JOINT ECONOMIC COMMITTEE

Senator Sam Brownback, Ranking Republican Member

July 16, 2009

"Pay or Play" Mandate = Job Losses and Unemployment

Women and Minorities Hardest Hit

- 224,000 private sector jobs lost.
- More than 60% of those losing their jobs are racial and ethnic minorities.
- Uninsured workers 7 times more likely to lose their jobs than insured.

Responding to questions from members of the Senate Health, Education, Labor, and Pensions (HELP) Committee, the Congressional Budget Office (CBO) publicly acknowledged on July 8th that the costs of a "pay or play" health care mandate on employers would be passed on to workers, reduce their wages, and result in job losses. CBO is now in the process of modeling an estimate of job losses that a "pay or play" mandate would cause.

In response to a question from Senator Richard Burr, CBO Director Douglas Elmendorf stated that "… we at CBO and almost all economists believe that, over time that sort of burden that employers face for individual employees gets passed into – or taken out of their wages. There's a certain amount of compensation, and the more that goes to health insurance, whether by voluntary choice of the employee or by government mandate, the less there is in cash wages." Elmendorf went on to note that for workers with wages close to the minimum wage "a mandate […] can cause job losses."

CBO's finding confirms an October 2007 National Bureau of Economic Research (NBER) working paper,[i] which finds that an employer health insurance mandate will result in 224,000 workers losing their jobs. A job loss of that magnitude would increase the unemployment rate 0.14 percentage points above present levels.[ii] As disturbing as the additional job losses estimated by the study is the demographic breakdown of those at risk for becoming unemployed. The NBER study estimates that workers who would lose their jobs are disproportionately likely to be high school dropouts, minority, and female – more than 60% of those at risk of losing their jobs are racial and ethnic minorities.

While policy makers tend to focus on wages paid to workers, employers focus on the cost of a worker. The employer focus takes into account not only payments for cash wages, but also the cost of mandatory social insurance contributions such as Social Security, Medicare, unemployment insurance AND the cost of workplace benefits, including health insurance. The cost of providing health benefits to workers is more expensive than any other benefit category including paid leave.

The NBER study established that those earning within $3.00 of the minimum wage would be at greatest risk for losing their jobs.[iii] This is based upon a consensus among economists that the cost of a mandate would be passed on to workers through lower wages or other benefits. Using detailed data on wages, health insurance and demographics from the Current Population Survey, the study determined that 33% of uninsured workers earn within $3.00 of the minimum wage. Because wages of those workers could not be lowered sufficiently to cover the cost of the mandate, those workers would likely lose their jobs. On July 8th, the Congressional Budget Office (CBO) publicly confirmed that a "pay or play" mandate would be passed on to workers, reduce their wages, and result in job losses.[iv]

Using fairly conservative assumptions on the elasticity of employment, the NBER study found that uninsured workers would be seven times more likely (1.4%) to lose their jobs as a result of a mandate than presently insured workers (0.2%).

The study correctly notes that "the risk of unemployment should be a critical component in the evaluation of both the effectiveness and distributional implications of these policies relative to alternatives …."

Unfortunately, there appears to have been little discussion of the employment effects of the "pay or play" mandates and other proposed changes contemplated by health reform legislation under consideration in the House and Senate. For instance, the leading House bill (also known as the "Tri-Committee" bill) would impose an 8% wage tax on businesses that do not offer insurance, and/or do not pay for "enough" of their employees' coverage. The 8% tax is roughly equal to the share of total compensation that employers pay for employee health care. Not only will this tax place workers at risk of losing their jobs closely along the lines of the NBER study, but the effects are likely to be magnified when the minimum wage rises by 10.7% to $7.25 per hour on July 24, 2009.

Already battered private sector employers that are faced with an increase in compensation costs on the magnitude of 8% will likely accelerate job cuts and defer hiring of new employees. The net effect of such actions will likely be delayed recovery and higher unemployment.

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[i] Baicker and Levy, "Employer Health Insurance Mandates and the Risk of Unemployment," NBER Working Paper No. 13528, October 2007.

[ii] Joint Economic Committee Republican Staff calculation based upon data in Bureau of Labor Statistics employment report for June 2009.

[iii] The Bureau of Labor Statistics (BLS) Employer Costs for Employee Compensation (ECEC) measures the average cost per employee hour worked that employers pay for wages and salaries and benefits. According to the BLS, the average per hour cost of providing civilian workers with health insurance benefits was $2.37 per hour (about 8% of total compensation costs and 11.6% of wages and salaries) during the 1st quarter of 2009. It is important to note that those employees without employer provided health benefits are included in the BLS calculation; so the estimate understates the cost of providing health benefits to employees with insurance.

[iv] CBO appeared before the Senate HELP committee to answer questions about its analysis of the Kennedy/Dodd bill on Wednesday, July 8, 2009.