



November 21, 2013

Letter from Washington

In 1962 Casey Stengel was the first manager of the start-up New York Mets baseball team. The team, made up of cast-offs and has-beens, lost 120 games that season, setting the all-time record and causing Stengel to wonder out loud "Can't anybody here play this game?"

Even amateur politicians, watching the President publicly go through the five stages of grief this month over Obamacare, have to wonder like Casey Stengel, "Can't anybody here play this game?"

The Obama reelection effort developed the most sophisticated fundraising and voter turnout software ever seen, but somehow managed to ignore all of the red flags regarding the crippled rollout of the Affordable Care Act website. More than just a website, the Obamacare web portal is the key point of entry for Americans seeking health coverage from the newly formed Obamacare insurance exchanges.

Health insurance has a very different context in the US, as the only major western country without a national health scheme. Health insurance is expensive for most families, and the consequences of being uninsured can be disastrous. When the US government starts making radical changes in how health insurance is administered, delivered and its cost it becomes personal very quickly.

Ordinarily this wouldn't be that big a deal that a government website was nonfunctional, but those people seeking coverage were there because their previous health insurance had been terminated as a function of the introduction of Obamacare.

One of the features of the Affordable Care Act is that all health insurance policies must provide certain types of coverage universally, and that any policy that does not provide maternity care (regardless of age or sex), or substance abuse rehab (regardless of drug history), to cite two examples, must be phased out. The carriers informed about 20 million Americans holding individual insurance policies that their coverage would be terminated on December 31st.

In the ensuing chaos, people were told that they would become uninsured, only to find that their one means of gaining new insurance was

nonfunctional. Again, this might not have been the big deal it has become, if it hadn't been for President Obama repeating numerous times in selling the Affordable Care Act before its Congressional votes, that people would be able to keep their existing insurance and their current doctors if they wished. This is clearly not the case, and the President also clearly knew at the time he was saying something untrue.

Obama knew that what he was saying was untrue because one of the fundamental facts about the Affordable Care Act is that in order for the business model to work, policy holders need to be moved out of their existing insurance and into policies that are Obamacare-approved. These new policies generally carry more coverage but at a higher cost and higher deductibles. Millions of healthy young people who use fewer medical services, need to be forced into buying expensive policies they don't need in order to subsidize the sick and elderly. Without their participation, the insurance companies will need to increase the rates and the coverage becomes unaffordable for anyone.

Obamacare has some good features, mainly in that the insurance companies must insure everyone, regardless of pre-existing conditions, and cannot drop a policy holder because of serious (expensive) illness. In order to mitigate that considerable cost and risk, the pool of healthy people needs to be greatly expanded.

Obama certainly knew all of this but persisted in making the false claims even through the 2012 election. He might even have weathered the firestorm of criticism as many people realized that their new insurance policies were coming at a sharply higher cost, if the website had functioned properly. The sequence of events with the mass cancelations of policies and the inability of the website to process new coverage, made the duplicitous nature of the lie that much more apparent.

Even though the magnitude of the disaster was becoming apparent in mid-October, the White House continued to dismiss the problems as a "few glitches", and to attempt to defend the President's false claims with "what he really meant to say" explanations. In a television interview, the President issued a "my bad" non-apology which was perceived as insincere and self-serving, and had the effect of bringing even more focus onto the magnitude of the problem and the ineptitude of the administration response.

Rule number one in Washington political crisis management is get all of the bad news out quickly, and appear to be in control of events. Since October 1st when the website crashed on its debut, the administration has done the opposite. The result is that Obama's misrepresentations have come back to haunt him and taken a considerable toll on his credibility. More importantly, the malpractice involved in the Affordable Care Act rollout after three years of preparation, plays directly to the Republican narrative that government is

not just incompetent, but not capable of complex tasks, too invasive, too regulatory and cannot be trusted.

Compounding matters, in full panic mode as influential Democrats began calling for a delay in Obamacare implementation, the President announced a one-year delay in the enforcement of the individual mandate, and that people really could after all keep their insurance if they liked it, but only for another year.

Notwithstanding the question of how does a President modify a law to suit his political needs without the participation of Congress, the bigger question is how the insurance companies and state insurance regulators can adapt to this last minute radical course change. Some states will not extend the old policies but some will, and the result will be total confusion. In the process, Obama has neatly shifted the blame for policy cancelations to the insurance companies, away from Obamacare policy.

The bigger problem for Obama and the Democrats is that this about face doesn't fix the problem but pushes it off for another year for some percentage of the people. It will reoccur next fall, right before the 2014 mid-term elections when the cancelation notices go out again. This time the 20 million individual cancelations will be joined by the 80 million policy cancelations for people who get their insurance through their employer, which is due to occur in 2014. The cumulative effect will be crushing on those Democrats up for reelection.

There are two very interesting things playing out at the same time. First, the mainstream media seems to have awakened from a five-year nap, and have reported the damaging events in detail --- even actually done some investigative reporting. The President is not getting a pass on this one as he has on so many other things in his first term. Second, the failures of the Affordable Care Act have had a direct effect on his own personal credibility and popularity, and his approval rating is in free fall. Obama doesn't have to run for reelection ever again so it may seem immaterial, but he is the leader of the Party, and the Democrats' fortunes are going to ride on his ability to weather this storm and to make things better rather than continuing to compound the problem.

While all of the Obamacare drama has been taking place, across town the Senate and House Budget Committees have been meeting in conference to develop a plan that will break the budget impasse. To conclude the 16-day government shutdown in October, an agreement was reached that temporarily funded the US government until January 15th, during which time the budget conference is supposed to develop an agreement on funding the government for the remainder of the year. The possibility of the conference coming up with the elusive "Grand Bargain" that would set compromises in entitlements and tax code revisions is practically nonexistent, but there is the potential for a small bargain that might deal with the effect of sequestration.

The main sticking point is that imposing the sequester reductions in 2014 will restrict the federal budget to a total of \$967B, about \$100B less than the proposed administration budget amount. While half of the difference comes from defense, the other half comes from discretionary spending in the Democratic Party's cherished social support programs --- food stamps, Head Start, etc.

On the Republican side, while the reduced budget amount is viewed as fiscally responsible and would result in a third year of actual reduction to federal spending, the indiscriminate nature of the across-the-board sequester cuts has the pro-defense wing ready to bolt.

It is clear that DoD has run out of accounting gimmicks to mitigate the effect of the sequester reductions, and that their imposition in 2014 will result in further damage to readiness and require the cancelation of programs. Neither side wants that, either from an employment standpoint as defense companies shed employees, or from a readiness standpoint as ships and squadrons stand down.

The good news is that the House negotiators are led by Rep. Paul Ryan, former Vice-Presidential candidate and Romney running mate, and the Senate side is led by Sen. Patty Murray, a low key pragmatist. Both are motivated to do a deal, Ryan to avoid another government shutdown and Murray to avoid further reductions to the social safety net. Ryan commands the budget credibility among the House Republicans so that a deal that he brings back from the conference will most likely pass in that chamber.

The Republicans will not allow themselves to be led by the Tea Party faction into another government shutdown. They lost that stare-down to Obama in October and suffered for it. They would still be suffering if not for the self-inflicted wound that Obamacare has brought to the President and the Democrats.

Which brings us back to the President and his free-falling credibility. In a budget impasse that results in another shutdown, he will be starting out from a position of weakness, viewed as damaged goods by both the Republicans and his own Party. His ability to force concessions is severely limited, but in his political calculus he may view that the only way to rehabilitate himself will be to make the Republicans even more unpopular than he is.

Obama's willingness to lead in forging a budget agreement will hinge on how well or badly the Affordable Care Act implementation appears to be going after the New Year, and what he perceives to be his own political self interest.

"Can't anybody here play this game?"