster these proposals, and if it wants to reject them, it needs to find another way to save the same amount of money. Making the process of passing tough reforms easier is the single most important thing you can do to make sure tough reforms actually happen.

None of this is swaying critics, including the Cato Institute's Michael Cannon, who [argues](#) that the new health care bill will boost the budget deficit by \$59 billion.

In fact, no one really knows how the future will play out with the true cost of the health care. The legislation is so complicated, with so many moving parts, that it's virtually impossible to foresee how all its facets will interact and how this will change current estimates of revenues and costs.

Meanwhile, even if you don't fully understand the bill (and who does at this point?), one can maintain a healthy skepticism solely by recognizing that Congress has a poor record on matters of cost control. That's the nature of the beast. The optimistic view is that it's different this time.

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