

# Life, death and taxes

*How the Affordable Care Act is explicitly tied to our current economic woes and why it will make them worse*

Will Hamilton & Michael Sargent

The entire nation is already abuzz with talk of ObamaCare's successes and failures, often times within the same breath. In the middle of all the heated ideological arguments floating around in the agenda-driven mainstream media, one thing has become obvious: most Americans don't know how the PPACA is going to work, or if it is going to work at all. And why should they? The father of the bill himself, President Barack Obama, does not even know exactly what to expect from this 2,700-page leviathan or even what it specifically is. President Obama, whose floundering presidency is hinged on the survival of the ACA, has maintained that the controversial mandate provision is "absolutely not a tax," while Chief Justice John Roberts' bench statement has upheld it as exactly that. We are immediately reminded of former Speaker Nancy Pelosi's words in 2010: "We have to pass the bill, so that you know what's in it."

Right now, our biggest concern is that Americans don't care about facts anymore. The reality of our national condition is obscured by the fervor that accompanies the pursuit of abstractions like "hope" and "change". The economic and political facts surrounding ObamaCare are routinely swept under the rug in favor of the revelry that accompanies a "feel-good" moment such as this one. The bottom line is that Americans have absolutely no idea what this law consists of or what to expect and will soon find out what really lies behind the veil of "progress" and "reform" as the law comes into effect. As the 2012 presidential election approaches, it's time to look beyond the perceived monumentality of the occasion and start thinking logically about how this legislation and all its closeted skeletons will affect every aspect of American life.

While both opponents and supporters of ObamaCare will make vague ideological arguments for or against the legislation, we are not going to go down that road. Rather, we are going to focus on the real effects that this so-called reform will have on the American economy as a whole as well as the healthcare industry itself.

It is no mystery that our economic condition is currently abysmal, and as the most recent jobs report for the month of June shows, the future is not looking much better. The Obama administration predicted that by mid-2012 its policies would bring unemployment down to 5.2%. Despite this promise and our President's fairy-tale assertion that "the private sector is doing fine", the reality is that the US added a measly 80,000 jobs in June, currently faces an unemployment rate of 8.2%, and had an average GDP growth of less than 2% so far this year. These economic indicators are not encouraging whatsoever, let alone fine. It is safe to assume that this is only part of a larger trend of broken promises emanating from the White House.

The key question now is: how exactly will ACA affect America's already anemic economic growth? Simply put, this behemoth is the last thing that our economy needs. We will soon see its effects as the law stifles innovation, slashes incentives for investment, hurts small businesses, and institutes more red tape than ever before in an industry that comprises almost one-fifth of our economy.

Among one of the most ignored aspects of the ACA is its massive cost and how exactly we are going to finance it. According to the non-partisan Congressional Budget Office, ObamaCare comes at a gross cost of about 1.5 trillion dollars (that's \$1,500,000,000,000), with a net cost of \$1.1 trillion after receipts (mostly new tax revenues) offset \$400 billion of the cost. Even after completely ignoring the fact that we are already over \$14 trillion in debt and face a fiscal cliff at the end of this year, this is still going to pose tremendous difficulties for our economy. Where are these \$0.4 trillion in tax revenues going to come from? Obviously, some will come from the contentious tax, formerly known as a penalty, which will hit all Americans who choose not to purchase health insurance, including those in the middle class. Because this revenue will most likely be small, the legislation will turn to other sources for cash.

One of the more unsettling of these sources is a 3.8% surtax on investment income for those who make \$200,000 or more per year. This is troubling news for our already feeble economy, as the tax on capital gains will jump from 15% to 18.8%, assuming the 2001 and 2003 tax rates are renewed by congress. Investing in American businesses is what allows new companies to purchase capital and expand, driving growth and innovation in our economy. Unfortunately, we are likely to see a slowdown in investment once these higher rates are instated, continuing to hinder the sluggish economic recovery. So much for investing in America.

Small businesses, also a huge driving force in the US economy, will fall victim to ObamaCare as well. According to the US Small Business Administration, small businesses represent 99.7% of the total number of firms and employ about half of the work force in the United States. Earlier this year, an independent Gallup

Poll found that out of the small businesses that are not hiring (a whopping 85% of small firms), almost 50% cite that they did not hire new workers because they were "worried about the potential cost of healthcare," which they would have to provide for their employees under the ACA. Even worse, a more recent study by the Chamber of Commerce found that 73% of small businesses view ObamaCare as a direct obstacle to hiring more workers. This is absolutely unacceptable at a time when the labor force participation rate (those of working age engaged in work or actively seeking a job) has dropped to 63.8%, the lowest in thirty years.

The largest damage caused by the healthcare overhaul, however, will come at the expense of small firms specific to the healthcare industry itself. For a glimpse of what is to come, there's no need to look any further than the once-booming medical device industry. As a component of the ACA, the Medical Device Tax is a new 2.3% excise tax to be directly levied against the developers, manufacturers and vendors of all medical devices. What is a medical device? A medical device is considered anything ranging from a basic stethoscope to the \$100 million particle accelerators used to treat cancer. Curiously, the only exemptions from this tax are contact lens, eyeglass, and hearing-aid manufacturers. Looks like somebody hired terrific lobbyists.

Even though the US has long been a global leader in medical technology and device industry, compared to 2010, the year 2011 saw about a 50% decrease in venture capital that went to startup medical device companies. This figure alone is startling, considering how much we depend on the technology that medical-device firms research, develop, and manufacture. Worse still, it is almost certain to continue its decline even further under the new 3.8% investment surtax that will come into effect under the ACA.

Minnesota-based giant Medtronic has had "cost cutting" mechanisms in place (read: scheduled layoffs) for about a year because of the device tax, which is yet to even take effect. Another large company, prosthetics firm Stryker Inc., has calculated that this new tax will snuff out \$130 to \$150 million of their operating research and development budget. This translates to roughly one-third of Stryker's R&D capacities.

Despite these two "corporate" examples, a staggering 90% of the medical device industry is composed of small to medium sized firms, the majority of which are relatively young. While 10% of medical device firms will be able to operate relatively normally under ObamaCare's device tax because of their large size, small firms will not be able to absorb the effects of the tax while maintaining consistent (albeit slow) growth like their larger competitors are capable of doing. Among smaller firms, economists predict a 10% drop in individual market value as well as sharp drop-offs in new hires and capital investments.

These are not the mega-firms that the anti-business political left endlessly assails for their lack of "corporate accountability." Instead these companies are comprised of a small number of Americans with big ideas. These are scientists and medical professionals trying to find a small niche in a marketplace that is being strangled by the mere idea of yet another new tax being implemented. If healthcare businesses can't grow but the number of those who need healthcare does, we are looking at a "downgrade," so to speak, in our ability to innovate and provide quality technology, and therefore quality care. We might as well say goodbye to the most innovative healthcare industry in the world.

The short-term consequences of this provision have already been felt long before the law comes into full effect. The long-term consequences of this overreach are equally as disturbing. By constricting our domestic capacity to research and develop quality medical devices, we will increasingly rely on imported devices. Here's the kicker: imported medical devices are subject to the Medical Device Tax as well. In the future, even if a hospital wants to purchase a top of the line Chinese-made MRI machine, they have to deal with a new wrinkle in our already complicated import tax code.

If the Medical Device Tax continues to survive, the United States will cease to be a competitor in the biotech and device development fields, as we will no longer attract the support needed from international investors. And by investors, we mean 'rich people' -- people who have money and are willing to take a risk. These are the same evil people that fund the technology that is eventually going to cure cancer, AIDS, and malaria.

ObamaCare is going to be a bitter pill to swallow, especially for those who provide doctors with the very tools they need in order to keep us all alive. For this reason, American healthcare would be much better off as a consumer driven industry rather than one run by the government and overseen by an "independent" panel of fifteen members who have their own special interests in mind. We believe it is fundamentally wrong and economically inefficient for the government to restructure an entire industry, all under the guise of eliminating the uninsured "freeloaders," as Ms. Pelosi and the left so ironically call those who choose not to insure themselves.

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# re: Chicken

*It's time to set a few things straight about the petition to stop serving Chick-fil-A at After Midnight events*

Ben Wiley

The last month has been really interesting for me. I usually don't mind interesting, but when "interesting" means I have inadvertently split my student body into factions along the lines of chicken sandwiches, I start to wish for boring. I did that, by the way. With some help.

A month ago, I started a petition (which is here: HYPERLINK "http://bit.ly/ChikinAtDavidson" http://bit.ly/ChikinAtDavidson) to our Union Board, in reaction to Chick-fil-A's \$5 million in donations to anti-gay organizations since 2003, asking them to stop buying Chick-fil-A for After Midnight, a monthly event in which we frequently buy an enormous supply of Chick-fil-A sandwiches and eat all of them. The response was entirely different than I imagined.

The first way it was different than I imagined was that the response (positive) was huge. Huge!! Concisely, 300 students and over 100 more alumni, faculty, and staff signed within the first week. I don't know when signing petitions to drive boycotts to power down an undesirable corporate practice became the hip thing to do on Davidson's campus, but I welcome it. So I would label that as the "upside" of the response.

The "downside" to this response, which surprised me equally, was that many were upset, confused, and angry that I—Ben Wiley—hate free speech, hate happiness, and—worst—hate chicken. This in turn left me somewhat upset and confused. So I'll let you in on a secret—I was asked to write this to convince you to sign our petition—but I'd like to debunk all those totally untrue things about me first!

First, re: free speech: Many have complained that the petition I started is in direct opposition to the principles of free speech on which this country is founded. This claim, in truth, makes no sense at all, unless one were to suppose our petition is in response to Chick-fil-A president Dan Cathy's remarks last month that the company is "guilty as charged" in opposition to gay marriage. I am willing to admit that assumption is reasonable. But as you will be reminded in the petition site's FAQ, this is about our concern over the company's spending of the money we give for chicken sandwiches, not over their leadership's poor PR tactics (or great PR tactics, depending upon how you view the situation). Simply, we want Dan Cathy to be able to say what he wants, and we don't want our money funding what he wants. Why are we even arguing?

Second, re: happiness: One of the most upsetting things about our negative response is that many of my beautiful classmates are worried they will be cheated out of their fundamental right to eat chicken sandwiches! Nothing is further from the truth. I fully support every student's right to get in a car, drive to a Chick-fil-A restaurant, and buy and eat sandwiches until the stomach is full. Also, since we are not advocating a ban of Chick-fil-A on campus (did you hear that? I may have to repeat myself later!), student groups not funded by tuition are fully allowed to use their own money to cater Chick-fil-A's services to campus, since our petition only addresses Union Board activities. Finally, since we aren't banning Chick-fil-A, the Union Board can decide anytime to bring it back if the student body demands it! Personally, I'm rather unhappy if my tuition money is inhibiting my fellow students' civil rights... but that's just me.

Third, re: chicken: I do not hate chicken! I take claims to the contrary quite personally. I actually haven't eaten chicken in a very long time, I will admit, but the last time I ate a Chick-fil-A chicken sandwich, it was delicious. So don't be absurd!

Beyond the above, I could choose to go on passionately in effort to convince you all this petition should matter. But here's the deal. The Union Board (FYI!) has already halted Chick-fil-A purchases until further notice, in response to our petition. And we do need further support, so if you also feel strongly about this, please sign. And if you want some passion, google "The Chick Fellatio: stuck in the craw". It's a great post which does this issue much more justice than I could. Really, do read it.

Your choice comes down to whether you care enough about civil rights for gay people that you think it's important to stop funding attacks against them with the money you pay for school tuition. And I don't think I can really convince you either way. So thanks to the Davidsonian staff who let me write this, and thanks to you, the students, who can make informed decisions.

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The Davidsonian requested that Mr. Wiley submit his perspective and to clarify why he started the petition. The paper has no official position on the petition itself.