

The Beacon Hill Institute

The Economic Effects of Repealing The Job Killing Provisions of Obamacare

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What Could Possibly Go Wrong?

The Economic Case for Health Care Reform (circa 2009)*

- Health care reform would increase real gross domestic product (GDP), relative to the no-reform baseline, by over 2 percent in 2020 and nearly 8 percent in 2030.
- The beneficial impact on employment in the short and medium run (relative to the no-reform baseline) is estimated to be approximately 500,000 each year that the effect is felt.
- Expanding health insurance coverage to the uninsured would increase net economic well-being by roughly \$100 billion a year, which is roughly two-thirds of a percent of GDP.

* Council of Economic Advisers

Today's Presentation

- **How we model the economic effects of tax and subsidy changes.**
- **The economic effects of repealing the taxes and subsidies provided for by the ACA.**
 - **Effects on key economic indicators.**
 - **Revenue effects.**

The NCPA DCGE Model

- ***Dynamic:*** Future economic conditions respond to current-period policy changes through a dynamic optimization process by households and firms.
- ***Computable:*** The model utilizes computer algorithms that make it possible to solve a system of nonlinear equations.
- ***General Equilibrium:*** Prices adjust to a policy changes across all sectors to equate supply and demand.

Features of the Model

- Builds on a “Social Accounting Matrix” for 2017.
- Divides U.S. industries into 27 sectors.
- Divides U.S. households into income deciles.
- Has 50,662 variables and equations.
- Projects results to 2026, and
- Estimates variables and compares them to their baseline values.

Purpose of the Model

- **To simulate the effects on key economic variables of changes in tax policy**
 - The level and distribution of household income;
 - Real GDP, capital investment, and employment;
 - Government tax revenues, employment and spending.
- **Key point: a DCGE model is a long-run model -- no Keynesian elements.**

Assumptions

- **The ACA taxes shrink the economic activities on which they are imposed. We estimate the positive effects on jobs and revenue of repealing nine ACA tax changes.**
- **Repeal of the ACA will end the subsidies for which it provides. Under the ACA, some 33 million full-time workers can qualify for subsidies only by working part-time or reducing their incomes below 400% of the poverty level. This creates an implicit “full-time employment tax” of 4.5% on payrolls.***

** Casey B. Mulligan, **Side Effects and Complications: The Economic Consequences of Health Care Reform** (Chicago: University of Chicago Press, 2015), pp. 117-18.*



Income Tax Changes and Subsidies Eliminated by ACA Repeal

- **Medicare tax of 0.9% on incomes over \$200,000.**
- **A tax of 3.8% on certain net investment income.**
- **Tax credits and subsidies to help pay for health insurance for low-income taxpayers.**
- **A rise in the floor for deducting medical expenses from 7.5% to 10% of AGI.**



Excise Taxes Eliminated by ACA Repeal

- **Tax of 40% on high cost health insurance plans.**
- **Tax on branded prescription drug manufacturers and importers: \$4 billion in revenue for 2017.**
- **Tax of 2.3% on medical devices.**
- **Tax of 10% on tanning services.**
- **Patient-Centered outcomes research trust fund fee of \$2.08 (plus medical inflation) for the average lives covered per year by self-insured plans (ends 2019).**

Effects of ACA Repeal on Key Economic Indicators

	Change relative to CBO baseline			
	2017		2026	
	<i>'000 jobs</i>	%	<i>'000 jobs</i>	%
Total Employment	504	0.33	663	0.37
Private Employment	713	0.48	874	0.49
Public Employment	(208)	(8.01)	(210)	(8.81)
	<i>\$ billion</i>	%	<i>\$ billion</i>	%
Real GDP (\$billion)	294	1.68	393	1.97
Personal Income	118	0.70	174	0.76
Business Investment	31	1.17	60	1.35
Imports	3	0.08	6	0.15
Exports	5	0.20	9	0.30

Source: NCPA-DCGE model.

Effects on Tax Revenue

	Change in revenue					
	2017		2026		Cumulative, 2017-26	
	<i>\$ billion</i>	%	<i>\$ billion</i>	%	<i>\$ billion</i>	%
Federal Revenue	(60.06)	(1.71)	(78.82)	(1.51)	(691.69)	(1.60)
Payroll Tax	0.79	0.07	1.57	0.08	10.99	0.06
Personal Income Tax	(30.59)	(2.50)	(40.97)	(2.52)	(355.89)	(1.85)
Corporate Income Tax	0.19	0.06	0.34	0.07	2.37	0.05
Excise Taxes	(30.54)	(51.86)	(39.91)	(51.86)	(350.38)	(28.76)
Estate and Gift Taxes	0.02	0.08	0.03	0.08	0.20	0.07
Other Taxes and Fees	0.09	0.30	0.12	0.30	1.01	0.07
State and Local Revenue	0.30	0.30	0.40	0.30	3.42	0.01
Total Government Revenue	(59.76)	(1.00)	(78.43)	(0.88)	(688.27)	(0.94)

Source: Based on NCPA-DCGE model simulations.

Conclusion

Repealing the ACA would, by 2026:

- Increase real GDP by \$393 billion, or 1.97%.
- Increase private sector employment by 874,000, or 0.49%.
- Increase personal income by \$174 billion, or 0.76%.
- Have reduced federal revenue cumulatively by \$692 billion, or 1.60%.

The Beacon Hill Institute

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