The Daily Dish

August 26th Edition

GORDON GRAY | AUGUST 26, 2015

The Senate will consider Obamacare's medical device tax for repeal when they return from recess, according to National Journal. In June the House passed a bipartisan measure for repeal, however the Senate has not yet moved on the legislation. Despite support from both sides of the aisle, the White House has said it is likely they will veto the legislation. AAF research found that the tax attacks small and medium size businesses with 91 percent of the 13,000 medical device companies in the U.S. falling into those categories.

Congress went after the EPA yesterday for withholding documents on the agency's spill of toxic chemicals into the Animas River in Colorado. Representative Lamar Smith said "These documents are essential to the Committee's ongoing investigation and our upcoming hearing on Sept. 9. But more importantly, this information matters to the many Americans directly affected in western states, who are still waiting for answers from the EPA."

According to a new report from the Kaiser Family Foundation, when Obamacare's Cadillac Tax hits, 1 in 4 employers that offer health care will be affected. The new tax is on health coverage that exceeds $10,200 in costs for an individual and $27,500 for a family. Then report continues, "For the most part, these changes will result in employees paying for a greater share of their health care out-of-pocket."

Eakinomics: CBO's August Update: Handcuffed by Interest, *Guest Authored by Gordon Gray, AAF Director of Fiscal Policy*

Three times per year, the Congressional Budget Office (CBO) updates its projections for the nation's bottom line: a 10-year estimate of the federal government's tax collections and spending practices and the gap between them. While much of Washington is on vacation, the CBO diligently prepares its August update, a sober reminder for policymakers that when they get back from August recess, they still have budget problems to solve.

The U.S. is on track to spend $426 billion more than it takes in this year, which some are taking as good news, since it's less than what was projected back in March. Only in Washington is $426 billion in red ink an upside-surprise. Over the longer-term, the cumulative deficit was marked down to $7 trillion from $7.2 trillion.

What explains the difference? Economic growth? Sound fiscal policies? Hardly.

The $60 billion swing is attributable to a host of competing factors that affect the complicated task of analyzing the federal budget and its interactions with the world's largest economy. Over the long term, the single largest moving piece in CBO's most recent analysis was interest costs. CBO revised downward their estimates of short and long-term interest rates by 0.5 percentage points and 0.3 percentage points, respectively. This changes the cost of federal borrowing by $324 billion. When combined with other interactions, overall borrowing costs were revised downward by $441 billion. That a modest change in interest rates can swamp all other factors in budget estimates should be a warning shot to policymakers. The deficit is increasingly out of our hands as borrowing costs grow.

In 10 years, the deficit is projected to be over $1 trillion again, while borrowing costs will reach $755 billion. And that's just today's best guess. Another modest revision could worsen that outlook. But by 2025, if left unchanged, the real risk is that the United States could have to endure another recession or political crisis and be left with little flexibility to address those challenges – a stark lesson for policymakers in sleepy August.

From the Forum

Does Compensation Lag Behind Productivity? by Ben Gitis, AAF Director of Labor Market Policy; and Jacqueline Varas

Key Elements of a Potential U.S. Patent Box by Gordon Gray, AAF Director of Fiscal Policy

Proposed Methane Emissions Standards by Dan Goldbeck, AAF Research Analyst

Administration's July 2015 "Regulatory Review" Adds $14.7 Billion in Costs by Sam Batkins, AAF Director of Regulatory Policy

Fact of the Day

The medical device tax is a 2.3 percent excise tax on net revenue (not profit) for all manufacturers and importers of taxable medical devices.