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The devil of the Clinton health plan is in the details

How to quadruple federal revenue

By Bruce Bartlett

According to the Congressional Budget Office (CBO), by the year 2004, when the Clinton health plan is fully phased-in, its effect will be to increase federal taxes by over 27 percent. Without the health plan, total federal receipts are estimated to be $2,054 trillion, and the health plan would increase this figure by $566 billion, raising the revenue total to $2.62 trillion.

The vast bulk of these new revenues, $513 billion, will come from compulsory payments by individuals and businesses to health alliances. The CBO correctly concluded that these payments are, in fact, taxes, because they involve exercise of the federal government's sovereign power and because the health alliances are governmental institutions.

Additional revenues will come from three main sources. First is the increase in ordinary federal income and payroll taxes arising from higher wages. Wages are expected to rise because for most employers the cost of providing health benefits to their employees is expected to fall. The savings are assumed to be given to employees in the form of higher wages. By 2004, these higher wage levels would increase federal revenues by $34 billion.

The second major source of new revenue is from higher tobacco taxes. These taxes would roughly quadruple the tax on cigarettes and other tobacco products. The federal tax on cigarettes, for example, would rise from 24 cents per pack to 99 cents. Federal revenues, however, would not quadruple because the higher taxes will significantly reduce smoking and perhaps increase smuggling of cigarettes, as now happens along the U.S.-Canadian border as the result of an increase in Canadian cigarette taxes. Thus, according to CBO, federal revenue would only triple, from $5.6 billion to $16.6 billion. This is a smaller increase than projected by the Clinton administration, although many private economists believe that even the lower CBO figure is unlikely to be achieved given the Canadian experience.

The largest tax increase in recent years, the Tax Equity and Fiscal Responsibility Act of 1982, for example, only increased revenues by less than 6 percent, whereas the Clinton plan proposes to increase revenues by more than 27 percent.

The last major revenue increase will come from excluding health insurance from cafeteria plans offered by employers. (Cafeteria compensation plans allow workers to choose an individual package of benefits from a menu, so that some workers might choose higher pension benefits in lieu of health benefits, for example.) This would raise $7 billion by 2004. A 1 percent assessment on corporate health alliances would raise another $1 billion, as would extension of the current health insurance tax to presently uncovered state and local government employees. There are also a few other minor tax changes.

A tax increase of this magnitude during peacetime is unprecedented in American history. The largest tax increase in recent years, the Tax Equity and Fiscal Responsibility Act of 1982, for example, only increased revenues by less than 6 percent, whereas the Clinton plan proposes to increase revenues by more than 27 percent.

Although it is difficult to isolate the effects of the increased taxes from the overall economic impact of the Clinton health plan, the CBO admits that the overall effect would be to reduce employment and real output in the economy. This fact is confirmed by a recent study from DRI/McGraw-Hill, commissioned by the Citizens for a Sound Economy Foundation, which estimates that the combination of universal health coverage, employer mandate, corporate assessment and taxes would, by the year 2000, reduce real GDP by $75 billion, increase unemployment by 900,000, raise the inflation rate by 0.3 percent, and increase the federal budget deficit by $115 billion.

To be sure, such estimates must be treated as tentative. As the CBO points out, there is no precedent for estimating the effects of changes of this magnitude on the economy. Prudence, therefore, suggests that we at least try to find out more about these possible effects before moving forward with the largest domestic tax and spending program in history.

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