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Obamacare is Coming

Written by John Stossel

Uh-oh... the Intrade betting odds that Obamacare will pass are now above 50%. That means that smart people who put their money where their mouths are now think that it is likely that some form of Obamacare will pass before June 30th. The odds dropped as low as 20% after Scott Brown's election, but as I write this, the trading is at 52 cents (winners win a dollar for each 52 cent bet).

You've heard all the usual complaints about Obamacare: it would cost too much, it would forbid insurance companies from penalizing behavior that leads to bad health, it would force everyone to buy insurance (the big cause of sky-high costs).

But now John Goodman of the National Center for Policy Analysis points out that Obamacare's inscrutable formulas would have yet another unintended consequence. It's almost too complex to go into here, but basically:

-- Employers of low-paid workers would have an incentive NOT to provide insurance, because the workers could get much greater subsidies in the individual market (\$19,400 compared to \$2,295.)

-- Employers of high-paid workers would have an incentive to KEEP providing insurance, because it's tax-free and the workers wouldn't qualify for subsidies anyway.

-- Employers' subsidies are based on the average income of all their workers. So to take full advantage of the subsidies, Goodman points out:

Basically firms with high income folks... will fire their groundskeepers, maids, custodians, etc. and contract out that work

to a firm that employs low-wage labor and provides no health insurance.

But getting from point A to point B requires workers to change employers – and that will not be a smooth affair. A lot of people will be fired and have to search for new employment...

We will be left with industrial organization dictated not by economics, but by a subsidy system that can only be called bizarre.

Have none of the economic geniuses in the administration thought about that? Goodman finds another big problem:

ObamaCare (House version) would create marginal tax rates in excess of 60% for workers earning as little as \$25,000! This is caused by the steep withdrawal of health insurance subsidies (in the exchange) as income rises.

As is well known by economists and policymakers alike, when people get to keep only one-third of each extra dollar they earn, they react in all kinds of ways that are harmful to the economy. They will choose more leisure and less work... Health reform is no bargain if it imposes on the middle class the same marginal tax rates that high-income earners faced during the years of stagflation.

Hopefully someone will start pointing that out.