The Daily Dish

The Individual Mandate and Tax Reform

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Eakinomics: The Individual Mandate and Tax Reform

President Trump has joined the voices of those who would "repeal the individual mandate" as part of tax reform. This notion has been bandied about enough in recent weeks that it is worth thinking through four aspects.

1. What is really going on? You cannot repeal the individual mandate using reconciliation. Recall that reconciliation is a feature of the Budget Act that bypasses the rules of the Senate to limit debate. Instead of requiring a supermajority vote to end debate ("cloture"), there is a finite debate and a straight majority vote for final passage. A restriction is that reconciliation can only be used for budgetary purposes; non-budgetary policy — like making it legal to be uninsured — cannot be changed in reconciliation. It is possible to repeal the *penalty* for violating the mandate — that has direct budgetary implications — but not the mandate itself.

2. What are the tax policy implications? From a tax policy perspective, the only reason to repeal the mandate penalty is that it generates over $300 billion in budgetary savings over the 10-year window. These savings can be used to permit more tax cuts and still stay within the $1.5 trillion limit imposed on the tax reform effort. Those savings come because the Congressional Budget Office (CBO) believes that in the absence of an effective mandate (and the absence of a penalty really hurts effectiveness), millions will drop their insurance. CBO argues this will lead to a combination of more taxable wages (instead of employer health insurance), reduced Obamacare subsidies, and less Medicaid spending.

3. What are the health policy implications? Notice that the budgetary savings are the mirror image of the fact that CBO believes that something like 13 million individuals stop purchasing insurance and signing up for Medicaid. That means that its "score" (and supplementary information) will show that the number of uninsured jumps right up. There are many health policy scholars who believe this is too strong (at a minimum) and are encouraging CBO to change its view. CBO may, but it won't actually change its scoring in mid-year; any change would be a 2018 phenomenon.

4. What would happen to the tax reform process? If the mandate penalty is included in the bill, there will immediately be bad news from CBO on the uninsured. Opinions differ, but I think the evidence is in that congressional Republicans will not be able to close ranks around an "ignore CBO and stay the course" position on any health issue, especially part of Obamacare. That would argue against including the repeal in tax reform. But the allure of several hundred billion dollars cannot be overstated. And the notion that those dollars might be severely reduced next year feeds a "grab it while you can" line of reasoning.

Buckle up. It's going to get interesting.