

Christie Whitman: Health care reform needs responsible fiscal policy for the sake of our grandchildren

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BY CHRISTIE WHITMAN

COMMENTARY

With the health care bill passed in the House and now up for debate in the Senate, we need to understand what is really in store for us if this massive overhaul of our health care systems goes through.

Of course, many of the final details have yet to be determined — something that will happen during the Senate debate and, if it passes, throughout what is sure to be a contentious conference committee process.

On a topic I have mentioned before, House Speaker Nancy Pelosi surely has failed in her promise to create the "most open and honest government in history" by not posting the 1,990-page house bill online 72 hours before it was voted on. Since most Americans were only able to read the bill after it was passed in the House, one of the provisions deserves proper examination and understanding: the 5.4 percent "surtax" on adjusted gross income exceeding \$1 million.

While most people are not inclined to feel sorry for individuals making half a million dollars a year or more, to assume that these individuals are the "rich" and can be taxed endlessly without consequence is to misunderstand an important part of this debate.

This tax will unevenly hit small-business employers who pay taxes via the owner's 1040 tax form. According to the IRS, these small-business employers earned a net \$414 billion in 2007. Of this, some \$236 billion — 57 percent — was earned in households with AGI of \$1 million or more.

While it's true that only approximately one million of the 21.5 million small-business owners would see a surtax on their profits (about 5 percent), according to the Americans for Tax Reform, nearly two of every three dollars of profit made by small businesses would be affected.

Further, assuming that these firms employ between 20 and 499 people, the Census Bureau Statistics of U.S. Businesses reports that 626,000 of these small employers employed 38.6 million Americans — about one-third of everyone employed — at an average salary of \$36,000 in 2006 (the most recent year data is available).

The new 5.4 percent surtax will tax these employers to the tune of \$13 billion per year, putting those 38.6 million Americans in jeopardy of lower salaries or lost jobs.

While these numbers may seem complicated, this surtax is important for understanding the financing of the health care proposal — one area the bill's Washington proponents would rather sweep under the rug. The House bill assumes implementation (and costs) will be delayed until late in the first 10-year budget period (2010-2019).

Sen. Judd Gregg, R-N.H., highlighted this gimmick in his Senate floor remarks last month and concluded that "when all this new spending occurs" — i.e., from 2014 through 2023 — "this bill will cost \$2.5 trillion over that 10-year period."

Let's deal in reality for a moment: Government assuming more control is not a cost-saving measure. The health bill may be important for ensuring care for the uninsured, but let's not be so naïve as to think it will be a cost saver. There are many ways we could work toward cost savings in health care, but the House bill does not contain them.

Further, as the Cato Institute's Michael Cannon recently discovered, the CBO estimates do not count the costs the private sector will have to pay to insurance companies as "taxes," even though they are surely costs for the system. Because mandates for insurance coverage would be from a business to a business, those dollars — which have to come from somewhere — are not counted in the total cost.

Accounting for this omission, it brings total costs to roughly \$2.5 trillion.

I believe we need health care reform in this country. But we should start with honest accounting, responsible fiscal policies for the sake of our grandchildren and a recognition of who is really going to shoulder the burden of this undertaking.

Anything less is just more of the same.

Christie Whitman was the 50th governor of New Jersey and the first female to head the state (1994-2001). She ran the Environmental Protection Agency from 2001 to 2003.

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