214 Massachusetts Avenue N.E.
Washington, D.C. 20002-4999
(202) 546-4400

The Heritage Foundation

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THE JOBS IMPACT OF HEALTH CARE REFORMS

By Peter J. Ferrara
Senior Fellow

INTRODUCTION

Only one major health care reform proposal guarantees secure and portable health insurance coverage for every American family while not destroying jobs, according to a recent study conducted for the National Federation of Independent Business (NFIB), the nation's largest association of small business owners. That reform proposal is The Heritage Foundation's Consumer Choice Health Plan.[1]

CONSAD Research Corporation, which conducted the study, is a major health care research firm based in Pittsburgh.[2] Its calculations are based on labor impact models developed for the U.S. Department of Health and Human Services. In the NFIB study, CONSAD concludes: "The Heritage Foundation's proposal is estimated to have no effect, severe or moderate, on employment." The other universal health care proposals analyzed by CONSAD were the "managed competition" plan developed by the so-called Jackson Hole Group, the employer mandate plan designed by California Insurance Commissioner John Garamendi, and the "play or pay" bill introduced in 1991 by the Democratic leadership in Congress. Each of these would lead to heavy job losses, because of the extra labor costs they would impose on firms. Another proposal examined by CONSAD, the Conservative Democratic Forum plan, would not cost jobs. But unlike the other plans modelled, including the Heritage proposal, it would not lead to universal coverage.

1 See Stuart M. Butler, "A Policy Maker's Guide to the Health Care Crisis, Part II: The Heritage Consumer Choice Health Plan," Heritage Foundation *Talking Points*, February 28, 1992; Stuart M. Butler, "Using Tax Credits to Create an Affordable Health System," Heritage Foundation *Backgrounder*, No. 777, July 26, 1990; Stuart Butler and Edmund F. Haislmaier, eds., *A National Health System for America* (Washington, D.C.: The Heritage Foundation, 1989).

2 CONSAD Research Corporation, *The Employment Impact of Proposed Health Care Reform on Small Business*, May 6, 1993. Available from the NFIB Foundation, Suite 700, 600 Maryland Avenue, S.W., Washington, D.C. 20024.

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How Jobs Would Be Affected by Major Health Reform Proposals		
Proposal	Jobs Lost	Jobs At Risk*
Heritage	NO JOBS LOST	NO JOBS AT RISK
Jackson Hole	900,000 to 1.5 million	16.3 million
Garamendi	390,000 to 650,000	6.6 million
Play or Pay	650,000 to 1.1 million	11.5 million
CDF*	none**	none**

* "At risk" means workers have a high probability of layoff or job elimination, and stand the greatest chance of substantial losses in wages and benefits.

** The CDF Plan, unlike the other proposals, would not achieve universal coverage.

THE HERITAGE PLAN

Under the Heritage Consumer Choice Health Plan, each worker would have the right to use the money currently paid by his or her employer for health coverage to purchase any other health insurance plan of the worker's choice, from any source. Any resulting savings would go directly to the family. In addition, the worker could direct these and other funds into a medical savings account to pay for future health expenses. These workers, as well as workers currently without employer-provided insurance, would receive a substantial tax credit for the payments made for family health insurance premiums, medical savings account contributions, or out-of-pocket health expenses. The credit would be "refundable," meaning that families near or below the tax threshold would receive the equivalent of the tax credit in the form of a voucher.

Through this market-oriented plan, consumers are given broad, powerful market incentives to consider the costs and benefits of different health insurance plans, and the medical services they buy directly. They would tend to avoid unnecessary health care. And since consumers would be far more directly concerned with costs, doctors, hospitals, and insurers would compete far more vigorously to reduce costs. Such market incentives and competition, not government price controls, are the most effective means for reducing costs.[3]

At the same time, the Heritage Plan would require each individual to purchase a basic catastrophic health plan, just as in most states automobile drivers are required to purchase at least a minimum liability insurance policy. This health insurance requirement is to protect other members of society from having to pay for the cost of care for the uninsured. Through the refundable credit, low-income Americans would be given government assistance to pay the premiums.

The Heritage Plan thus provides for universal coverage without imposing extra costs on employers—and so would not reduce employment.

CONSAD ESTIMATE OF JOB LOSSES

- No jobs lost or put at risk.

3 Edmund F. Haislmaier, "Why Global Budgets and Price Controls Will Not Curb Health Costs, Heritage Foundation *Backgrounder* No. 929, March 8, 1993.

THE JACKSON HOLE PLAN

The ability of the Heritage Plan to achieve universal coverage while protecting jobs contrasts sharply with the managed competition proposal advanced by the Jackson Hole group of policy experts, including Professor Alain Enthoven of Stanford University, physician Paul Ellwood, and others.[4] This proposal would require all employers to purchase at least a set of standard federally designed health insurance plans for their employees and their families, through regional insurance cooperatives—or directly from insurers in the case of larger employers. The proposal seeks to steer workers into Health Maintenance Organizations (HMOs) or similar managed care networks in which the consumer's choice of doctors and services is limited. This proposal is typically called "managed competition," or the "Jackson Hole Plan."

The CONSAD study concludes that because of the cost of the mandate to employers, the managed competition proposal would put 16.3 million small business jobs, or almost 25 percent of all small business employment, "at risk." This means that workers would be subjected to prolonged layoffs, reduced compensation, or future job cutbacks and plant closings. The study estimates that between 900,000 and 1.5 million small business jobs would be lost once the proposal was implemented. These negative effects would occur because the mandated employer payments for health insurance would raise the cost of labor and, consequently, encourage many employers to reduce compensation or to cut jobs.

CONSAD ESTIMATE OF JOB LOSSES

- **900,000 to 1.5 million jobs directly lost.**
- **16.3 million jobs put at risk.**

THE GARAMENDI PLAN

Another proposal analyzed in the CONSAD study is advanced most prominently by the Insurance Commissioner of California, John Garamendi. This proposal would be similar to the managed competition proposal, but would finance the health insurance package through a payroll tax. Under the proposal, employers and employees would pay a combined 9 percent payroll tax to regional cooperatives, which would make available to families a range of plans meeting minimum specifications.

This proposal bears the closest similarities to the plan being developed by the Clinton Administration. The CONSAD study estimates that this proposal would put about 6.6 million small business jobs, or about 10 percent of all small business employment, at risk of reduced work or benefits, with from 390,000 to 650,000 jobs eliminated altogether. This loss again occurs because the payroll tax on employers raises the cost of labor. The study notes, incidently, that the proposed 9 percent payroll tax probably would be insufficient to finance the expected benefits, which would include workmen's compensation and health care for auto injuries. If a higher payroll tax were necessary, as is likely, it would cause larger job losses.

CONSAD ESTIMATE OF JOB LOSSES

- **390,000 to 650,000 jobs directly lost.**
- **6.6 million jobs put at risk.**

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4 Peter J. Ferrara, "Managed Competition: Less Choice and Competition, More Costs and Government in Health Care," Heritage Foundation *Backgrounder* No. 948, June 29, 1993; Robert E. Moffit, "Overdosing on Management: Reforming the Health Care System through Managed Competition," *Heritage Lecture* No. 441, April 15, 1993.

THE PLAY OR PAY PLAN

Another major proposal examined in the CONSAD study is the "play or pay" plan advanced in recent years by leading congressional Democrats.[5] This is the primary proposal for employer-mandated health insurance being considered in Congress. Under this proposal, employers have a choice: Either they must purchase health insurance providing at least certain specified benefits to their employees and their dependents, or pay a tax for similar coverage to be provided by the government.

The CONSAD study concludes that the additional labor costs imposed on many firms by this requirement would put 11.5 million small business jobs, or about 17 percent of all small business employment, at risk of reduced work or compensation. CONSAD estimates that from 650,000 to 1.1 million Americans would lose their jobs.

CONSAD ESTIMATE OF JOB LOSSES:

- **650,000 to 1.1 million jobs directly lost**
- **11.5 million jobs put at risk.**

THE CDF PLAN

The final major proposal studied is a version of managed competition included in a bill (H.R. 5836) introduced by Representative Jim Cooper, the Tennessee Democrat, and other members of the Conservative Democratic Forum, a caucus of conservative Democrats in the House of Representatives. While similar to the Jackson Hole Group's proposal, this bill differs in a crucial respect: It would not require employers to pay for employee health insurance. It would require employers only to make such insurance available through regional cooperatives for purchase by workers if the employer did not choose to pay for it.

Since the CDF bill would not require any increase in labor costs, the CONSAD study found it would have no significant negative effect on employment or jobs. The bill, however, does not achieve universal coverage, unlike any of the other plans analyzed, since the uninsured likely would remain without insurance. The reason: Neither employee nor employer would have any new requirement or assistance to purchase coverage.

CONCLUSION

Most of the leading health care reform proposals, including the emerging Clinton plan, seek to finance expanded health insurance at least in part by imposing new financial obligations on employers. This method of finance has a political advantage. It hides much of the cost of coverage from those who will ultimately pay the cost— American workers. This cost is not just financial. By increasing the cost of labor in many firms, it would mean fewer jobs and reduced wages paid to those with jobs.

This effect is well understood by economists and business owners, if not, unfortunately, by the workers most affected. The CONSAD study actually quantifies these effects. The study indicates that three of the five major proposals examined—and by implication the emerging Clinton plan—would mean heavy job losses and put millions more jobs at risk.

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5 Stuart M. Butler, "Why 'Play or Pay' National Health Care Is Doomed to Fail," *Heritage Lecture* No. 329, August 14, 1991; Edmund F. Haislmaier, "The Mitchell HealthAmerica Act: A Bait and Switch for American Workers," Heritage Foundation *Issue Bulletin* No. 170, January 17, 1992.

There are only two plans that would not cost jobs. One is the proposal advanced by the Conservative Democratic Forum. But while it avoids job losses by not imposing a mandate on employers, it does not achieve universal coverage. There is only one plan that leads to universal coverage with no job losses. That is the Heritage Foundation Consumer Choice Health Plan.