

Report on **Business**

Final tab for U.S. health bill doesn't add up

Former head of Congressional Budget Office assails 'gimmicks and budgetary games'

Barrie McKenna

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Officially, at least, Barack Obama's historic health-care overhaul would help the United States close its massive budget hole.

The Congressional Budget Office, the non-partisan agency charged with analyzing federal legislation, estimates that providing near-universal [health care](#) for Americans would lower the federal deficit by \$143-billion (U.S.) over the next decade.

That's a good thing for a country facing a \$1.6-trillion deficit this year and a compounding debt burden for future generations.

The catch is that there are simply far too many catches in this gargantuan health bill to fully trust that optimistic forecast.

The new health-care plan relies heavily on the government spending a lot less than expected in future years on Medicare coverage for the elderly, while raising a lot more revenue from new taxes on the rich.

Many experts are – to put it bluntly – dubious that the savings are achievable.

“The health-care bill is a fiscal disaster,” said economist Alan Reynolds of the Washington-based Cato Institute, a libertarian think tank.

The United States already has two massive government programs that it can't pay for, Medicare and Social Security, and now it's planning to add another, he lamented.

Under the legislation, Americans earning more than \$200,000 a year will be hit with two new taxes – a Medicare surtax and a surtax on investment income. As well, individuals with unusually generous insurance plans will also be hit with a special tax.

But wealthy Americans will figure out a way to avoid those higher taxes and Congress won't have the guts to follow through on planned cuts to the cherished Medicare system, Mr. Reynolds explained. The result is that the new plan will add to the deficit, and more importantly, the growing long-term U.S. debt burden. Over the long term, the crushing debt will erode the country's ability to expand its economy – as Japan has learned, he warned.

Douglas Holtz-Eakin, who was director of the Congressional Budget Office (CBO) until 2005, said his successor is relying on “gimmicks and budgetary games” to show a reduction in the deficit. Do the math right, he argued in a [New York Times](#) opinion piece published Sunday, and the deficit grows by more than half a trillion dollars.

Among those gimmicks: \$19-billion of the estimated savings comes, not from an overhaul of health

care, but from a reform of unrelated student loan programs.

Likewise, more than \$100-million worth of anticipated costs in administering the new health care system simply weren't included in Congress's official estimate.

By far the largest source of savings come from \$463-billion in anticipated Medicare savings – savings that experts say may never be realized.

Josh Hendrickson, an economist at Wayne State University, agreed that the forecast of a lower deficit relies on some “sketchy assumptions.” Congress, he pointed out, has routinely passed legislation to curb Medicare payments to doctors and other health care providers, and every year they get postponed in the face of political pressure.

The problem is that when you cut payments to doctors under Medicare, they simply refuse to see patients covered under the plan, which insures U.S. retirees.

“The health-care bill makes a great deal of assumptions about revenue sources that potentially obfuscate the true costs of the bill,” Mr. Hendrickson said.

Even the CBO has acknowledged that its forecast of a lower deficit may not be achievable. In a weekend blog posting, CBO director Douglas Elmendorf said the health plan “would maintain and put into effect a number of policies that might be difficult to sustain over a long period of time.” That's bureaucratic acknowledgment of the reality that Congress goes to the polls every two years, and can rewrite legislation it doesn't like as the political balance shifts.

In the end, the fallout from the health-care legislation is likely to be more social, than economic, argued Paul Dales, an economist at Capital Economics in Toronto.

And even if the budget savings are realized, the net impact amounts to less than 1 per cent of gross domestic product, he pointed out.

That still leaves the United States saddled with a deficit of roughly \$1-trillion in 2020.

“The health care bill does not alter the fact that at some point, large taxes and or sharp spending cuts will be required to return the U.S. to fiscal austerity,” Mr. Dales said.

