

## How to Fix Health Care – Free the Market and Give Individuals Control – Part III

### Why Government Control is not a Solution, but a Certain Path to Catastrophe

#### The Cost of Medical Care – Why it Keeps Going Up

The real crisis in health care is spiraling “cost.” Healthcare costs for U.S. businesses are expected to grow by 9% in 2010, and grew by 9.2% in 2009, and 9.9% in 2008,<sup>1</sup> or about 7% ahead of inflation. All developed nations are struggling with rising health care costs, and the U.S.’s rate of spending growth corresponds to that in other wealthy nations. Between 2000 and 2006 the U.S. average real annual growth in health-care expenditures was 4.95%, compared with an OECD average of 4.9 percent.<sup>2</sup>

"Remember that every government service, every offer of government-financed security, is paid for in the loss of personal freedom. ... In the days to come, whenever a voice is raised telling you to let the government do it, analyze very carefully to see whether the suggested service is worth the personal freedom which you must forgo in return for such service."

--Ronald Reagan

What causes the cost to go up? There are many factors that contribute to rising health care costs. Premiums rise in response to increases in underlying medical costs and in response to demand, and increasingly burdensome government mandates and limitations. Costs are *not rising* because we lack more government health insurance options, but because there are more people, more old people and more things we can do for them.<sup>3</sup> Below is a list of the major root causes of medical cost increases:

1. **Increased health spending is a key component.** We spend more now than we did in the 1950s because there is exponentially more health care available to us in 2009 than doctors and patients could even have *imagined* in the 1950s. By their standards, we deal in medical miracles today (what’s the value of a miracle?). Costs go up as our consumption goes up. If we were only consuming the health care services that were available in the 1950s, our cost today would be much less than it was then (in real terms), and our quality of life would be much lower too.
2. **Innovating, producing, and delivering the astonishing advances in medical science and technology seen in the last 50 years is expensive.** We have the best health care system on the planet because we have the best and rapidly advancing medical technologies, doctors, skilled labor, science, pharmacology, therapeutic drugs, and equipment. As we all know, getting the best of anything isn’t cheap. Saving lives through technological and scientific innovation requires money ... lots of it.

“But there is no case to be made for the House Democratic majority’s proposal to fund health-care legislation through an ad hoc income tax surcharge for top-earning households.”

Washington Post, July 15, 2009

If you think it is the height of fiscal irresponsibility to raise taxes in a struggling economy with unemployment headed into double-digits, you’re right. This is crazy. This is not a time when we should be talking about raising anyone’s taxes, middle-income or upper-income. This is a time when we need all of the economy’s oars in the water pulling together, especially upper-income investors the Democrats want to tax into oblivion. This economy is desperately in need of tax-cut incentives to unlock an infusion of private invest-ment capital to help job-creating entrepreneurs and existing businesses survive what is very likely to be many months of economic anemia and turmoil."

--Washington Times columnist [Donald Lambro](#)

3. **Prosperous (wealthy) countries like the U.S. choose to spend more of their wealth on health care.** Because they *can* get the best available care, and they're free to buy it, they do. Wealth increases demand for health care. More and more health care products and services are developed in response to this demand.

"The statesman who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most necessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it."

--economist **Adam Smith** (1723-1790)

"Suffice it to say that if government attempts to control our total medical spending, sooner or later, it will have to control us. ... Like the politicians, most people are oblivious to F.A. Hayek's [The Road to Serfdom] insight that the critical information needed to run an economy -- or even 15 percent of one -- doesn't exist in any one place where it is accessible to central planners. Instead, it is scattered piecemeal among millions of people. All those people put together are far wiser and better informed than Congress could ever be. Only markets -- private property, free exchange and the price system -- can put this knowledge at the disposal of entrepreneurs and consumers, ensuring the system will serve the people and not just the political class. This is no less true for medical care than for food, clothing and shelter. ... The belief that [politicians] can take care of us is rank superstition. Who will save us from these despots?"

-- ABC's "20/20" co-anchor **John Stossel**

4. **The U.S. Population is getting older** (and life expectancy is increasing), and as this occurs a larger percentage of the population requires medical care.
5. **The health system has a growing ability to treat chronic diseases** like diabetes and cancer, and has experienced a dramatic increase in the proportion of the population suffering from chronic conditions. The Centers for Disease Control estimates that 75% of every health care dollar is for treatment of patients with one or more chronic conditions; this rises to 96% in public programs. These costs will rise dramatically the next 30 years.<sup>4</sup>
6. **Rising obesity levels** and other poor individual health-governance issues contribute to chronic diseases, which carry a big price tag. 67% of Americans are now officially obese; by 2015 The Milken Institute estimates that 75% of Americans will be obese.<sup>5</sup> Between 1998 and 2006, obesity rates increased by 37%, according to the CDC,<sup>6</sup> obesity now accounts for 9.1% of all medical spending, 36% of Medicare spending and 47% of Medicaid spending, and chronic disease is estimated to cost \$1.2 Trillion every year.<sup>7</sup>
7. Care is provided to **illegal immigrants**, who are largely uninsured, and less able to pay and less qualified for payment assistance.
8. **Nothing is more expensive than "free" health care.** As health insurance coverage has increased (both private and government), and the percentage of medical cost paid out-of-pocket by consumers has declined, consumers are encouraged to consume more medical services and products with no concern for their cost. Over use of insurance is the problem, not the solution. Insurance was created for those who suffer catastrophic events, not to cover every little medical expense. If this systemic overuse of insurance continues, the resulting overuse of technology causes its cost to rise. Many doctors believe that patients should be paying out of pocket for most of their medical care. The third-party payment system has destroyed the doctor-patient relationship. Consumers, especially those who have employer-provided medical insurance, don't know what the actual cost of their medical care is, or who is getting paid what by the insurance company, and doctors don't know what the patient is being charged. This

disconnect prevents sober assessment and prevents a direct dialog about cost between patient (consumer) and doctor. When individuals are insured under health plans with broad coverage, low co-payments, and low deductibles, research shows that they consume substantially more health care services.<sup>8</sup> The government's flawed paradigm of *mandating* such comprehensive coverage is the biggest reason for our health system's dysfunction.

9. **Inefficiencies in medical care delivery, and health data management** and communication. Doctors and their practices are heavily burdened with time-consuming paper work, duplicate documentation, which increases administrative costs. It's still mostly done as it was 30 years ago, pencil-pushing and paper.

Example, UPS and Fedex implemented their own electronic system. The government didn't write a law saying Fedex or UPS had to do electronic systems. They did it on their own. These systems haven't been widely implemented because of cost and overcoming incompatibility issues. How to solve? Give the private sector an incentive to introduce these systems.

10. **Systemic fraud**, theft, and casual abuse associated with the 3<sup>rd</sup> party payer system, especially that portion administered by the government, is rampant in large part because of the inefficiencies of government. These factors dramatically inflate costs.
11. **Trial lawyers and the jackpot justice culture**, which have the medical industry cowering in the corner fearing lawsuits and goofy jury awards, forcing them to practice medicine defensively by ordering procedures and tests designed to insulate from liability rather than to solve medical problems. Rates paid by doctors for medical malpractice insurance (which have been driven up by the lawsuit culture) are passed along in the form of higher fees for services.
12. **Countless mandates and prohibitions** imposed on health insurance providers by politicians and government regulators seriously undermine market efficiency, establish anti-market protectionism, interfere with competition, and over-regulate insurers, driving costs much higher than they would be otherwise (15% to 50% higher according to the CBO and the Council for Affordable Health Care<sup>9</sup>). These include "guaranteed issue" requirements (which has forced many insurers from the market), requiring coverage of many conditions that insurance buyers don't want (forcing them to pay for what they don't use anyway), preventing health savings accounts and individual insurance from having the same tax advantages of employer-based coverage, and banning the sale of individual health care plans across state lines. According to the Council for Affordable Health Insurance, states already impose 2,133 mandates on insurers.<sup>10</sup> These government requirements have collectively rendered the insurance market dysfunctional, to the great detriment of consumers. Every new coverage mandate imposed by government causes premiums to rise.
13. **Patients have incentives to over-consume medical care.** Many visit doctors for very minor problems that really don't require a doctor's attention, and Doctors have incentives to over provide. Fear, vanity, and consumerism run amuck (e.g., TV ads about medications) all contribute to this overconsumption. How can doctors be incentivized to not over-provide, instead of caving in to the demands of every patient that comes in the door with a hangnail. Doctors are evaluated in employment and contract reviews annually by hospitals that they work with. Part of that evaluation is the "RVU" relative value unit (which is like billable hours for lawyers) as a measure of value and performance. The higher the RVU, the better the doctor looks to the review committee. This is an incentive for doctors to conduct more RVU procedures, as opposed to just solving problems. There's a difference between solving problems and adding RVU.

**To put this in perspective, many other things in American life have also seen dramatic cost increases.** Education costs have skyrocketed, as has the cost of an afternoon at the major league ballpark. Energy costs have doubled and tripled in recent years, but you don't hear serious calls for a government takeover of the oil industry, or the creation of a government gasoline producer to "compete" with the private sector and "keep it honest." In fact, the Democrats are calling for another doubling or tripling of energy costs through its cap & trade legislation. The cost of government has certainly risen substantially in the last two decades. If rising costs were really such a serious problem, why doesn't Congress come up with a program to start reducing the cost of government? Why isn't that a "crisis?" They could start with some competition from the private sector to "keep them honest."

"If, from the more wretched parts of the old world, we look at those which are in an advanced stage of improvement, we still find the greedy hand of government thrusting itself into every corner and crevice of industry, and grasping the spoil of the multitude. Invention is continually exercised, to furnish new pretenses for revenues and taxation. It watches prosperity as its prey and permits none to escape without tribute."

--**Thomas Paine**, Rights of Man, 1791

"No man's life, liberty, or property is safe while the legislature is in session."

- **Mark Twain (1866)**

Democrats seem to think that increasing costs or spending a large percentage of gross domestic product on health care are automatically a “crisis,” and that we must reduce such spending (and, of course, that government alone is suited for this task). But, correctible waste and inefficiency aside, there are some very positive aspects to the growth in health care spending that shouldn’t be overlooked. Our annual \$2.4 Trillion in health care spending fuels revolutionary advances in medicine while it creates millions of very important high-tech jobs for Americans. Such spending is possible because we now have the luxury of allocating resources to health care, having already addressed our other basic human needs like food and shelter. We can afford to focus our resources on our health, quality of life, and longevity in a way that no other nation can. Our health care sector is thriving, innovating, developing, producing, exporting, growing, and researching; it’s delivering high-quality care to non-U.S. residents. In short, it is a dramatic engine of growth for the U.S. economy, and we must be very careful to avoid interrupting this engine’s efficiency, and the economic benefits it delivers out of some ill-conceived notion that spending on health care should remain static or never exceed x or y or z. To the extent that the free market is guiding a general expansion of spending on health care, it should be permitted to do so. Government should act only to reduce the burdens and barriers already hampering the private market in health care.

## What Will Democrats’ Government Takeover Cost, and How Will They Pay for It?

1. **Cost Estimates** – The cost of H.R. 3200 would be more than \$1.2 trillion over a decade according to the CBO;<sup>11</sup> \$239 billion of that would add to the budget deficit during its first decade; the national debt could increase by \$1 Trillion during its second decade.<sup>12</sup> Other estimates range from \$1.6 Trillion to \$3 Trillion. Worse, costs will rise faster than the financing sources will, including a tax on the wealthy.<sup>13</sup> With history to guide us regarding Congress’ accounting tricks, it is quite reasonable to expect that the actual cost of this legislation will be 50% higher than Democrats lead us to believe – closer to \$2 Trillion over 10 years,<sup>14</sup> a figure [Senate Majority Leader Harry Reid himself admitted](#) on the floor of Congress on October 15, 2009, referring to the Baucus bill. This conforms to the liberal-leaning Urban Institute’s estimate, and is probably the *minimum*. Health Systems Innovations, a nonpartisan consulting firm, estimates the costs at well over \$2 trillion, using simulation models based on more recent health-plan data than what are available to the CBO.<sup>15</sup> The Cato Institute estimates a \$2.4 trillion tab, double what the House bill and the CBO project. Where these costs go after 2019 is nothing short of an economic nightmare.
2. In late July, 2009 the CBO wrote: In its second decade, H.R. 3200 significantly bends the curve upward — increasing deficits even more than in the first decade.
3. On June 16, the CBO determined that the Senate Finance Committee bill would cost \$1.6 trillion over 10 years. In October, CBO estimated the new [House program \(H.R. 3962\)](#) will cost \$1.055 trillion over that decade.
4. On September 9, 2009 in yet another speech before a joint session of Congress President Obama said his reform plan would cost a mere \$900 billion, a figure that seemed to be made up to calm fears of the “T” word (trillion). He didn’t explain how he arrived at that figure. Senator Max Baucus’ plan came in at just \$829 billion on September 16, 2009, according to CBO scoring based not on actual legislative language, but on a “conceptual” document.

An uninsured worker earning \$50,000 per year with no offer of coverage from his employer would therefore face a 15.3 percent federal payroll tax, plus a 25 percent federal marginal income-tax rate, plus an 8 percent reduction in his wages, plus a 2.5 percent uninsured tax. In total, his effective marginal federal tax rate would reach 50.8 percent.

-- Michael F. Cannon

"[H]ealth care is the fastest way to a permanent left-of-center political culture. That's its attraction for an ambitious president: It redefines the relationship between the citizen and the state in a way that hands all the advantages to statist -- to those who believe government has a legitimate right to regulate human affairs in every particular."

--columnist Mark Steyn

5. **The problem with these numbers is history.** Government cost estimates are *always* dramatically understated. Projections for the cost of major legislation always assume that the legislation remains unchanged over long periods of time. But once enacted, changes always follow. The 25-year cost projections for Medicare presented to Congress in the 1960s were off by a factor of 10 (a \$10 billion estimate for year 25 compared to a \$107 billion reality).

**How is nationalized health care going to be paid for?** No one knows for sure, but we do know that paying for it is the real “crisis” at hand. Only government commits to making this scale of investment without knowing what the return on investment is going to be, something Democrats would *never* do if it was their own money. With

federal fiscal affairs already in shambles and threatening to bankrupt the country from existing health entitlements, how can Congress create, much less advocate, a new health entitlement program that dwarfs the existing programs? The federal deficit this year is more than \$1.4 trillion (almost three times George Bush’s 2008 deficit). If health care reform becomes law, the deficit will be even bigger.

Congress hasn’t even come close to properly addressing the nightmare of unfunded liabilities associated with existing programs. Medicare’s unfunded liability—the gap benefits promised and expected revenues—is about \$37 trillion over the next 75 years.<sup>16</sup> The national debt is now \$12 trillion, and *total* unfunded entitlement liabilities exceed \$100 trillion. Yet Democrats use this insolvency to justify creating yet another health-care entitlement for almost everyone, insanely arguing that the new program will be paid for with money that will suddenly, magically, be saved by ending inefficiencies in the existing government programs.

**President Obama declares he’ll pay for government’s involvement in part “by cutting out the systemic waste and fraud,”** and that his program will not cause the deficit to increase by “one dime, now or in the future, period.” When democrats say they are bringing “government efficiencies” to health care, we laugh while we cry. Government efficiency is an oxymoron; its efficiency always requires coercion. Cutting out waste and fraud is a nice idea, and Mr. Obama may mean well since we all know that “there sure is a lot of waste in the system,” but the declaration is nonetheless absurd on its face. Government is by nature and definition highly inefficient and wasteful. Government *is* the reason the systemic waste and fraud exists; if it were capable of getting rid of these problems, *why hasn’t it done so already, and why don’t Americans still have all that money they’ve wasted in their pockets?* Because it can’t. (It’s too politically risky for them to shrink government programs, because entitlement beneficiaries are allowed to, and do, vote.) Expecting it to do so now is fantasy. Suggesting that *these* Democrats have the magic to do so is disingenuous, and to believe these declarations is willful blindness.

Congress is discussing \$500-\$700 Billion in new taxes and \$500 billion in Medicare cuts in the first 10 years. Direct Medicare reductions will be \$219 billion. (These cuts are a fiction, and won’t happen ... because Congress has

never actually made such cuts after saying it would. When push comes to shove, they won’t cut an entitlement for a powerful voting block – and when the cuts fail to materialize, government deficit spending and the national debt will increase by \$100 billion a year in perpetuity.) Medicare Advantage, which allows seniors to use Medicare funds to buy private insurance that provides better care, fits their needs and budgets, delivers better value for their money, and puts patients in charge, will be gutted by \$177 billion (20%) according to Mr. Obama,

“The most important thing to understand about the Democrats’ domestic agenda is that they care more about establishing government control over our lives than they do about the stated policy goals of their proposals. It’s true of their fraudulently named stimulus packages, their cap-and-tax scheme, and especially their universal health care plans. With all of these programs and more, their driving aim is not only to acquire power for the sake of acquiring it but also to use government to impose their values on us and, effectively, destroy our personal liberties. The subject of liberty -- the very impetus for the founding of this nation -- is rarely mentioned in the public debate.”  
--columnist **David Limbaugh**

“[T]oday’s ruling Democrats propose to fix our extremely high-quality (but inefficient and therefore expensive) health care system with 1,000 pages of additional curlicued complexity — employer mandates, individual mandates, insurance company mandates, allocation formulas, political payoffs and myriad other conjured regulations and interventions — with the promise that this concoction will lower costs.

This is all quite mad. It creates a Rube Goldberg system that simply multiplies the current inefficiencies and arbitrariness, thus producing staggering deficits with less choice and lower-quality care. That’s why the administration can’t sell ObamaCare.”

-- columnist **Charles Krauthammer**

“For every problem, there is a solution that is simple, elegant, and wrong.”

-- **H.L. Mencken**

basically because it's money that goes to private companies.<sup>17</sup> Such cuts will cause most seniors in the program to lose that private coverage because they will no longer be able to afford it. They will also lose their individual control. Democrats can't abide individuals in control of their own affairs.

**Once the details are finalized, it will be clear that this is bad deal for the American health care system.** Even after the details are settled there will remain many unknowns, like how many Americans the government will end up insuring. If it's most of us (as Democrats not-so-secretly intend), the budget impact will be devastating, and rationing will be unavoidable.

Moreover, in 20 years the U.S.' percentage of retired people will have increased dramatically, and that older population segment will suffer from far higher rates of chronic diseases such as diabetes and cancer. Under Democrats' "public option" for health insurance, the cost of paying for this medical care will become an intolerable burden on the shrinking number of economically active U.S. taxpayers.<sup>18</sup>

**Pelosi and Obama, et al. profess to be intent on "controlling the spiraling cost of healthcare," but rely on directly regulating doctors and their medical decisions to reduce those costs,** coupled with price controls on medical service reimbursements, rather than fostering financial incentives to reduce routine tests and treatments. Cutting costs by having Washington bureaucrat panels deny medical treatment or control what doctors get paid for their services isn't "reform," and isn't going to work. Price controls never work; they always lower the quality of health care and reduce its supply.

**Taxpayers' Burden** – Beyond "reducing costs" House Democrats propose to fund their healthcare extravaganza by costly new mandates on individuals and businesses. Taxes will rise precipitously. Americans for Tax Reform have detailed 13 new taxes the [House health bill \(H.R. 3962\)](#) would create, from a 5.4% surtax on individuals and small businesses to a 2.5% excise tax on medical devices.<sup>19</sup> Among them: an Employer Mandate Excise Tax, an Individual Mandate Surtax, an Excise Tax on Medical Devices, a Surtax on Individuals and Small Businesses, a tax on nonqualified Health Savings Account distributions and a cap on Flexible Savings Account spending.

Part one is a surtax of up to 5.4% on high earners; a third of this new tax revenue will come from small businesses.<sup>20</sup> Democrats will also raise the effective marginal rates on the top two income brackets to 41% for a family of four (45% in 2011 when the Bush tax cuts expire); 75% of those affected are small business owners.<sup>21</sup> A Tax Foundation study found that under these democrat proposals effective marginal tax rates for small businesses will exceed 50% in 39 states.<sup>22</sup>

In addition, the bills call for up to 10% in additional payroll taxes on workers and businesses who don't provide or acquire health insurance, the burden of which will be shouldered entirely by workers in the form of lower wages and lost jobs.<sup>23</sup> Non-compliant employers are forced to pay a tax equal to 8% of payroll, while uninsured individuals (those who don't have government-approved medical coverage) will pay a tax equal to 2.5 percent of income.

The 8% payroll tax could cost businesses \$49 billion per year and cause 5.2 million workers to lose their jobs or face lower wages according to a Heritage Foundation study.<sup>24</sup> This would be a historic corporate tax increase, ensuring that U.S. corporations are taxed more heavily than in any other modern economy, and discouraging capital investment here.

"I happen to be a proponent of a single payer universal health care program. I see no reason why the United States, the wealthiest country in the history of the world, ... cannot provide basic health insurance to everybody. A single payer health care plan, a universal health care plan. That's what I'd like to see. But as all of you know, we may not get there immediately."

-- Barack Obama

"We don't have the votes for [single payer]. I wish we did. I think if we get a good public option it could lead to single payer, and that's the best way to reach single payer. Saying you'll do nothing until you get single payer is a sure way never to get it. The best way we're going to get single payer, the only way, is to have a public option demonstrate its strength and its power. "

– Rep. Barney Frank (D - Mass)

The [House health bill \(H.R. 3962\)](#) also caps contributions to Health FSAs (Flexible Spending Accounts) and imposes various new penalties on non-qualified Health Savings Accounts distributions, the effect of which will be to diminish the use and utility of these accounts (with the obvious intention of making people more dependent on the government program).

Deliberately buried in the House bills are tax law changes to impose *strict liability* penalties for income-tax underpayments, which means that the IRS will no longer waive penalties for honest mistakes by taxpayers in most cases.<sup>25</sup>

Finally, 3 of 5 employers who presently pay for their employees' health insurance will have to pay the penalties *anyway* (in addition to paying for the insurance), just because they pay less than 72.5% of employee coverage costs.<sup>26</sup> This great idea gives employers a perfect incentive to drop coverage completely and just pay the penalty. Companies that absorb the additional payroll tax, will see their net profits decline by over a third on average.<sup>27</sup>

The Senate's [Affordable Health Choices Act](#) imposes \$380 billion in taxes and fees, and reduces payments to health care providers by \$400 billion over 10 years.

It contains an employer mandate requiring companies with more than 25 employees to provide health coverage or pay a \$750.00 annual penalty per employee. This is clearly another incentive for employers to drop coverage and leave employees to migrate to the "public option." According to the Kaiser Family Foundation, employer-provided health insurance policies in 2008 cost an average of \$4,704 a year for individuals and \$12,680 for families, which means that employers would save \$4,000 - \$12,000 per employee by dropping coverage and paying the penalty.

[Senator Baucus' bill](#) will tax the medical devices and diagnostic equipment industry to the tune of \$40 Billion at the rate of about \$4 Billion a year in excise taxes (the equivalent of an annual 10%-30% income tax surcharge).<sup>28</sup> The Baucus tax is equivalent to one-half of what that industry spent on product development in 2007 according to Ernst and Young, and exceeds total venture capital for the industry that year.<sup>29</sup> The bill will annually impose a tax of \$2.3 billion on drug manufacturers and \$750 million on clinical laboratories.<sup>30</sup>

These costs, which affect hundreds of thousands of medical products (like pacemakers, stents, artificial heart valves, defibrillators, wheelchairs, artificial limbs, replacement hips and knees, surgical gurneys, laparoscopic equipment, etc.), will undoubtedly increase the price for those products, which will be passed along to consumers in the form of higher medical care costs and insurance premiums. These additional costs will stifle med-tech innovation by reducing funds available for R&D. This is very bad news for everyone. Less innovation and higher prices mean fewer solutions to those suffering from deadly diseases, less access to tools essential to longer, better lives, and a diminished ability to bring health care costs down in general over the longer term.

The Baucus proposal would also:

- Impose a confiscatory 40% excise tax on insurance companies for "high-cost plans" (individual plan above \$8,000 and family plans above \$21,000), which could raise over \$200 billion, while turning the health insurance industry into an IRS agent. This tax will be the equivalent of 60% of the industry's after tax earnings.<sup>31</sup> The effect of inflation on health care premiums will likely cause most Americans (i.e., the middle class) to have to pay this tax over the next several years; once they're pushed into eligibility for this tax, the actual cost of their coverage will increase by 35%. The natural consequence of such an excise tax is that employers will stop offering plans that exceed the thresholds to avoid the added cost, thus denying consumers the choice of a comprehensive plan. Many will refuse to purchase or provide such comprehensive plans on principle. Either way the market for such plans will diminish, reducing the tax revenue Congress expects.

- Tax employers \$400 for each employee they don't provide health coverage, a major incentive to drop such coverage.
- Assess a health savings account distribution penalty of 10-20%.
- Health Flexible Spending Accounts (FSAs) allow people to pay for co-pays, deductibles, nonprescription medications, durable medical equipment and costs associated with special-needs children with pretax dollars. Now unlimited in amount, these accounts will be capped at \$2,500.
- Those who fail to comply with the individual mandate to buy insurance will pay yet another tax, collectively about \$1 billion per year.<sup>32</sup>
- Far from bringing down health care costs, as Democrats claim, all of these new costs (taxes) will be paid by policyholders (employees and consumers) one way or another as the parties required to pay the government pass them along; e.g., gold-plated policies provided by many employers (especially to union members and public employees) will see benefits reduced. Wage and workforce reductions are also likely (except in the public sector, of course). Health care companies will raise premiums to pay for their impact. Senator Charles Grassley (R-Iowa) has warned in the National Review that the "huge, untold story of this CBO report" — is that health insurance premiums will rise for 85% of those with coverage, because the Baucus plan's taxation of insurance policies.<sup>33</sup> A [report prepared by Price Waterhouse Coopers](#) on behalf of the insurance industry concludes that average annual premium costs will rise by 2019 by \$4,000.00 for a family of four, on top of presently expected rises.
- With all of these new taxes, it's perfectly clear that no one with private health insurance will be able to "keep their existing plan," as Democrats promise, because the existing plans aren't compromised by these burdens. In order to finance nationalize health care, the entire economic equation for existing private plans changes, which means they aren't the same plans any more.

**All of this is a prescription for mismanagement.** Cash for clunkers is a very simple government program and yet it instantly became a mismanaged administrative nightmare; within days of its launch Congress had to *triple* its funding because they were incapable of accurately estimating demand for the free giveaway. Just administering the system cost \$50 million and the government, despite that money for systems and people, did nothing but screw it up, making it very difficult for those who wanted to participate actually do so. Imagine how well the government is going to administer individual health care.

**A job-killing machine.** The way democrats propose to pay for their nationalized health care nightmare, by saddling small business and the investor class with additional taxes, will shut down small business. Unemployment rates and the cost of national health insurance are directly related, leaving countries like France with unemployment rates

that hover at 10% even in strong economies.<sup>34</sup> "Workers" are the people Democrats pretend to help. But, many small businesses won't survive these new burdens — they'll fail. Because 75% of jobs created in recessions historically come from small businesses (our economic engine), these new tax burdens will kill jobs in the very sector that typically leads the economy to recovery. Small businesses operate on very tight margins. When they can afford it and have confidence in the economic environment, they hire. When they have to pay more in taxes, or face any other government-induced uncertainty, they lay off employees, reduce wages, and cancel growth and hiring plans. They also raise the prices on their products and services, which reduces demand, which leads to less employment. When the government kills jobs it reduces income tax revenue to the treasury.

When the nation is already presiding over the largest budget deficits<sup>35</sup> in American history, and facing the havoc those deficits will cause, passing a trillion-dollar plus health care package requiring the imposition of more taxes and *deepening* deficits makes about as much sense as putting out a fire with gasoline.<sup>36</sup> While the CBO scored the Baucus Senate Bill 1796 as reducing the deficit by \$80 billion over 10 years, it is dependent on Medicare cuts of \$400 billion actually occurring (which they won't). If Congress goes soft, acts like it *always* does, and overrides

You don't need a Ph.D. to see that the promise to expand coverage and reduce costs is a crude deception, or that cutting \$500 billion from Medicare without affecting care is a fiction.

-- columnist **Charles Krauthammer**

those scheduled cuts, the Baucus bill will cause the deficit to *increase* by \$200 billion over 10 years, according to the Cato Institute. Also, the CBO's estimate was dependent on the programs remaining unchanged for 20 years, which never happens either. So, the notion that this proposal will reduce the deficit is a ruse.

Democrats will only deepen recession, divert revenues from curing the already yawning deficits, and delay the prospect of economic recovery by implementing these vast new burdens. All Democrats are really doing is increasing the revenue streams of insurance companies and other medical industry stakeholders by transferring \$1 trillion in taxpayer money to them, all for something most people don't want (government control), and that won't work to improve health care access, delivery, or cost (government control).

The U.S. government can't fund its existing obligations, and won't be able to fund this new one either. The fact is that the U.S. doesn't have the money to fund this program and never will. We can't afford it, period.

## Endnotes

<sup>1</sup> PricewaterhouseCoopers' Health Research Institute (HRI), "Behind the Numbers: Medical Cost Trends for 2010," June, 18, 2009, [www.pwc.com/medicalcosts2010](http://www.pwc.com/medicalcosts2010)

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