NEW YORK POST
Updated: Sat., Oct. 31, 2009, 4:39 AM

Health reform: Dems' deep divisions

By MICHAEL TANNER

Last Updated: 4:39 AM, October 31, 2009
Posted: 12:28 AM, October 31, 2009

Weary of news stories that legislative support for health-care reform is all but dead, Democratic leaders have been seizing every handy podium to declare that "the votes are almost there," "there is 90 percent agreement" on a proposal, "we are now prepared to move forward" and so on. In fact, even among Dems, there's nothing close to agreement on the major issues that have held up reform so far. Here's a primer on where the gaps between Democrats are wide:

Individual Mandate: This should've been low-hanging fruit. Democrats agreed on a mandate early in the process. But it became increasingly plain that a mandate would hit those with insurance as well as the uninsured -- forcing people who are happy with their plan to switch to a different, possibly more expensive plan. With this mandate now being seen as a middle-class tax hike, qualms have developed. Now senators such as Chuck Schumer (D-NY) and Olympia Snowe (R-Maine) are leading an effort to water down the mandate's penalties.

But without a mandate, the reform bill will significantly drive up the cost of insurance. For example, reform is expected to prohibit insurers from refusing to sell policies to those with pre-existing conditions. But if people can wait to buy insurance until after they are sick, why would anyone buy it when they are healthy? Young and healthy people will drop out of the insurance market in droves. With the insurance pool left older and sicker, insurance premiums will rise. That's why the House bill includes heavy penalties for failure to comply with the mandate -- 2.5 percent of an individual's income. In essence, reform backers must decide between a huge tax on the middle class or a huge increase in insurance premiums.

Employer Mandate: Most Americans get health insurance via their job. A mandate that all but the smallest employers provide insurance to their workers seemed an obvious example of "shared responsibility." Problem is, such a mandate simply drives up the cost of employing workers. With unemployment closing in on 10 percent, this seems a poor time to make it harder to hire people.

The Senate Finance Committee therefore largely abandoned an employer mandate, opting instead to make companies repay the government for subsidies to low-income workers who don't get employer-provided insurance. But that leaves a bill that penalizes workers who don't buy health insurance, but not employers who don't provide it. Better economics, perhaps -- but tough politics.

The Public Option: A trigger. Opt-in. Opt-out. Lately, Democrats have floated just about every possible permutation of a government-run insurance plan, designed to "compete" with private insurance. Many on the left have vowed to vote against any reform proposal that doesn't include a "robust" public option.

But moderates recognize that a government-run plan would have an inherent advantage in the marketplace, because it ultimately would be subsidized by taxpayers. The government plan could keep its premiums artificially low or offer extra benefits, because it could turn to taxpayers to cover any shortfalls.

This means the public option would be much cheaper than private insurance -- not because it would out-compete its private counterparts, but thanks to its unfair advantages. Businesses would have every incentive to dump their workers into the government plan. Estimates of how many people would ultimately be forced out of their current insurance and into the public plan vary, but go as high as 90 million workers. So moderates have resisted signing on to any of the public-option proposals -- no matter how often they're reconfigured.

Paying for it: Democratic leaders have used every budgetary sleight-of-hand they can conjure to pretend their bill costs less than the $900 billion marker set down by President Obama -- but those efforts have not gone well.

For example, the Senate tried to shift $250 billion in Medicare pay-outs from the health-care bill to separate legislation. The result was a humiliating 53-47 defeat on the measure, with 13 moderate Democrats jumping ship. Beyond the total cost, there is a nearly unbridgeable divide between the House and Senate on new taxes needed to finance the bill:

* The House wants to add a surtax on incomes of $500,000 or more a year. Combined with state and local taxes and Obama's plans to allow the Bush tax cuts to expire, that would raise marginal tax rates above 50 percent in 38 states. Those are some of the highest tax rates in the world.

* The Senate wants to slap a 40 percent excise tax on "Cadillac" insurance plans. But there's widespread recognition that insurers will merely pass that tax on to their customers in the form of still-higher premiums. And as inflation drives costs higher, more and more plans will be subject to the tax. Over time, an ever-larger number of middle-class workers will be hit with the news that, under the government's definition, they own a Cadillac.

Democratic leaders may yet twist enough arms, promise enough pork and fudge enough language to get a bill passed. But despite their most wishful pronouncements, they're a long way from done.

Michael Tanner is a senior fellow at the Cato Institute and co-author of "Healthy Competition: What's Holding Back Health Care and How to Free It."