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Obamacare's Fiscal Time Bomb

Claims that Obamacare will reduce the deficit are breathtakingly naïve.

The new Republican House majority took power vowing to repeal Obamacare, despite the fact that their bill has no chance of gaining the president's signature. The highlight of the debate, thus far, has been an unlikely one. For liberals aren't accusing Republicans of letting sick children die in the streets — yet. Instead, they're arguing that repealing the Patient Protection and Affordable Care Act is fiscally irresponsible.

Democrats commenced 2009 by passing the American Recovery and Reinvestment Act. a.k.a. the "stimulus," a $900 billion white elephant that did nothing to boost the economy. Americans became alarmed at the ballooning deficit, and the Tea Party movement was born. President Obama, acknowledging this political reality, promised that his health-care bill would not increase the deficit.

And, in the end, the Congressional Budget Office obliged him, projecting that PPACA would reduce the deficit by $132 billion from 2010 to 2019 and by an additional sum after 2020. The president's supporters crowed that Democrats had achieved a major expansion of the welfare state while making responsible and politically courageous cuts to Medicare in order to pay for it.

In recent days, in light of Republican rhetoric about fiscal sobriety, Democrats have taken their argument to its logical conclusion: If PPACA responsibly reduces the deficit, repealing the law would irresponsibly increase it. Indeed, a new report from the CBO endorses their view, projecting that repealing the new health law would increase the deficit by around $230 billion.

The only problem is that the CBO's projections are a bunch of hooey. I could bore you with a detailed enumeration of all of the technical contortions that Democrats engineered in order to apply deficit-reducing lipstick onto the Obamacare sow. But it's all there in the CBO's own analysis, which you can read for yourself. Knock yourself out.

But that aside, Obamacare's fiscal failure comes down to something a lot more basic: Government agencies nearly always overestimate the revenue generated from tax increases, and nearly always underestimate the new spending caused by new entitlements. Americans are a lot smarter than they look from inside the Beltway, and they modify their behavior to avoid new taxes and obtain new largesse. Federal bureaucrats may be good with calculators, but they're weak on human nature.

David Brooks, in a recent *New York Times* column, highlighted Obamacare's most serious flaw: PPACA incentivizes companies to drop health coverage for their employees. Employers who drop coverage have to pay a fine, but the fine is cheaper than offering health insurance, and even the employees can be better off — they buy their insurance on state-based "exchanges," where they can take advantage of the law's new subsidies. (Americans making less than 400 percent of the federal poverty level are eligible for subsidized coverage on the exchanges.) AT&T has calculated that it would save $1.8 billion a year by dumping its workers into the government's lap.

Companies are keeping quiet about their plans for now, but make no mistake: If Obamacare remains the law of the land, nearly every corporation in America will do what AT&T has contemplated. So will cash-strapped state governments.

Last March, the CBO projected that 26 million people will take advantage of Obamacare's exchange subsidies in 2019, at a cost of $109 billion that year. But that number is based on the assumption that of the 162 million people who have employer-sponsored insurance today, only 4 million — 2.5 percent — will switch.

In other words, the projection of $109 billion is absurdly low; it underestimates Obamacare's cost by trillions of dollars.

In a recent *Politico* column, former budget officials Douglas Holtz-Eakin and James Capretta calculated what would happen if the CBO's estimates were somewhat off. By their math, if the households below 250 percent of the federal poverty line ($55,125 for a family of four) that now have employer-sponsored health insurance were to migrate to Obamacare's exchanges, spending on those exchanges would more than triple, resulting in trillions of dollars in additional liabilities.

It gets worse. Holtz-Eakin and Capretta's assumptions are actually quite restrained. What happens if even more people take advantage of subsidies? What happens if Medicaid spending grows at faster rates than Obamacare anticipates? We could be talking about much, much more than $200 billion a year in additional spending.

There was a time, not so long ago, when annual federal deficits of $200 billion would be described with alarm. For Obamacare, they're just a rounding error.

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