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In Health Care Bill, Obama Attacks Wealth Inequality

By DAVID LEONHARDT

For all the political and economic uncertainties about health reform, at least one thing seems clear: The bill that President Obama signed on Tuesday is the federal government’s biggest attack on economic inequality since inequality began rising more than three decades ago.

Over most of that period, government policy and market forces have been moving in the same direction, both increasing inequality. The pretax incomes of the wealthy have soared since the late 1970s, while their tax rates have fallen more than rates for the middle class and poor.

Nearly every major aspect of the health bill pushes in the other direction. This fact helps explain why Mr. Obama was willing to spend so much political capital on the issue, even though it did not appear to be his top priority as a presidential candidate. Beyond the health reform’s effect on the medical system, it is the centerpiece of his deliberate effort to end what historians have called the age of Reagan.

Speaking to an ebullient audience of Democratic legislators and White House aides at the bill-signing ceremony on Tuesday, Mr. Obama claimed that health reform would “mark a new season in America.” He added, “We have now just enshrined, as soon as I sign this bill, the core principle that everybody should have some basic security when it comes to their health care.”

The bill is the most sweeping piece of federal legislation since Medicare was passed in 1965. It aims to smooth out one of the roughest edges in American society — the inability of many people to afford medical care after they lose a job or get sick. And it would do so in large measure by taxing the rich.

A big chunk of the money to pay for the bill comes from lifting payroll taxes on households making more than $250,000. On average, the annual tax bill for households making more than $1 million a year will rise by $46,000 in 2013, according to the Tax Policy Center, a Washington research group. Another major piece of financing would cut Medicare subsidies for private insurers, ultimately affecting their executives and shareholders.

The benefits, meanwhile, flow mostly to households making less than four times the poverty level — $88,200 for a family of four people. Those without insurance in this group will become eligible to receive subsidies or to join Medicaid. (Many of the poor are already covered by Medicaid.) Insurance costs are also likely to drop for higher-income workers at small companies.

Finally, the bill will also reduce a different kind of inequality. In the broadest sense, insurance is meant to spread the costs of an individual's misfortune — illness, death, fire, flood — across society. Since the late 1970s, though, the share of Americans with health insurance has shrunk. As a result, the gap between the economic well-being of the sick and the healthy has been growing, at virtually every level of the income distribution.

The health reform bill will reverse that trend. By 2019, 95 percent of people are projected to be covered, up from 85 percent today (and about 90 percent in the late 1970s). Even affluent families ineligible for subsidies will benefit if they lose their insurance, by being able to buy a plan that can no longer charge more for pre-existing conditions. In effect, healthy families will be picking up most of the bill — and their insurance will be somewhat more expensive than it otherwise would have been.

Much about health reform remains unknown. Maybe it will deliver Congress to the Republicans this fall, or maybe it will help the Democrats keep power. Maybe the bill's attempts to hold down the recent growth of medical costs will prove a big success, or maybe the results will be modest and inadequate. But the ways in which the bill attacks the inequality of the Reagan era — whether you love them or hate them — will probably be around for a long time.

"Legislative majorities come and go," David Frum, a former speechwriter for President George W. Bush, lamented on Sunday. "This health care bill is forever."

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Since Mr. Obama began his presidential campaign in 2007, he has had a complicated relationship with the Reagan legacy. He has been more willing than many other Democrats to praise President Reagan. "Reagan's central insight — that the liberal welfare state had grown complacent and overly bureaucratic," Mr. Obama wrote in his second book, "contained a good deal of truth." Most notably, he praised Mr. Reagan as a president who "changed the trajectory of America."

But Mr. Obama also argued that the Reagan administration had gone too far, and that if elected, he would try to put the country on a new trajectory. "The project of the next president," he said in an interview during the campaign, "is figuring out how you create bottom-up economic growth, as opposed to the trickle-down economic growth."

Since 1980, median real household income has risen less than 15 percent. The only period of strong middle-class income growth during this time came in the mid- and late 1990s, which by coincidence was also the one time when taxes on the affluent were rising.

For most of the last three decades, tax rates for the wealthy have been falling, while their pretax pay has been rising rapidly. Real incomes at the 99.99th percentile have jumped more than 300 percent since 1980. At the 99th percentile — about $300,000 today — real pay has roughly doubled.

The laissez-faire revolution that Mr. Reagan started did not cause these trends. But its policies — tax cuts, light regulation, a patchwork safety net — have contributed to them.

Health reform hardly solves all of the American economy's problems. Economic growth over the last decade was slower than in any decade since World War II. The tax cuts of the last 30 years, the two current wars, the Great Recession, the stimulus program and the looming retirement of the baby boomers have created huge deficits. Educational gains have slowed, and the planet is getting hotter.

Above all, the central question that both the Reagan and Obama administrations have tried to answer — what is the proper balance between the market and the government? — remains unresolved. But the bill signed on

Tuesday certainly shifts our place on that spectrum.

Before he became Mr. Obama's top economic adviser, Lawrence Summers told me a story about helping his daughter study for her Advanced Placement exam in American history. While doing so, Mr. Summers realized that the federal government had not passed major social legislation in decades. There was the frenzy of the New Deal, followed by the G.I. Bill, the Interstate Highway System, civil rights and Medicare — and then nothing worth its own section in the history books.

Now there is.

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