Backgrounder

Published by The Heritage Foundation

No. 2321
September 23, 2009

Current Health Insurance Reform Proposals vs. Real Reform and Economic Growth

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Abstract: *Current proposals for health care reform would exacerbate existing problems in the U.S. health care system and weaken the economy. In particular, the proposed surtax on high-income individuals would impose deadweight losses on the economy, depressing employment and slowing economic growth. True reform would change outdated rules and regulations to give consumers greater choice and autonomy in their health care spending. Such reforms would lead to a more efficient and more effective health care system without harming the economy.*

Members of Congress are missing a chance to rethink current health care reform legislation and to propose real health care reforms that would be appropriate in a 21st-century information economy. Rather than allowing more choices and improving communication between individuals and health care providers, the America's Affordable Health Choices Act of 2009 (H.R. 3200) further tips the system toward the interests of the peripheral stakeholders—the government and insurance companies. This would further entrench the status quo and exacerbate the current system's sustainability problems.

The current system does not balance the interests of all stakeholders efficiently, and this imbalance is causing instability and prompting calls for reform. Fundamental reforms would eliminate rules that no longer make sense for 21st-century lifestyles and work habits, use technology to increase information transparency, and enhance flexibility, recognizing that the

Talking Points

- Imposing a penalty tax on higher incomes discourages entrepreneurs at the threshold from creating the additional value and causes those above the threshold to spend resources to avoid taxes rather than spending resources productively.
- The lost opportunities from the surtax would accumulate over time. By 2019, the economy would have 452,000 fewer jobs than it would have without the tax.
- The deadweight loss from the tax—the value of all the things that could have been produced with the resources that were used to comply with and legally avoid the tax—would steadily increase. This cost would average $46.7 billion per year from 2011 to 2019.
- The high-income tax penalty is a very costly way to raise revenue. For every $1 of new tax revenue the government actually receives, taxpayers must pay $2.50 in taxes and lost economic opportunities.

This paper, in its entirety, can be found at:
www.heritage.org/Research/HealthCare/bg2321.cfm

Produced by the Center for Data Analysis

Published by The Heritage Foundation
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needs of patient-consumers are diverse and rapidly changing. True reform would change the rules to give consumers greater choice and autonomy in their health care spending. These changes would be more effective and less costly than the centrally administered, "expert"-driven reforms that Congress is proposing.[1]

The "reform" proposals in H.R. 3200 redirect greater amounts of scarce resources to the health care industry. This is done directly through mandates on health care spending and indirectly through subsidies to the health care industry in the form of public options and government transfers. One proposal to pay for these reforms is a surtax on high-income individuals.

The "reform" proposals in H.R. 3200 redirect greater amounts of scarce resources to the health care industry directly through mandates on health care spending and indirectly through subsidies in the form of public options and government transfers.

The Center for Data Analysis (CDA) at The Heritage Foundation conducted a dynamic analysis to quantify the unseen economic opportunities that would be lost if these legislative proposals become law:[2]

- Job losses would mount over time as potential high-income earners forgo job-creating endeavors. By 2019, the economy would offer 452,000 fewer jobs than it would have without the reforms.
- Self-employed individuals as a group would have $16 billion less income in 2019 (nominal dollars).
- The surtax would impose a deadweight cost of $12.8 billion in lost gross domestic product (GDP) in 2011, rising to $68.2 billion by 2019 and costing taxpayers an average of $46.7 billion per year.
- A typical family of four would have $995 less in disposable income in 2019—enough to pay for routine annual checkups for the four individuals.

H.R. 3200 is neither affordable nor a reform that would offer true choices, and it would not change the incentives for the primary stakeholders. Instead, it would mandate outcomes that encourage formation of a shadow market in health care. On top of these restrictions, it would add growth-slowing taxes that would weaken the economy, making it more difficult for individuals and businesses to comply with the health care mandates.

Achieving Health Care with the Health Care System

The U.S. health care system is an intricate network of patients, medical professionals, medical and health care companies, medical insurance companies, U.S. employers, and the government. These stakeholders interact through a complicated set of rules that influence their incentives and choices. Arguably, the rules are intended to produce outcomes in which the stakeholders receive the best value possible for the resources available.

The current rules have evolved over many decades as the system has tried to adapt to rapid changes in medical technology, relationships within the system, and needs of the population.[3] Over time, however, these adaptations have created a layered and opaque system that masks costs and values. This occurs because those who have the information about the value they are receiving and are willing to pay (the patients) are generally not the ones who pay directly for the care.

This separation means that individuals have no clear, quick, and inexpensive way to signal their preferences to the medical professionals, health care companies, and health industry entrepreneurs who can meet those needs and desires. Nor do suppliers have transparent and consistent ways to signal their

1. For ideas on what consumer-driven health care reforms would entail, see Michael E. Porter and Elizabeth Olmsted Teisberg, "Redefining Competition in Health Care," *Harvard Business Review*, June 2004.
2. Unless otherwise noted, all figures are in real (inflation-adjusted) 2009 dollars, to levels.
3. For a good overview discussion of the evolution of health care policy, see Edmund F. Haislmaier, "Health Care Reform: Design Principles for a Patient-Centered, Consumer-Based Market," Heritage Foundation *Backgrounder* No. 2128, at *http://www.heritage.org/Research/HealthCare/bg2128.cfm*.

costs, because third-party payers often dictate the prices, compelling suppliers to spread the real costs to other parts of the system.

The result is that participants make decisions based on unclear information on costs and benefits and find themselves responding to non–value-driven incentives that waste resources. Without reliable price signals, participants in the system cannot make the efficient decisions that would drive the health care system to maximize value and minimize cost.[4] This communication failure has led to ballooning costs and a general feeling among citizens that they are not receiving a good value for the payment. This unsustainable outcome is driving the urgency of the reform debate.

Decentralized Information Discovery vs. Centralized Information Gathering

Instead of undertaking the less costly fundamental changes in the rules to create a sustainable, patient-driven system, Congress is debating how to centrally collect the information dispersed among the stakeholders and how to decide the "best" allocation of health care. Some of these "reforms" are:

1. A public option through a government-run health insurance plan or exchange;
2. "Pay or play" mandates that require employers to provide employees with health insurance or pay a fine;
3. An individual mandate that requires all individuals to purchase health insurance;
4. A review board to oversee treatment effectiveness and other best practices; and
5. New medical reimbursement schedules for doctors and hospitals in return for cost concessions and adherence to government-dictated best-practice approaches.

This is an extremely costly administrative approach. In addition, expert-driven outcomes, instead of patient-consumer driven outcomes, will likely always be two steps behind the shadow market.[5] For example, much of the information needed to increase value in health care outcomes has not yet been discovered by entrepreneurs. Furthermore, new conditions and individual patient responses to treatments are often heterogeneous; therefore, a "best practices" approach could limit the availability of a more effective treatment for an individual.

H.R. 3200 would add growth-slowing taxes that would weaken the economy, making it more difficult for individuals and businesses to comply with the health care mandates.

None of the proposed reforms gives patients an easy and consistent way to signal their needs and values, because doctors and other health care service providers would not have a chance to signal their real resource costs. Instead, the government or another third party would dictate the prices. Consumers would continue to be left in the dark about the true cost of their health care choices. They would "see" only the overall cost of their insurance premium. This causes them to maximize the value they get from their insurance policy, not the value they get from their health care.

These reforms do nothing for entrepreneurs in the health care industry. Nothing in these new rules encourages them to experiment with new techniques or invest in innovations beyond the government's ideas for innovation.

Funding the Reform Proposals

Congress is also debating how to pay the huge cost of creating additional bureaucratic layers. Some of the options under discussion include:

1. A surtax on individuals and couples with incomes over $250,000 per year;

4. For an anecdotal example and good discussion of the signal problem, see David Goldhill, "How American Health Care Killed My Father," *The Atlantic*, September 2009, at *http://www.theatlantic.com/doc/200909/health-care* (August 31, 2009).
5. Markets will always develop when mutually beneficial trades can be made. The question for policymakers is whether they want to fight constantly against them or to support them. Supporting them enables the economy to use resources most efficiently and to achieve a vibrant standard of living for its citizens. Fighting markets often leads to civil unrest and economic stagnation.

2. A tax on insurance companies and/or high-cost insurance policies;
3. New consumption taxes on goods and services (a value-added tax or "sin" taxes); and
4. Eliminating or capping the tax deduction for employer-provided health insurance.

Of these, only eliminating the health insurance deduction would remove a complicating and incentive-distorting layer from the system rather than adding additional layers and sources of inefficiency. Regrettably, it is not in the current proposal. The House of Representatives health care draft legislation (H.R. 3200) proposes a surtax on high-income individuals. On average, over half (60 percent) of the individuals in these brackets are business owners.[6]

Rather than reforming the system to improve the economic use of America's scarce resources, policymakers are proposing to replace the outdated status quo with policies that would cause even greater economic harm.

The surtax would directly hurt those individuals at the margin of "high" income. These same individuals are often the entrepreneurs who create income by finding new and better ways to use the economy's resources. Thus, rather than reforming the system to improve the economic use of America's scarce resources, policymakers are proposing to replace the outdated status quo with policies that would cause even greater economic harm.

While the surtax would directly hit those well above the margin, these individuals have often reached a point where their income flows can be reclassified and redirected in tax-favorable ways. This means that they will spend more resources to avoid taxes, such as changing corporate forms and retiming income distributions and other types of transaction costs. These adjustments would increase deadweight losses to the economy and reduce expected tax collections.[7]

A Dynamic Analysis of the Economic Impact

For decades, economists have studied how tax changes directly and indirectly affect government revenue. As is well known, the direct revenue effect of a higher tax rate can exert an offsetting indirect effect by shrinking the tax base. In the case of the surtax on high-income individuals, it would lower the total income above the minimum income thresholds.[8]

A growing body of evidence indicates that the taxable income elasticity with respect to the tax rate increases with income. This suggests that raising taxes on high-income individuals would reduce the tax base more and cause greater deadweight losses than raising tax rates across the board would.[9]

Government spending can also have indirect and direct effects that can be positive and negative. It is therefore important to conduct a dynamic analysis that accounts for the far-reaching impacts that policy changes can have in order to assess the net macroeconomic effect. By comparing the projected economy with the policy to the baseline economy without the policy, analysts can determine whether a policy's overall benefits outweigh its overall costs. In other words, does the policy

6. This is based on the percent of individuals in each high-income bracket that report partnership income or income on Schedule C or Schedule S. The data are from the CDA's personal income tax microsimulation model.
7. For a comprehensive discussion and estimation of the behavioral effects induced by tax rates, see Emmanuel Saez, Joel B. Slemrod, and Seth H. Giertz, "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review," National Bureau of Economic Research *Working Paper* No. 15012, May 2009, at *http://www.nber.org/papers/w15012* (August 25, 2009).
8. This is what economists call the elasticity of the tax rate. The elasticity measures the responsiveness—how much something changes when another variable changes. In this case, the elasticity is the percent that taxable income changes in response to a percentage change in the marginal tax rate. Elasticity in the economy is driven by the combined effect of millions of people adjusting their behavior accordingly in response to the new tax rate.
9. Saez *et al.*, "The Elasticity of Taxable Income with Respect to Marginal Tax Rates," pp. 49–57.

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enhance individuals' overall opportunity to use their resources better—especially their labor resources—or does the policy cause individuals to use their resources less effectively?

Heritage Foundation analysts used the CDA's personal income tax microsimulation model to estimate the year-to-year changes in federal revenues and the yearly average effective and average marginal tax rates. The model simulated the effect of tax law changes for a representative sample of taxpayers. Data for these taxpayers are extrapolated or "aged" to reflect detailed taxpayer characteristics through 2019.

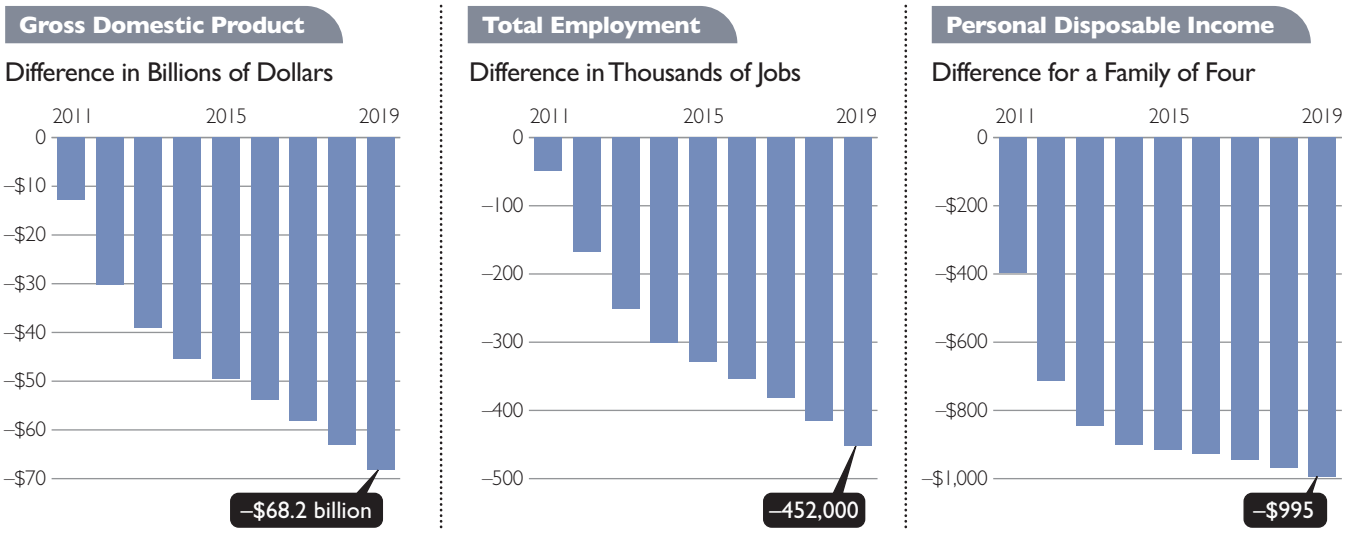
The analysts then used the IHS Global Insight Model of the U.S. economy to estimate how the proposed tax rate and spending changes would affect the economy as a whole. Since the simulation was conducted prior to a formal bill, only assumptions based on the two main policies were simulated. Specifically, the simulation analyzed the net effect of the proposed high-income surtax and assumed that this revenue would be spent on health care through transfers similar to Medicare and Medicaid and on new programs. The simulation was conducted by changing the macro model's average marginal federal tax rates and average effective tax as estimated by the microsimulation model and by increasing federal government transfers and outlays by the revenue generated from the surtax. (For a full description of the simulation, see Appendix A. For detailed results from the simulation, see Appendix B.)

The reform proposals redirect greater amounts of scarce resources to the health care industry, directly through mandates on health care spending and indirectly through subsidies to the health care industry in the form of public options and government transfers. The economic results quantify the unseen lost opportunities due to these legislative proposals:

- Job losses would mount over time as potential high-income earners forgo job-creating endeavors. By 2019, the economy would offer 452,000 fewer jobs than it would have without the reforms.

How the H.R. 3200 Surtax Would Affect the Economy

H.R. 3200 contains a surtax on those earning more than $250,000 to pay for health care "reforms," which will result in continuous job losses and lower family income through 2019. The charts below show the differences in key economic indicators as a result of the surtax.



Note: Figures are in 2009 dollars.

Source: Heritage Foundation calculations based on the IHS Global Insight U.S. Macroeconomic model.

Chart 1 • B 2321 heritage.org

- Self-employed individuals as a group would have $16 billion less income in 2019 (nominal dollars).
- The surtax would impose a deadweight cost of $12.8 billion in lost GDP in 2011, rising to $68.2 billion by 2019 and costing taxpayers an average of $46.7 billion per year more.
- A typical family of four would have $995 less in disposable income in 2019—enough to pay for routine annual checkups for the four individuals.[10]

The tax-induced behavioral effects and unintended effects of driving up real medical costs by reallocating more scarce resources toward health care markets largely drive these negative economic outcomes.

Validating and Comparing the Simulation

Many simulations were run to ensure that the model was correctly simulating the effects of the policies. Diagnostic checks of the various simulations were based on hitting targets estimated from outside, independent agencies or from economics literature. The simulation detailed in Appendix A produced the results closest to the targets.

For example, economists Bertil Holmlund and Martin Söderström estimated the changes in tax revenue caused by changes in marginal tax rates on high-income individuals in Sweden.[11] The proposed surtax rates, combined with state tax rates and the expiration of the Bush tax cuts, would put U.S. tax rates close to Swedish rates. Thus, the estimated behavior responses are likely to be similar.

Holmlund and Söderström found that the long-run elasticity of taxable income to the net tax rate is between 0.2 and 0.3. This means that for every 1 percent increase in marginal tax rates, overall taxable income would decrease by 0.2 percent to 0.3 percent. The CDA simulation, reported in this paper, produced an elasticity of 0.26.

The Congressional Budget Office (CBO) has estimated that H.R. 3200 would add $227 billion to the deficit between 2011 and 2019,[12] compared to the CDA estimate of a $101 billion increase in the deficit. While it could be argued that the lower CDA estimate results from the CDA simulation's assumption that the reform policies would be deficit-neutral, further investigation suggests that the 40 percent difference between the CBO and CDA estimates is more likely due to the CDA's use of dynamic analysis. The CBO's static analysis estimated that the surtax would generate $582 billion in revenue between 2011 and 2019, while the CDA's dynamic analysis forecast only $369 billion because the behavioral effects would shrink the tax base and, therefore, the total revenues generated.

Thus, the dynamic feedback is about 40 percent. Conceivably, government spending would keep spiraling according to the CBO estimate, but the slowing economy caused by the increased taxes and spending would most likely force government spending to slow as well. Therefore, it is reasonable that the dynamic spending estimate would also be lower than the CBO's static estimate. Once again, the dynamic feedback effects, driven by behavioral changes that slow the economy, largely account for the difference between the CDA and CBO estimates.

Current regulations, designed to meet individual and industry needs decades ago, have become a hindrance to the modern information economy that requires individuals to be flexible and mobile.

The likelihood that the differences stem from the differences between dynamic general equilibrium analysis and static cost analysis is also evident in the initial years before the dynamic effects. The CBO estimated revenue at $35 billion in 2011 and $33

10. Health care costs can be estimated at Family Health Budget, Web site, at *http://www.familyhealthbudget.com* (September 22, 2009). For example, a routine annual exam for a husband, wife, and two children was estimated to be $505 (total for the four exams).
11. Bertil Holmlund and Martin Söderström, "Estimating Income Responses to Tax Changes: A Dynamic Panel Data Approach," CESifo *Working Paper* No. 2121, October 2007, at *http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1022502* (July 17, 2009).
12. America's Affordable Health Choices Act of 2009, H.R. 3200, July 17, 2009.

billion in 2012, compared to the CDA estimates of $23 billion and $35 billion, respectively. Likewise, the CBO estimated that government outlays would increase by $22 billion for 2010 and 2011. The CDA simulation, which does not begin until 2011, estimated a $24 billion increase in government spending. The CDA simulation assumes no policy impact until 2011, but the CDA estimate for 2011 could conceivably have included changes that the CBO estimate divided between 2010 and 2011.

Legislation that tries to control costs through mandates and "best practices" that rely on past data will most likely hinder individuals from making the best personal health care decisions in real time.

The fact that the CDA simulation, without explicitly assuming the CBO's cost and revenue projections, produced estimates that largely agree with the CBO's estimates in the very near term further verified the results of this simulation.

Finally, a recent analysis of the excess burden of the surtax (the deadweight loss of taxation due to distortions that allocate resources less efficiently) by Robert Carroll at the Tax Foundation pegged the efficiency loss at $25 billion to $37 billion in 2011.[13] The CDA's dynamic analysis estimated the average deadweight loss at 12.8 billion in lost GDP in 2011 and $30 billion in 2012. It forecast that the deadweight loss would continue to increase as the behavior driving the elasticity estimates is borne out dynamically such that the excess burden averages $46.7 billion per year from 2011 to 2019.

Using elasticity estimates supported by the empirical findings of other respected economists, Carroll calculated that the excess burden of the surtax in 2011 (without behavioral effects) is 50 percent to 75 percent of the additional revenue raised by the surtax. In 2011, using a dynamic methodology, CDA economists found the excess burden to be 54 percent in 2011, 88 percent in 2012, and continuously increasing from 2011 to 2019 for an average of 150 percent. In other words, for every $1 of additional revenue raised by the surtax, U.S. citizens would pay an additional $1.50 in lost output.

Carroll calculates that the total burden of the surtax would be 175 percent of the revenue raised,[14] but he states that this underestimates the burden because it does not include the behavioral effects of the surtax.[15] The dynamic analysis reported here includes the behavioral effects. CDA analysts found that these effects increased the total burden of the surtax on U.S. citizens to 250 percent of the revenue that the tax would generate. As people's behavior adjusts over time, the dynamic impact of the surtax actually costs more in GDP than it generates in revenue. Between 2011 and 2019, the U.S. would lose $339.1 billion (inflation-adjusted) in GDP to collect an additional $235.7 billion in revenue.

Conclusion

The health insurance industry needs to undertake many structural changes to provide coverage and options that 21st-century consumers can purchase and want to purchase. Weakening the economy through punitive taxes and mandates will not produce these structural changes. Instead, the government needs to change outdated regulations that govern health insurance companies and change rules to allow for true patient-driven choices in health care. Current regulations, designed to meet individual and industry needs decades ago, have become a hindrance to the modern information economy that requires individuals to be flexible and mobile.

The Internet and wider market reach in a global economy offer unprecedented opportunities for self-employed income, but the self-employed often find themselves on the margin of "high-income" for some years. These individuals are probably not able

13. Robert Carroll, "The Excess Burden of Taxes and the Economic Cost of High Tax Rates," Tax Foundation *Special Report* No. 170, August 2009, at *http://taxfoundation.org/files/sr170.pdf* (August 24, 2009).
14. The total burden is the tax liability (revenue collected) plus the excess burden (deadweight loss).
15. Carroll, "The Excess Burden of Taxes and the Economic Cost of High Tax Rates," p. 5, note 2.

to spend thousands of dollars to shield their income by using tax-avoidance strategies such as those used by individuals with much higher incomes. This discourages these individuals from creating new sources of income in the economy. Further, the tax-avoidance strategies used by wealthier individuals create greater deadweight losses from the tax system and cause less tax revenue to be collected.

Negative and compounding feedback effects from entrepreneurs and small-business owners who are penalized for their success and from higher-income individuals who adjust their income to minimize their tax burdens weaken the economy. As this discouragement builds over the years, fewer and fewer of these individuals will seek new opportunities. The CDA's dynamic macroeconomic analysis shows the results of this "reform" over the next decade.

Because full information about the diverse values, resources, and future resources available for health care goods and services is unknown, legislation that tries to control costs through mandates and "best practices" that rely on past data will most likely hinder individuals from making the best personal health care decisions in real time. This will generate incentives to create shadow markets and cause the government to incur escalating costs to enforce the mandates.

Furthermore, the cost of centrally collecting and processing health care information is likely to be an exercise in tail chasing as new conditions and technology rapidly change and individuals seek their own information on the Internet and through other networks that offer them more value for the cost.

Forcing a small group of individuals, especially sole proprietors, to pay for everyone else's health care and hoping to bully health insurance and health care companies into cost concessions by making the market a monopsony is not the health care "reform" that Americans need.

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APPENDIX A: MACROECONOMIC SIMULATION METHODOLOGY

Analysts in the Center for Data Analysis at The Heritage Foundation used the IHS Global Insight (GI) short-term model of the U.S. economy[16] to simulate the effect of using a high-income surtax to raise revenue for health care spending. The CDA analysts used the GI model's July 2009 baseline forecast for 2009–2019. The baseline reflects the IHS GI forecast of economic indicators. The forecast is a trend projection that can be thought of as the average of all likely paths that the economy could take barring any major shocks to the economy.

For policy analysis, using the baseline establishes a counterfactual to compare against changes caused by a proposed policy. The baseline forecast incorporates a number of assumptions regarding the economy's future. For example, the baseline already assumes that income tax rates will increase after 2010 as indicated in President Obama's proposed budget. Therefore, additional surtaxes imposed in this simulation are on top of the already assumed higher tax rates that will result from expiration of the Bush tax cuts.[17]

The simulation involved four steps. The model was solved between each step to allow the model to estimate and then hold new values in order to best simulate the overall policy effects.

Step 1. The federal average marginal tax rate and the surtax on the average effective tax rate were increased by the percentage increase estimated in the microsimulation model. Using the surtax variable did not alter any of the other variables and allowed the model to endogenously estimate the average effective tax rate. This gave the model a slightly greater degree of flexibility than imposing an exogenous average rate would have. The dynamic estimate was very close to the static estimate found in the microsimulation.

Step 2. Real federal payments for Medicare on behalf of individuals were increased by the amount of dynamic revenue that was generated by the increased tax from the first step.[18] This allowed the model to estimate the effect of increased federal health care programs on health care prices and interest rates. The policy is deficit-neutral because the amount of increased spending was equal to the amount of revenue received. Recent CBO estimates of policies intended to reduce costs versus policies that increase spending have produced varying results on the deficit. Assuming deficit-neutral outlays, while it most likely errs on the optimistic side, is the least biased assumption without more specific reform proposals.

Monetary policy is assumed to be active in this stage. This allows the Federal Reserve to adjust interest rates according to a Taylor-type rule. The monetary policy eases inflationary pressures and therefore mitigates some of the price increases that spending could have created. It does this by raising interest rates, which is a theoretically likely effect of the proposed surtax and health care reforms.

Step 3. The price effects and government interest payments in Step 2 were held constant. The real federal Medicare payments were returned to their baseline level, and the "federal government subsidies—other programs" variable was increased by the revenue generated in Step 1.

16. For more information on the Global Insight model of the U.S. economy, see The Heritage Foundation, "Description of the Global Insight Short-Term US Macroeconomic Model," at *http://www.heritage.org/cda/upload/globalinsightmodel.pdf* (September 17, 2009). The Global Insight model is used by private-sector and government economists to estimate how changes in the economy and public policy are likely to affect major economic indicators. The methodologies, assumptions, conclusions, and opinions presented here are entirely the work of analysts at The Heritage Foundation's Center for Data Analysis. They have not been endorsed by and do not necessarily reflect the views of the owners of the Global Insight model.
17. For a complete description of the forecast and assumptions for this baseline, see IHS Global Insight, "U.S. Economic Outlook," July 2009.
18. The nominal revenue generated per quarter was adjusted to a real value for Medicare transfers using the baseline medical services chained price index.

This variable better captures the broader effects of the proposed health care reform policies. The Medicare variable, used in Step 2, captures a very specific historical relationship to the economy. Using it in the second step of the simulation allowed the model to recognize the policy as targeting the health care industry and therefore better estimate the first-order effects in those markets. However, using this variable as the target for the reform proposals would not adequately simulate the new subsidies and agency programs being proposed to reform the system. They are better captured by the other government subsidies variable, at least until more specific legislation can be simulated.

Step 4. Because the other government subsidies variable has historically been weighted toward agriculture industries, using this variable introduces an artificial increase in the income to farmers. To correct this, the assumption was made in this case that farm proprietors' income would be hit proportionally to non-farm proprietors' income. Thus, the farm proprietors' income variable was reduced by the percentage change in non-farm proprietors' income found in Step 3. Finally, the federal government current receipts variable, which was excluded after Step 1, was reincluded to estimate the overall dynamic revenue generated by the surtax along with the other dynamic effects of the surtax and health care outlays.

The GI model adjusts real variables to their 2000 price level. To make numbers meaningful for comparison to today's prices, Heritage Foundation analysts rebased these numbers to 2009 prices by inflating the real values by a factor of 1.24 (about 2.4 percent inflation per year). This average inflation rate was calculated using the Minneapolis Federal Reserve Bank's inflation calculator for 2000 to 2009.[19]

19. Federal Reserve Bank of Minneapolis, "What Is a Dollar Worth?" at *http://www.minneapolisfed.org* (August 24, 2009).

How the H.R. 3200 Surtax Would Affect Key Economic Indicators

	Fiscal Year Average											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg., 2011–2019
Gross Domestic Product, in Billions of Inflation-Adjusted Dollars Indexed to the 2000 Price Level												
Forecast	11,330.8	11,431.4	11,749.0	12,172.4	12,551.6	12,879.5	13,226.9	13,603.1	13,979.8	14,378.7	14,797.0	13,259.8
Baseline	11,330.8	11,431.4	11,759.3	12,196.8	12,583.1	12,916.2	13,266.9	13,646.6	14,026.8	14,429.5	14,852.0	13,297.5
Difference	0.0	0.0	–10.3	–24.3	–31.5	–36.7	–40.0	–43.4	–47.0	–50.8	–55.0	–37.7
Real GDP Growth Rate, Percent Change from Year Ago												
Forecast	–2.8	0.5	2.8	3.6	3.1	2.6	2.7	2.8	2.8	2.9	2.9	2.9
Baseline	–2.8	0.5	2.9	3.7	3.2	2.6	2.7	2.9	2.8	2.9	2.9	3.0
Difference	0.0	0.0	–0.1	–0.1	–0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Employment, in Thousands of Jobs												
Forecast	132,075.5	131,211.2	132,791.5	135,708.2	138,628.5	140,653.1	142,194.6	143,731.1	145,241.1	146,743.5	148,225.4	141,546.3
Baseline	132,075.5	131,211.2	132,840.3	135,876.2	138,880.2	140,953.6	142,523.4	144,085.3	145,623.5	147,158.6	148,677.4	141,846.5
Difference	0.0	0.0	–48.8	–168.0	–251.7	–300.6	–328.8	–354.2	–382.5	–415.1	–452.0	–300.2
												0.0
Private Employment, in Thousands of Jobs												
Forecast	109,539.6	108,657.8	110,418.7	113,291.5	115,814.3	117,587.2	118,979.4	120,365.9	121,730.0	123,089.1	124,429.2	118,411.7
Baseline	109,539.6	108,657.8	110,467.0	113,449.2	116,051.6	117,874.4	119,298.0	120,713.3	122,107.9	123,501.7	124,880.3	118,704.8
Difference	0.0	0.0	–48.3	–157.7	–237.3	–287.2	–318.6	–347.3	–378.0	–412.6	–451.0	–293.1
Unemployment Rate, Percent of Civilian Labor Force												
Forecast	9.3	10.2	9.9	9.1	8.3	7.9	7.6	7.3	6.9	6.5	6.1	7.7
Baseline	9.3	10.2	9.9	9.0	8.2	7.8	7.5	7.1	6.7	6.3	5.9	7.6
Difference	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1
Disposable Personal Income, in Billions of Inflation-Adjusted Dollars Indexed to the 2000 Price Level												
Forecast	8,956.3	8,960.5	8,996.9	9,178.1	9,366.2	9,645.0	9,995.9	10,328.9	10,656.3	10,989.1	11,351.7	10,056.5
Baseline	8,956.3	8,960.5	9,022.0	9,223.7	9,420.7	9,703.7	10,056.1	10,390.5	10,719.6	11,054.5	11,419.6	10,112.3
Difference	0.0	0.0	–25.1	–45.6	–54.5	–58.7	–60.2	–61.6	–63.3	–65.4	–67.9	–55.8
Disposable Income per Capita, in Inflation-Adjusted Dollars Indexed to the 2000 Price Level												
Forecast	29,045.2	28,847.0	28,687.0	28,984.8	29,295.8	29,879.0	30,670.2	31,390.0	32,077.5	32,766.7	33,529.5	30,809.0
Baseline	29,045.2	28,847.0	28,767.1	29,128.9	29,466.2	30,060.8	30,854.9	31,577.2	32,268.0	32,961.7	33,730.1	30,979.4
Difference per Person	0.0	0.0	–80.0	–144.1	–170.4	–181.8	–184.7	–187.3	–190.5	–195.0	–200.6	–153.4
Difference for Family of Four	0.0	0.0	–320.1	–576.4	–681.5	–727.1	–738.9	–749.0	–761.9	–780.1	–802.3	–613.7
Personal Consumption Expenditures, in Billions of Inflation-Adjusted Dollars Indexed to the 2000 Price Level												
Forecast	8,219.9	8,311.4	8,467.0	8,652.2	8,815.9	8,984.0	9,228.2	9,487.6	9,731.4	9,988.8	10,271.3	9,291.8
Baseline	8,219.9	8,311.4	8,477.8	8,677.6	8,850.3	9,024.1	9,271.3	9,533.0	9,778.4	10,037.4	10,321.7	9,330.2
Difference	0.0	0.0	–10.8	–25.4	–34.4	–40.0	–43.0	–45.4	–47.0	–48.6	–50.4	–38.3
Personal Savings, in Billions of Inflation-Adjusted Dollars Indexed to the 2000 Price Level												
Forecast	430.1	346.3	226.0	215.3	224.1	313.8	395.7	444.5	508.5	567.8	633.0	392.1
Baseline	430.1	346.3	239.7	234.0	242.4	330.7	411.2	459.1	522.8	582.4	648.0	407.8
Difference	0.0	0.0	–13.7	–18.8	–18.3	–16.9	–15.6	–14.6	–14.4	–14.6	–15.0	–15.8

Sources: Heritage Foundation calculations based on the IHS Global Insight U.S. Macroeconomic model.

How the H.R. 3200 Surtax Would Affect Other Economic Indicators

	Fiscal Year Average											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Avg., 2011–2019
Personal Savings Rate, Percent of Disposable Personal Income												
Forecast	4.9	3.9	2.5	2.4	2.4	3.3	4.0	4.3	4.8	5.2	5.6	3.8
Baseline	4.9	3.9	2.7	2.6	2.6	3.4	4.1	4.5	4.9	5.3	5.7	4.0
Difference	0.0	0.0	–0.1	–0.2	–0.2	–0.2	–0.1	–0.1	–0.1	–0.1	–0.1	–0.1
Gross Private Domestic Investment, in Billions of Inflation-Adjusted Dollars Indexed to the 2000 Price Level												
Forecast	1,300.1	1,377.9	1,591.4	1,868.3	2,042.1	2,129.8	2,182.1	2,259.3	2,329.7	2,405.7	2,491.6	2,144.4
Baseline	1,300.1	1,377.9	1,594.3	1,877.0	2,050.3	2,137.1	2,188.0	2,264.0	2,333.5	2,408.6	2,493.3	2,149.6
Difference	0.0	0.0	–2.9	–8.7	–8.1	–7.3	–5.9	–4.7	–3.9	–2.9	–1.7	–5.1
Non-Residential Fixed Investment, in Billions of Inflation-Adjusted Dollars Indexed to the 2000 Price Level												
Forecast	1,148.1	1,129.1	1,247.7	1,420.2	1,572.1	1,666.7	1,719.6	1,769.5	1,838.3	1,914.1	1,997.8	1,682.9
Baseline	1,148.1	1,129.1	1,248.9	1,424.7	1,576.6	1,670.3	1,722.0	1,770.7	1,838.3	1,912.9	1,995.2	1,684.4
Difference	0.0	0.0	–1.2	–4.5	–4.5	–3.6	–2.4	–1.1	0.0	1.2	2.6	–1.5
					0.0							
Residential Fixed Investment, in Billions of Inflation-Adjusted Dollars Indexed to the 2000 Price Level												
Forecast	277.6	288.5	365.0	444.7	479.5	492.4	496.9	512.3	518.0	524.8	532.6	485.1
Baseline	277.6	288.5	365.2	446.4	482.3	495.4	499.8	515.0	520.7	527.5	535.3	487.5
Difference	0.0	0.0	–0.2	–1.7	–2.8	–3.0	–2.9	–2.8	–2.7	–2.7	–2.7	–2.4
Change in the Stock of Business Inventories, in Billions of Inflation-Adjusted Dollars Indexed to the 2000 Price Level												
Forecast	–76.6	5.3	22.4	48.4	42.7	29.2	27.9	41.0	42.2	41.7	42.8	37.6
Baseline	–76.6	5.3	23.8	50.9	43.5	29.8	28.3	41.5	42.9	42.5	43.7	38.5
Difference	0.0	0.0	–1.4	–2.5	–0.8	–0.6	–0.4	–0.5	–0.7	–0.8	–0.9	–1.0
Full-Employment Capital Stock, in Billions of Inflation-Adjusted Dollars Indexed to the 2000 Price Level												
Forecast	14,039.2	13,981.4	14,076.1	14,389.5	14,847.0	15,361.1	15,875.2	16,370.2	16,876.7	17,405.7	17,964.0	15,907.3
Baseline	14,039.2	13,981.4	14,076.8	14,394.9	14,857.2	15,373.0	15,886.7	16,379.4	16,882.2	17,406.3	17,958.7	15,912.8
Difference	0.0	0.0	–0.7	–5.4	–10.2	–11.9	–11.5	–9.2	–5.5	–0.7	5.3	–5.5
Consumer Price Index, Percent Change from Year Ago												
Forecast	–0.6	1.4	2.3	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.2
Baseline	–0.6	1.4	2.3	2.2	2.2	2.1	2.2	2.2	2.2	2.2	2.2	2.2
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	–0.1	–0.1	–0.1	0.0
Treasury Bill, 3-Month, Annualized Percent												
Forecast	0.2	0.5	1.7	3.3	3.6	4.6	4.7	4.7	4.7	4.7	4.7	4.1
Baseline	0.2	0.5	1.7	3.2	3.5	4.4	4.6	4.6	4.6	4.6	4.6	4.0
Difference	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Treasury Bond, 10-Year, Annualized Percent												
Forecast	3.3	3.7	3.8	4.4	4.7	5.5	5.6	5.6	5.5	5.5	5.5	5.1
Baseline	3.3	3.7	3.8	4.4	4.6	5.4	5.5	5.5	5.5	5.5	5.5	5.1
Difference	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.1

Sources: Heritage Foundation calculations based on the IHS Global Insight U.S. Macroeconomic model.

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