Stephen Spruiell

October 13, 2009, 0:00 a.m.

Obamacare Dissected

Ten things that probably will be in the health-care bill (but shouldn't).

By Stephen Spruiell

Rummaging through the stacks here at *National Review* world headquarters, I discovered in our Dec. 13, 1993, special supplement on Hillarycare a curious little ad that read "Just say NO to socialized health care." The ad implored me to call 1-800-5RESIST, so just for fun, I dialed the number, hoping that maybe, just maybe, the brave soul who set up this hotline back in the '90s was still manning the post, dispensing advice on the best way to oppose Obamacare.

Wrong. A male voice offered me an invitation to "talk to ladies all over the country," and I don't think he meant Blanche Lincoln and Olympia Snowe. I hung up and returned to the health-care debate, 2009. The Republicans are in disarray. The Democrats are cutting deals. The Congressional Budget Office is acting like Burger King, telling Max Baucus, "Have it your way." Of *course* 1-800-5RESIST is now a phone-sex line: We're screwed.

Or are we? After all, back in 1993, conservatives were able to stop a health-care-reform plan that looked just as ominous and unstoppable. The Democrats had the White House, 56 senators, and an 80-vote margin in the House. They had James Carville, Hillary Clinton, and a secretive task force (though these might have turned out to be liabilities). They faced a Republican party coming off a historic defeat. R. Emmett Tyrrell had just published *The Conservative Crack-Up* about infighting among conservatives following the end of the Cold War. Then as now, the Right lacked an identifiable leader, save for Rush Limbaugh.

But we did have one thing going for us: Hillarycare was awful. It was loaded with mandates, government control, empty promises, and taxes. Obamacare differs in the particulars, but it is built on the same rotten foundation: a belief that dumb consumers and greedy insurance companies are to blame for the health-care mess, and therefore bureaucrats need to step in and tell them what to do while the rich pay for it.

Has this diagnosis ever been right? Has this prescription ever cured a single patient? Of course not. In fact, government interference initially created and has since greatly exacerbated the third-party-payer problem that has saddled the system with runaway costs. Wage and price controls during World War II prompted companies to compete for workers by offering generous medical benefits, and changes in the tax code entrenched this practice to the point where we now use insurance to pay for routine health care. For the poor and the elderly, the government created a system of entitlements whose bad design led to cost-shifting in the private sector and looming budgetary shortfalls in the public sector that the political class has no idea how to finance.

Instead of reintroducing concepts like competition and personal responsibility as a way to bring down

costs and make coverage more affordable, Obamacare relies on coercion and taxation to pursue these same goals less efficiently. Here are ten reasons why no proposal built on this foundation deserves to pass:

1) Removal of the Ability of Insurers to Deny Coverage. The first thing Obama and his backers want to do — the main thing they all agree on — is take away insurers' ability to deny people coverage or charge them different rates based on pre-existing conditions. The question of what to do for people whose health status has rendered them uninsurable is a thorny one, but the heavy hand of regulation is not the answer. States have conducted successful experiments with "high-risk pools," and "health-status insurance" offers another promising idea. The problem with what the Democrats want — mandatory coverage at low rates for sick people (also known as "guaranteed issue" and "community rating") — is that it gives people an incentive to postpone buying insurance until they need expensive care. Theoretically, guaranteed issue and community rating work only if the government requires everyone to have insurance. The Democrats know this; insurance mandates are integral to Obamacare.

2) Coverage Mandates on Individuals and Employers. Once upon a time, Obama was against insurance mandates. In the run-up to the Iowa caucuses, his campaign ran an ad attacking Hillary Clinton on the grounds that the mandates in her plan "would force people to buy insurance even if they can't afford it." Realizing that his health-care plan would be unworkable without a mandate, Obama has flip-flopped and rebranded required coverage as "shared responsibility." Clinton fired back at the time, and Obamacare supporters argue now, that the mandate would come with subsidies to help lower-income people afford the coverage they would be forced to buy. A look at the fine print on that offer reveals that many Americans would be forced to buy pricey policies without any help from the government. Workers offered coverage by their employers (who would be required to offer it) would not be eligible for subsidies and would have to take what they're given — which, under Obamacare, would be some minimum package of benefits designed by bureaucrats in Washington. That sounds like something that could quickly exceed what a lot of people consider affordable.

3) Government-Designed Insurance Plans. We don't have to guess about whether government-designed insurance plans cause costs to spiral upward. We can look to Massachusetts, where in 2006 the Brahmins of Beacon Hill enacted a health-care-reform bill similar to what the Solons of Capitol Hill are pushing today. Commonwealth Care, as the Bay State's version is called, also requires individuals to purchase a government-designed "minimum" level of coverage. As Michael Cannon of the Cato Institute has pointed out, lobbyists in Massachusetts have successfully pushed for that "minimum" to include prescription drugs, preventive care, drug-abuse treatment, hospice services, fertility treatments, prosthetics, telemedicine, and numerous other mandates. No wonder the average premium in Massachusetts has gone up significantly faster than has the national average. Even if you have insurance you're happy with, Obamacare would eventually force you to upgrade to one of these more "comprehensive" plans. So much for his promise that you can keep the simple, affordable plan that you like.

4) Threats to Medicare Advantage. Obama's promise to let you keep your current insurance plan must look even emptier to the approximately 9 million seniors currently enrolled in Medicare Advantage (MA) plans. MA gives seniors the option of getting their coverage from a private insurer rather than from the traditional, government-run Medicare. The government then reimburses the private insurer for the cost of that coverage. The program has proven popular: Enrollment has nearly doubled in the last five years, because the private insurers offer better benefits than Medicare. But these benefits come at a cost: Instead of requiring the private insurers to compete to provide better coverage for less, the government reimburses insurers using a Byzantine rate formula. On average, it costs the

government 12 to 14 percent more to cover the average MA enrollee than the average Medicare recipient. To fix this problem — which is an artifact of Medicare's own artificially low price-setting — the Baucus bill proposes to reimburse private insurers only for what it would have cost Medicare to cover the same enrollee. But remember, Medicare has unfair advantages in the marketplace — it can dictate prices to doctors and hospitals. Because private insurers can't use the same strong-arm tactics to get their prices down, many would instead cut benefits, raise premiums, or drop out of MA altogether. In other words: No, not everyone can keep the plan she likes.

5) New Taxes. According to the CBO, the Senate Finance Committee's version of Obamacare would achieve "deficit neutrality" by increasing taxes by more than $300 billion over the next ten years. Who pays? Starting in 2013, the tax would be assessed on all insurance plans that cost more than $8,000 per year for single coverage or $21,000 for family coverage. That sounds like a lot, until you consider that those thresholds are pegged to inflation as measured by the Consumer Price Index. The cost of health care generally increases much faster than that. As James C. Capretta has noted, "by 2019 and beyond, this tax would hit pretty much the entire middle class of America very hard." Obamacare would also use tax penalties to punish those who fail to comply with its insurance mandates. The 25-year-old men who calculate that paying the penalty is a better deal than buying the pricey government-designed plan with fertility treatments are expected to be good for $1 billion or so in tax revenue over the next ten years. Taxing the young at the beginning of their careers and using the money to pay for middle-aged men at the peak of their earning power: That's Obamacare!

6) A Stronger IRS. Over 30 new federal programs, agencies, and commissions would be required to administer the massive new health-care entitlement. Obamacare would establish a "Health Choices Administration" to dictate what your insurance plan can and cannot cover and a "Health Benefits Advisory Committee" to guide these "choices." And if the government decides your choices are not acceptable, Obamacare gives the Internal Revenue Service the power to levy substantial fines against you. An overlooked ramification is that the IRS would have to coordinate with the Health Choices Commissioner and whatever other officials are deemed necessary to decide whether your coverage meets the government's minimum standard. That means the IRS will be sharing your tax records with Obama's health czars, who could use them in new and intrusive ways. As Byron York has reported, one version of Obamacare (there are five or six floating around Capitol Hill) envisions the use of tax records to "find qualifying seniors who can then be encouraged to enroll in the [Medicare] prescription drug program." By filing your tax return, you could be signing up for government junk mail — or worse.

7) "Managed Competition" (a.k.a. "Government Control"). In the early 1990s, the buzzword was "managed competition," which in the context of Hillarycare meant "government control." Today, the buzzword is back, and guess what? It means the same thing. "One of the best ways to bring down costs, provide more choices, and assure quality," Obama says, "is a public option that will force the insurance companies to compete and keep them honest." But whether this public option takes the form of a federal-government-run insurance plan or state-sponsored, public-private co-ops, its true purpose would be to serve as a stalking horse for a fully nationalized single-payer system. We are watching this happen right now with student loans and to a lesser extent with Medicare Advantage: The government cooks the books to make it look as if cutting out the private sector would yield tremendous savings. In fact, real savings would come only from cutting out the government.

8) Reckless Expansion of Medicaid. Obamacare would make federal Medicaid dollars available to childless adults for the first time in the program's history. Not only would this change the nature of the program from one that is primarily designed to protect children living in poverty, it would also impose

new burdens on already-strapped state governments, which would be forced to come up with matching dollars to pay for the newly eligible. Not that this matters as much as it should: Many states, especially those where Democrats dominate, have expanded Medicaid eligibility even further than Obamacare envisions; whenever they run out of money, they simply ask Washington for a bailout, and responsible states end up subsidizing the reckless ones. Obamacare does nothing to change this perverse incentive structure. To the contrary: It adds to the perversity.

9) Welfare for the Middle Class. Mark Steyn has called government-run health care the "game changer" that forever alters the relationship between the citizen and the state. Nowhere is this more clear than in the way the bill means-tests for subsidy eligibility. Households with incomes between 100 and 400 percent of the federal poverty level — that's north of $80,000 for a family of four — can have their premiums fixed as a percentage of their income, making mandatory employer-provided care even more of a raw deal (see No. 2 above).

10) Government Rationing. This is where Obamacare ends. We know this because we've seen what happened to health-care systems in Canada and Britain. Wherever government fiat replaces private contracting as a method for setting prices, basic problems of supply and demand crop up, and with health care, the problem is almost always too little supply. When third parties pay the bill, consumers lose the incentive to consume rationally and providers lose the incentive to provide efficiently. Supporters of Obamacare have identified the problem as one of greed and stupidity, but their solution would entrench the third-party-payer system that rewards greed and stupidity. To swim against this tide of incentives will require coercion on a massive scale and — yes — rationing.

— *Stephen Spruiell is an* NRO *staff reporter.*