Insight

Three Lessons from CBO's Analysis of Obamacare Repeal

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Today, the Congressional Budget Office (CBO) issued an analysis of the budgetary and economic effects of repealing the Affordable Care Act (ACA), the first such estimate to factor the law's impact on the economy into the price tag for repealing it, a type of analysis also known as dynamic scoring. Though much of the report is predictable and consistent with past analyses by the CBO of the ACA, it is novel in the comprehensiveness of its scope, and offers three important lessons for observers and policymakers.

1.) The ACA Slows Economic Growth

Today's report confirmed what many observers have understood for quite some time: the law's disincentives for work and higher taxes contribute to lower economic growth. Indeed, according to the CBO, repealing the ACA would increase GDP by an average of 0.7 percent over the 2021-2025. Taken another way, the ACA will act as a nearly one percentage point annual drag on economic growth in the latter part of this decade.

What drives this effect? Two features of the law combine to diminish economic growth: disincentives to work and higher taxes, particularly on savings and investments. The ACA is structured to subsidize health coverage for low or no-income individuals. These subsidies phase out as incomes grow, which discourages workers to supply additional labor and encourages others to stop seeking work altogether. Repeal would reverse those incentives, resulting in higher labor supply and overall compensation, boosting the economy. The ACA's labor effects also serve to reduce the amount of capital stock available in the economy. As businesses adjust to a smaller workforce, business investment declines. Less business investment means slower growth. Further, the ACA imposes several taxes that discourage savings and investment, particularly a 3.8 percent surtax on investment income for higher income individuals. These taxes further diminish investment.

Lastly, it is important to note that, while this is the first report to incorporate all of these effects into estimating the cost of repeal (and implicitly, the cost of the law), these effects have been documented by CBO in the past. For example, in February of 2014, CBO provided an analysis of the labor effects of the ACA and concluded that the law would reduce labor supply and thus aggregate compensation by 1 percent.[1]

2.) Economic Effects Matter for Budget Analysis

While this is the first time CBO has undertaken a dynamic score of repealing the ACA, it is hardly the first time the CBO has performed this type of analysis. For large, economically significant policy proposals, the CBO has been producing these types of estimates for over a decade. Since 2003, CBO, in conjunction with the Joint Committee on Taxation (JCT) has been performing a dynamic score of the president's budget.[2] More recently, CBO and the JCT produced a dynamic score of the comprehensive immigration bill that ultimately passed the Senate in 2013, and the JCT produced a dynamic score of the economic effects of a comprehensive tax reform proposal released in 2014 by then-Chairman of the Ways and Means Committee Dave Camp.[3] Repeal of the ACA would equal or exceed the economic significance of these proposals, making today's report not only appropriate, but essential to better understanding the law's budgetary and economic consequence.

Economic Effects of Repeal Reduce the Budgetary Effects by Nearly Two-thirds

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Under normal, or "static," scoring rules, repealing the ACA would reduce spending by $821 billion—the net cost of spending programs under the ACA for the next 10 years. But a full repeal would also forgo the $1,174 trillion in tax revenue that the ACA is projected to collect over the next ten years. Accordingly, on a static basis, repeal would increase 10-year deficits by a net $353 billion. This is broadly consistent with past static estimates of repeal.[4] This estimate fails to incorporate the considerable growth consequences of a repeal, which would boost growth and ultimately tax revenue (plus a small associated increase in interest costs). These macroeconomic effects amount to deficit *savings* of $216 billion—reducing the deficit effect of the repeal by nearly two thirds.

3) The Sky Did Not Fall

This estimate represents the first dynamic score of a major policy proposal since the adoption of the Congressional budget resolution that requires dynamic analysis for major legislation. The new practice was met with derision from certain commentators who have attacked dynamic analysis. One example of this criticism came from the White House Director of the Office of Management and Budget (OMB), who argued, among other criticisms, that dynamic scoring is biased in favor of tax cuts, but apparently forgot that OMB employs dynamic scoring in constructing the president's budget.[5] Today's report should quiet those critics, because it shows that while macroeconomic analysis is an important element of policy analysis it does not upend the basic laws of economics. If a policy measure imposes massive new taxes and sweeping cuts to Medicare to finance a massive (but smaller) new spending program – the deficit will decline. And as noted by CBO, the economy will ultimately suffer from a budgetary deficit. There is important debate and reasonable suspicion whether many of the claimed savings will ever materialize, but no serious observer would argue that a smaller number minus a bigger number doesn't equal a negative number. That holds true in this analysis.

[1] http://www.cbo.gov/sites/default/files/45010-Outlook2014_Feb_0.pdf