Baucus Birth Tax starts three years before inception

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My column today at AIP looks more closely at the medical-device taxes that Senator Max Baucus imposes in order to fund his conceptual plan for overhauling the American health-care system. I call this the Baucus Birth Tax, although it's probably more accurate to call it the Life Tax, since these begin almost at conception and don't expire until we do. The problem with this tax is that it suffers from the same problem that ails the entire health-care system, which makes it difficult to fight:

> Instead of making health care more affordable, the Baucus plan raises the price on just about every part of treatment that goes farther than a routine checkup. The price jump should enrage every consumer in the American medical system - but it won't. Ironically, the very reason we have a cost problem in our system will also allow Baucus and his allies off the hook for making treatment more expensive.
>
> The true problem in the American health-care system is a lack of pricing transparency to the consumer. We don't pay the bills for our medical care; we pay premiums, but we don't pay the doctor or hospital directly except for artificially determined co-pays. When the costs of providing the care go up, our insurers feel the pinch, and eventually that translates into higher premiums - but the connection between receiving goods and services and the pricing pressure doesn't exist.
>
> When we pay more for contact lenses and breast pumps at the cash register, we will see the impact of the Baucus plan, but for the most part, providers pay these taxes directly and pass them on to the people who pay for our medical care. We won't see the connection between these taxes and rising costs any more than we do with overuse today.

Yesterday, the CBO scored the Baucus "concept" and gave a preliminary analysis that it would reduce the deficit by $81 billion over 10 years. However, the CBO insisted that this was only a conceptual analysis, as none of the Baucus plan has been translated into legislative language as of yet. Until the legislative language exists, the CBO cannot properly score its impact.

The CBO relied on a couple of flawed assumptions in making that conceptual analysis. It took at face value Baucus' notion that an excise tax on insurers offering "Cadillac plans" would raise over $201 billion in revenue, although it did shorten that by over $50 billion in the ten year period. As I have written before, that tax will push insurers to drop those plans to avoid the excise tax — and even if they didn't, the insurers would have to hike premiums so high to cover that cost that no one would buy the plans. The House has insisted that they will not vote for this tax in any case, which leaves Baucus two different ways to *not* get that revenue.

However, Baucus has also included a little sleight-of-hand in this scenario. While the program itself would not start until 2013, **the taxes start in 2010**. That means the CBO compared seven years of expenses to ten years of revenue, which hardly makes for an apples-to-apples comparison, and will likely mean that the real analysis — which will contain a projection for the second decade as well as the first — will look much less positive for Baucus.

According to the Joint Committee on Taxation, the government will receive the following revenues in the three years preceding the implementation of his plan:

- 2010 - $8 billion

- 2011 - $10.3 billion
- 2012 - $10.9 billion

That comprises almost $30 billion of the so-called savings from the CBO conceptual analysis. (Big thanks to Keith Hennessey for the link to the Senate document.) If that revenue fails to meet expectations, it will impact the entire ten-year scope of the project, not just the $30 billion head start it gets in the first three years. Plus, it's worth noting that these taxes will get paid not by the insurers, but by consumers in higher premium prices as the costs spiral out of sight. This does not reduce the costs in the system, but increases them and shifts them around to keep them opaque to the taxpayer — which is the *actual* problem we face with health-care costs.

And the CBO warns that budget deficits will start increasing in 2015 in its letter, or a substantial reduction in the subsidies offered in the exchanges (emphases mine):

> An amendment adopted by the committee would require that, beginning in 2012, the Director of the Office of Management and Budget (OMB) certify annually whether or not the provisions of the legislation are projected to increase the budget deficit in the coming year. If the Director determined that they were projected to increase the deficit, he or she would be required to notify the Congress, and **exchange subsidies would be automatically adjusted** to avoid the estimated increase in the deficit for that year.
>
> The estimates presented in this preliminary analysis do not incorporate the potential effects of using this proposed failsafe mechanism, although CBO and JCT estimate that the amended mark would **increase the deficit in fiscal years 2015 through 2018**. Many of the budgetary effects of this proposal would appear as part of larger aggregates in the budget and would not be readily observable. Consequently, its overall budgetary impact could not be identified, and OMB's estimating assumptions and procedures would determine whether and how this failsafe procedure was implemented. It is therefore difficult to predict whether the proposed failsafe mechanism would result in a budget-neutral impact in each year. If the mechanism was implemented to reduce exchange subsidy rates in some years, it would probably result in significant reductions to the dollar volume of such subsidies and associated reductions in coverage. Under CBO and JCT's estimates of the deficit impact for the proposal, the failsafe provisions would require a reduction in exchange subsidies **averaging about 15 percent during the years 2015 through 2018**.

Government giveth, and government taketh away.

Update: Cato says the numbers don't add up:

> Sen. Max Baucus's (D-MT) health care overhaul would cost more than $2 trillion. It would expand the deficit. But he has carefully and methodically hidden those facts – so well that he has completely hoodwinked nearly all the major media.
>
> The media are reporting that the Baucus bill would reduce the deficit by $81 billion over 10 years. Wrong.
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> The Baucus bill assumes that Congress will allow the "sustainable growth rate" cuts in Medicare's physician payments to occur beginning in 2012. Yet Congress has routinely and repeatedly blocked those cuts, making Baucus's assumption preposterous. The CBO handled the issue delicately, but essentially said, "Sure, provided that the sun rises in the west in 2012, then yes, this bill would reduce the deficit."
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> That means Baucus will come up at least $200 billion short on the revenue side, making his bill a budget-buster.

Michael Cannon says the bill will cost $2 trillion, not $829 billion. Be sure to read it all.

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THERE IS NO BAUCUS BILL.

Seven Percent Solution on October 8, 2009 at 1:39 PM

Right. Save us money by charging us more. LOL

Blake on October 8, 2009 at 1:40 PM

Why is it that something that does not exist costs so much?

LincolntheHun on October 8, 2009 at 1:42 PM

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I thought the CBO was going to use dynamic tax analysis. Did that not happen with the Baucus 'bill'.