IRET Congressional Advisory

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Monumental Revenue Increases in the Clintons' Health Plan

In its plan for a government-directed health care system, the Clinton Administration is proposing a huge upward leap in federal revenues. No previous revenue raising legislation comes even close in terms of magnitude. To gain an idea of how much money is involved, imagine that the government were to require Americans to pay an additional set of new taxes that are almost as large as either the individual income tax or existing payroll taxes. That is roughly the size of the revenue raisers in the Clintons' health plan.

The Congressional Budget Office (CBO) estimates that the Clintons' proposal would collect over $1,000 billion in higher revenues during the four year period 1996-1999. Compare this with the size of some of the biggest previous revenue raisers. Past U.S. Treasury revenue estimates were that the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) would increase federal receipts by approximately $140 billion in the four years 1983-1986[1], the Omnibus Budget Reconciliation Act Of 1990 (OBRA-90) would collect about $130 billion in the four years 1991-1994[2], and the Omnibus Budget Reconciliation Act Of 1993 (OBRA-93) would collect approximately $190 billion in the four years 1994-1997[3]. In short, the revenue increases in the Clintons' health plan are at least five times larger than those in any tax hike that preceded it.

Chart 1 illustrates the magnitude of the Clinton plan's revenue increases compared to existing federal levies. The chart, which shows revenue sources for each year from 1996 to 1999, combines CBO estimates of the added revenues in the Clintons' health plan with other CBO estimates for the main categories of existing federal levies.[4] During this phase-in period, the Clinton plan's estimated revenues would increase very rapidly. Although the present individual income tax would remain the largest single revenue source and social insurance taxes (social security and unemployment) would continue in second place, the Clintons' health plan would zoom from zero to third place despite the fact the Clintons' plan would not have been fully phased in by 1999.

The breathtaking magnitude of the Clinton health plan's revenue raisers is at odds with the Administration's portrayal of its plan as one that avoids big revenue increases. President Clinton assured lawmakers, "I believe as strongly as I can say that we can reform the costliest and most wasteful system on the face of the earth without enacting new broad-based taxes."[5] In the report that accompanied the President's speech, the only acknowledged revenue increase was a rise in "sin" taxes, since revealed to be a proposed quadrupling of tobacco excises.[6]

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Over 80 percent of the new revenue in the Clintons' plan would be collected through mandatory employer and household payments. The Administration insists that

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these payments are not taxes at all and in its FY 1995 Budget described them as merely "insurance premiums".[7] The Administration's FY 1995 Budget totally excluded the revenues from the mandatory employer and household payments from its government revenue tables.[8]

The CBO has dismissed the fiction that the "premiums" would not be government revenues. The CBO identified the mandatory payments as government revenues, analogous in many respects to social security payroll taxes. The CBO advised that the "premium" payments should most certainly be included in the unified federal budget. To be sure, the CBO described the employer and household payments as "government revenues" rather than "taxes." Outside of technical discussions among government budgeteers, however, that distinction has little relevance. In general, when people are required by the government to make payments and face fines or imprisonment if they do not, they will call the payment a tax regardless of its technical name in government documents.

Chart 2, based on CBO revenue estimates, shows the main revenue sources in the Clinton health plan for each year from 1996 to 2004. The bulk of the plan's revenues, it is apparent, would come from the payments that employers and households would have to make under the Administration's plan. Another revenue source, small relative to the "premiums" but large in absolute size, is mandatory contributions from the states, which would be an indirect levy on the states' taxpayers — reverse revenue sharing.

Realistically, the revenue hikes in the Clintons' plan, massive as they are, would be only a first installment. Because the employer "premium" is a hidden tax, it is the type that is easiest to increase. And because the levy has such a broad base, the government could raise vast amounts of money from the private sector through seemingly minor rate increases. Pressure for subsequent revenue increases would also emanate from the plan's cost side. If the Clintons' plan were enacted, it would prove much more expensive than the Administration has promised (remember previous federal assurances about how little Medicare and Medicaid would cost). When the cost of the Clintons' plan soared, Americans would confront a no-win choice: radical cuts in medical care, further tax increases, a ballooning federal budget deficit, or probably a mixture of all three.

The Clintons' plan would not only radically change the financing and delivery of health care in the United States, it would also produce the largest jump in the federal government's draw on the economy in the nation's peacetime history. That fact alone urges Congress to reject the plan.

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End Notes

1. Office Of Management And Budget, *Budget Of The United States Government, FY 1985* (Washington, DC: Government Printing Office, 1984), Part 4, p. 5.

2. Office Of Management And Budget, *Budget Of The United States Government, Fiscal Year 1992* (Washington, DC: Government Printing Office, 1991), Part 3, p. 7.

3. Office Of Management And Budget, *Budget Of The United States Government, Fiscal Year 1995, Analytical Perspectives* (Washington, DC: Government Printing Office, 1994), p. 35.

4. The CBO estimates for existing revenue sources exclude the changes proposed in the Clintons' health plan. If the plan were adopted, the projections for existing revenues would change somewhat due to interactions among the new and old levies.

5. William J. Clinton, Address Of The President Of The United States To The Joint Session Of Congress, September 22, 1993.

6. Clinton Administration, "The Health Security Act Of 1993; Health Care That's Always There," September 1993.

7. Office Of Management And Budget, *Budget Of The United States Government, Fiscal Year 1995* (Washington, DC: Government Printing Office, 1994), p. 187.

8. *Ibid*., pp. 188-189.