

The Ryan-Trump Healthcare Act: Some Economic Consequences

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Global Research, March 16, 2017

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Region: [USA](#)

Theme: [Global Economy](#), [Poverty & Social Inequality](#)

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While Republicans on the Right and the Far Right wrangle over whether to repeal the Obamacare Affordable Care Act, or just revise it, the Ryan proposal does both. How can that be? Revise and yet repeal?

The repeal is every dollar and cent that the Obamacare Act taxed the rich and their corporations. The rest, the non-funding features is what's being revised.

Only in the past 24 hours is the corporate press even discussing the tax increases under the ACA now being totally repealed by the Ryan-Trump bill. That's because they can no longer ignore it, since it was reported today by the Congressional Budget Office (CBO). But they knew the details weeks ago. So did the Democrats in Congress. Yet they said nothing. How much in taxes were being cut for the wealthiest individuals and their corporations are we talking about? Over \$590 billion over the decade.

About a fourth of the total cost of the ACA, was paid by tax cuts on wealthy households that was repealed. That included a repeal of the 3.8% tax on earned income of the wealthy. Another repeal of the tax on net investment income by the same. Both are gone by the end of this year.

Add to that the following business tax cuts also now totally repealed: the tax on prescription drug makers that provided \$25 billion in annual revenue. The \$145 billion repeal of the annual fee on Insurance companies. And the \$20 billion on medical device makers. That's another \$190 billion tax cuts for businesses. But there's still more tax repeal. The employer mandate is also repealed. If companies didn't provide their own employer health insurance, they too had to pay into the system. The CBO report estimates the mandates—employer and individual (also repealed) amounted to \$156 million in 2017 alone. That's inflation adjusted. So the market price is at least 5% higher, for a total of around \$165 million. The mix in the employer-individual contribution from the mandates, let's assume, is 50-50. So the corporate tax cut is at least \$82.5 million from the repeal of the employer mandate.

Added all up, the total reductions for businesses and the wealthy, according to the CBO's own estimate, is \$592 billion, "mostly by reducing tax revenues".

What we have in exchange for the \$592 billion tax cuts on the rich is a de facto tax hike on the 10 million plus consumers who bought plans on the exchanges, in the form of the elimination of the subsidies that had been provided to help them purchase plans. Subsidy repeal is just a tax hike by another name. How much 'savings' per the CBO from the repeal

of all premium subsidies and assistance under the ACA? CBO estimates \$673 billion.

So the Ryan-Trump Taxman taketh \$673 billion from the 10 million consumers who bought plans and he giveth \$592 billion to the wealthy and their corporations who, heavens knows, need it more than the rest of us. After all, their corporate profits only tripled since 2010 and the wealthy captured only 95% of all the national income gains since 2010, according to studies by the University of California, Berkeley economists (based on IRS data). And the rest of us have done so much better! (By the way, here's another business-health care trivia item: companies that provide employer health insurance get to write off their contribution costs. Their workers don't get to write off their share deducted from their wages, but the companies do. Their tax cut savings amounts to \$260 billion a year). Employers already providing health plans were supposed to pay an excise tax on their plans, but even the Obama administration put that one off, so the Ryan-Trumpcare delay of that excise tax hike until 2026 is not really a new tax cut or part of the \$592 billion.

As the slick marketers on the online sales channels say, 'But wait, there's more. There's a two for one offer!' The double whammy offer in the Ryan-Trumpcare plan is an additional whopping \$880 billion cut in Medicaid spending by the government. Another 10 million of those citizens most in need of health care services—composed mostly of the elderly, the disabled, and single mothers heads of households—will be now thrown under the Trumpcare bus as virtually the entire change in Medicaid will be, yes, repealed.

The 'Multiplier Effect' Is Bad News for Ryan-Trumpcare

So how does the \$673 billion in subsidy assistance spending cuts and \$880 billion in Medicaid spending cuts, plus \$592 billion in wealthy-corporate tax cuts, and the new spending of \$303 billion, impact the US economy in net terms? It will be a big negative hit on economic growth as measured in Gross Domestic Product terms. Here's why.

There's this thing called the 'multiplier effect' in calculating GDP. It's not a theory. It's an empirical observation. A fact. A dollar in spending gets spent several times over and the total at the end of the year adds up to more than a dollar added to GDP. Spending on lower and middle income groups results in a bigger 'multiplier'. Spending on the wealthier a smaller. They save more than the net change in income they receive than do lower income households. Furthermore, empirical observation shows that tax cuts of any kind (business, investor, or consumer) have less a 'multiplier' effect than do spending, and tax cuts for the wealthy and for corporations even less an effect than consumer tax cuts. Ok. That's all 'economics 101' but it's true.

The Ryan-Trumpcare plan gives the wealthy and their corporations \$582 billion in tax cuts. Will they spend all that? No. Their 'multiplier' is about 0.4 according to best estimates. Give the rich a tax cut, in other words, and they'll spend 40% of it. That 40% means they will spend in the US economy about \$230 billion over the course of the decade, or \$23 billion a year on average due to their tax cuts. (They may spend more offshore, of course, especially the corporations, but offshore spending adds nothing to US economy and GDP growth).

Unlike the wealthy and corporations, the average consumer has a multiplier of at least 2.0, and the poor on Medicaid higher than that. But let's conservatively estimate the government spending multiplier for consumers on the \$673 billion spending for insurance subsidies and the \$880 billion in Medicaid spending is only 2.0. That means a contribution to

GDP of \$1.55 trillion (\$673 billion plus \$880 billion) is times two, or \$3 trillion total over the decade. That's \$300 billion a year contribution to GDP. But that subsidies and Medicaid spending is now repealed so it's a reduction of \$3 trillion, or \$300 billion a year.

In net terms, we therefore get \$23 billion a year in wealthy-corporate added contribution to GDP due to their tax cuts and \$300 billion a year reduction in GDP due to the repeal of the subsidies and Medicaid. That's a net reduction of about \$275 billion a year from GDP, which occurs in 2018 and every year thereafter (on average) until 2026.

Based on the US current \$20 trillion annual GDP, \$275 billion annual net reduction is a little over 1% of the total GDP growth, which according to official government estimates is about 2% annually. The annual reduction in GDP from the Trumpcare proposal is likely around .2%, including 'knock on' effects, reducing annual GDP to around 1.8%.

And what are the further 'knock on' effects to consider as well?

Premium and Price Inflation

The Ryan-Trumpcare proposal will almost certainly result in higher premiums and higher out of pocket costs for healthcare services. The higher inflation will reduce consumer household disposable income. That will leave households less income to spend on other items. Since the inflation in health care spending adds nothing to 'real' GDP, there's no gain in GDP from that. But the reductions in household other items, in order to afford paying for the higher cost health insurance, will reduce 'real' GDP. So the net inflationary effect is significantly negative, depending on how much health insurance premiums (and deductibles, co-pays, etc.) actually rise.

Ryan and Republicans claim that premiums are already rising rapidly under Obamacare, which is true, especially the past year. But that is likely to continue. The Health Insurance companies have been 'gaming' the system and the Obama administration did little to stop them. They will continue to do so in the transition to Ryan-Trumpcare and under it going forward as well.

The Ryan-Trumpcare proposal allows insurance companies to hike premiums for older customers up to five times more than premiums charged to younger customers. That's up from three times under Obama. Trumpcare also now allows insurers to offer 'barebones' plans, with lower premiums but with hardly any coverage whatsoever. This trend was a growing problem under Obamacare, as consumers were signing up for super-high deductible plans (\$3 to \$5,000 per year) just to be able to afford the lower premiums. They were essentially 'disaster-only', called "leaners", super-stripped down health care plans. The new 'barebones' policies will cover even less. This less and less coverage for the same (and sometimes higher) premium is in effect a price hike. Less for the same price is a de facto price hike in premiums. The Trumpcare plan also now permits insurers to charge a 30% surcharge for consumers who drop and then re-enroll. It assumes that premiums will decline, according to the CBO, after 2020. Sure, after 30 years of constant health insurance premium hikes, sometimes double digit, now the insurance companies four years from now will start reducing premiums! If anyone believes that, there's a bridge on sale in Brooklyn they might look into.

What About the US Budget and Deficits?

The Ryan-Trumpcare proposal takes \$673 billion and \$880 billion out of spending by government and households (not counting 'knock on' negative effects on household consumption) and another \$592 billion out in tax cuts for the wealthy and their corporations. That's a \$2.145 trillion hit to the US budget over the next decade. The Trumpcare advocates claim the wealthy-investor-corporate tax cuts will stimulate the economy and therefore tax revenues. But the 0.4 multiplier effect suggests only a fraction of that will positively affect the economy and tax revenue growth.

The Trumpcare advocates also claim their plan proposes to give tax credits costing \$361 billion to consumers to buy insurance. But that starts only in 2020, so it's really only \$180 billion averaged over the decade. They further point out that another \$80 billion in spending will occur in a grant for New Patient State Stability Fund to the States to spend, plus another \$43 billion in government spending to hospitals to cover Medicare costs. So that's about a total of \$303 billion new spending to offset the \$1.553 trillion spending cuts.

So there's hundreds of billions in net loss from the tax cuts and the net spending. That means massive increases in the US Budget deficit, and consequent rise in US debt, now more than \$20 trillion. The CBO summarizes the net deficit growth of only \$336 billion. That is ridiculously low.

It should be noted that this net deficit, driven by tax cuts for the wealthy and their corporations, will be quickly followed by another, more massive general corporate tax cut now working its way through Congress as well. That one is estimated to cost more than \$6 trillion over the coming decade. It and the Trumpcare tax cuts are in addition.

And both Trumpcare and the daddy of all tax cuts coming follows on more than \$10 trillion in business-investor-wealthy tax cuts that have already occurred under George W. Bush and Barack Obama.

No wonder the wealthiest 1% households captured 95% of all income gains since 2009? And if Ryan-Trump have their way, they'll get to keep at least that much for another decade. America is addicted to tax cuts for the rich, perpetual wars around the world, and the destruction of decent employment and what's left of any social safety net for the rest. The current political circus in Washington is just the latest iteration of the policy shift to the wealthy and their corporations at the expense of the rest. There's more yet to come. And it will be even worse.

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