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No taxes, please, we're Democrats

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Andy Stern, president of the Service Employees International Union, puts the quid pro quo in simple terms: "We spent a fortune to elect Barack Obama — $60.7 million to be exact."

Congressional Democrats received another $68 million from unions in 2008, and $21 million more so far this year. And that doesn't count the value of "in kind" contributions like phone banks, poll volunteers and independent advertising.

Looks like the unions are getting their money's worth — with a sweetheart deal worth billions.

For most American workers, beginning in 2013, if your health care insurance plan is worth more than $8,900 for an individual and $24,000 for a family, that plan will be hit with a 40% excise tax. While technically the tax falls on the insurer, virtually all economists agree that the cost will be passed on to consumers in the form of higher premiums. Moreover, because the threshold for the tax is indexed to ordinary inflation rather than the higher rate of medical inflation, even if your plan doesn't get hit today, it may well be taxed in the future.

But that won't happen to union members. Under an agreement negotiated by the Obama administration, congressional leaders, and union bosses behind closed doors, their policies will be exempt from the tax until 2018. Plans for state and local employees would also be exempted.

That's right: if you have two workers doing identical jobs, earning the same wages, and receiving the same insurance plan, the one who doesn't join the union gets hit with a 40% tax; the union worker doesn't.

This union exemption guts the rationale for the so-called "Cadillac tax." Economists and deficit hawks see this measure as one of the few cost-control provisions left in the bill. Its goal is not just to raise revenue, but to discourage the type of "gold plated" insurance plans that encourage over-utilization and drive up costs.

Some of the most gilded of these insurance plans are those of heavily unionized industries. The auto industry springs immediately to mind.

But exempting union workers from the tax will reduce revenue by an estimated $55 billion. With the cost of the health bill heading toward at least $1 trillion over 10 years, that lost revenue will have to be made up somewhere else. Most likely that will mean a tax on investment income, meaning there will be less capital available to create jobs (at a time of 10% unemployment) as well as lower returns for your 401(k).

Of course, there are other union goodies in the health care bill.

For example, under the Senate version of health care "reform," companies with fewer than 50 workers would not be required to provide their employees and their families with a government-approved insurance plan. However, for the heavily unionized building trades, that threshold was lowered to just five employees.

In addition, most employers will have five years to bring the insurance they offer into compliance with government specifications, including a minimum package of benefits. Those new benefits, which include mental health benefits, drug and alcohol rehabilitation, prescription drugs, dental and vision care, and more, may well be more expensive than current plans. If so, not only will employers pay more for insurance, but workers could find their contribution going up as well. But once again, if the insurance is part of a union-negotiated contract, employers will not have to make any changes until after the contract expires.

There's more. AFL-CIO President Richard Trumka told reporters that, beginning in 2017, all union workers would be permitted to buy coverage through the government-regulated exchanges, where insurance is expected to be less expensive. The original House and Senate bills limited access to the exchanges to small businesses, individuals and the uninsured, out of concern that a wider buy-in would undermine the system of employer-provided health care for the vast majority of Americans.

The White House has since waffled on this one. But union officials insist that it is part of the final package.

It is understandable why Democrats would feel both beholden to and intimidated by the union bosses. Trumka even has threatened to retaliate at the polls against Democrats who fail to toe the labor line.

But President Obama was elected on a promise to "change the way Washington does business." "Special interests" were going to be banished. The corrosive influence of lobbyists was going to end. No longer were congressional leaders to pass out favors like a Tammany Hall ward boss.

If you examine endorsements and donations, unions are strongly — if not totally — for the Democratic Party. This tax break, then, can be seen as not for any group in need, not for any level of income, not even for those with dependents or who can spur growth. It's a tax break for being a Democrat.

That, apparently, is a “special interest” the president can support.

Michael Tanner, a Cato Institute senior fellow, is co-author of “Healthy Competition: What’s Holding Back Health Care and How to Free It.”