

# WebMemo



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## House Health Care Bill Will Hurt Small Businesses: A Reply to My Critics

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On August 28, Igor Volsky, a health care researcher and blogger at the Center for American Progress, posted a story claiming The Heritage Foundation released a biased report on the effects of the employer play-or-pay mandates contained in the health care bills currently working their way through Congress.<sup>1</sup> Sadly, it is Volsky who is misleading policymakers.

**Myth:** “The four health care bills before Congress require *large* employers to either provide coverage to their workers or pay a tax to finance the expansion of health care coverage.”

**Fact:** Many small businesses are large enough to qualify under the bills.

- The Small Business Administration, Office of Advocacy, defines a small business for research purposes as an independent business having fewer than 500 employees.<sup>2</sup>
- The Senate Health, Education, Labor, and Pensions Committee health care reform bill, the Affordable Health Choices Act, covers employers with 25 or more employees.<sup>3</sup>
- All three versions of the House health care reform bill, America’s Affordable Health Choices Act of 2009 (H.R. 3200), cover employers with more than \$250,000 or \$500,000 in annual payroll,<sup>4</sup> and, according to Census Bureau data, firms with annual payrolls of \$250,000 to \$1.5 million have an average of 10–34 employees.<sup>5</sup>
- Clearly, the House and Senate health care reform bills cover many small businesses no matter how much Volsky tries to explain away the facts.

**Myth:** “The Heritage analysis erroneously assumes that higher costs to business inevitably translate into job loss or lower take-home pay.”

**Fact:** The Heritage Foundation report makes no such assumption.

- The report relies on a substantial body of empirical economic research that finds that the cost of health insurance mandates will be shifted to employees, resulting in lower wages.<sup>6</sup>
- The report also points out that the costs of the mandate can be passed on to consumers in the form of higher prices, which effectively reduces real wages of employees (who are, of course, also consumers) and will have the greatest adverse impact on savers and those on fixed incomes.
- The report also notes that some of the cost may be borne by shareholders and business owners in the form of lower profits and proprietor income and that firms may be able to offset the cost by increasing productivity without reducing the hours of work.<sup>7</sup>

**Myth:** “The Heritage analysis disregards all of the expected job and productivity gains from an employer mandate.”

This paper, in its entirety, can be found at:  
[www.heritage.org/Research/HealthCare/wm2606.qfm](http://www.heritage.org/Research/HealthCare/wm2606.qfm)

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Advocates of the bill expect additional jobs in the health care sector, increased productivity and efficiency in the workforce, and a lower rate of growth of health care costs.

**Fact: In many cases, the costs would outweigh the benefits.**

- Although there may be some benefits from an employer mandate, there will also be costs. Individual firms and specific industries will be impacted differently by those costs and benefits.
- There is very little in the health care reform bills that would significantly “lower the rate of growth of health care costs.” On the contrary, the coverage and benefit mandates and limits on cost sharing that are in the bills will likely increase the rate of growth of health care costs.

**Myth: Economic research debunks Heritage’s conclusion.**

“The established economic literature surrounding employers’ response to increased costs and

modest pay-or-play proposals completely contradicts the Heritage conclusion. For instance, virtually all economic research shows that minimum wage increases—which are similar to the new modest pay or play requirements—‘have little or no impact on employment.’”

**Fact: The established economic literature on mandated employee benefits finds the cost of health insurance mandates is shifted to employees.<sup>8</sup>**

- Moreover, the preponderance of empirical research on the minimum wage supports the consensus view held prior to 1995 that minimum wage increases have a negative employment effect on teenagers and other low-skilled workers.<sup>9</sup>

**Myth: “The Heritage analysis also relies on an outdated bill and disingenuously implies that the overwhelming majority of American businesses would face higher costs.”**

**Fact: The bill cited in the Heritage report is one of three competing versions of the bill in the House.**

1. See Igor Volsky, “Heritage To Release Biased Report On Effects Of Employer Mandate,” The Wonk Room, August 28, 2009, available at: <http://wonkroom.thinkprogress.org/2009/08/28/heritage-employer-mandate> (September 2, 2009); and D. Mark Wilson, “Economics of Play-or-Pay Mandates in Health Care Reform Bills,” Heritage Foundation *Background* No. 2312, August 28, 2009, at <http://www.heritage.org/Research/HealthCare/bg2312.cfm>.
2. Small Business Administration, “What is a small business?,” at <http://web.sba.gov/faqs/faqindex.cfm?areaID=24> (September 2, 2009).
3. The Senate HELP Committee bill is available at [http://help.senate.gov/BAI09A84\\_xml.pdf](http://help.senate.gov/BAI09A84_xml.pdf) (September 2, 2009).
4. There are three different versions of H.R. 3200: (1) the Ways and Means Committee bill, available at <http://waysandmeans.house.gov/media/pdf/111/AAHCA09001xml.pdf> (September 2, 2009), (2) the Education and Labor Committee substitute, available at [http://edlabor.house.gov/documents/111/pdf/markup/FC/HR3200-AmericasAffordableHealthChoicesActof2009/MILLCA\\_158.pdf](http://edlabor.house.gov/documents/111/pdf/markup/FC/HR3200-AmericasAffordableHealthChoicesActof2009/MILLCA_158.pdf) (September 2, 2009), and (3) the “Blue-Dog compromise” available at [http://energycommerce.house.gov/Press\\_111/20090731/hr3200\\_ross\\_2.pdf](http://energycommerce.house.gov/Press_111/20090731/hr3200_ross_2.pdf) (September 2, 2009).
5. Data prepared by the U.S. Census Bureau for Applied Economic Strategies, LLC.
6. Phillip Cryan, “Will a ‘Play-or-Pay’ Policy For Health Care Cause Job Losses?,” Institute for America’s Future and the Economic Policy Institute, June 2009; Katherine Baicker and Helen Levy, “Employer Health Insurance Mandates and the Risk of Unemployment,” National Bureau of Economic Research, *Working Paper* No. 13528, October 2007; Craig Olsen, “Do Workers Accept Lower Wages in Exchange for Health Benefits?,” *Journal of Labor Economics*, Vol. 20, No. 2 (2002); Norman Thruston, “Labor Market Effects of Hawaii’s Mandatory Employer-Provided Insurance,” *Industrial and Labor Relations Review* (October 1997); Price Fishback and Shawn Kantor, “Did Workers Gain from the Passage of Workers’ Compensation Laws?,” *Quarterly Journal of Economics* (August 1995); Jonathan Gruber, “The Incidence of Mandated Maternity Benefits,” *American Economic Review* (June 1994); Jonathan Gruber and Alan Kruger, “The Incidence of Mandated Employer-Provided Insurance: Lessons from Workers’ Compensation Insurance,” *Tax Policy and the Economy*, Vol. 5 (1991); Lawrence H. Summers, “Some Simple Economics of Mandated Benefits,” *The American Economic Review*, Vol. 79, No. 2 (May 1989).
7. It is important to note, however, that increased productivity usually comes at the cost of employees working fewer hours. For example, the second quarter of 2009 saw the largest productivity increase since the third quarter of 2003, largely because of a 7.6 percent in hours worked. See Bureau of Labor Statistics, “Productivity and Costs, Second Quarter 2009 Revised,” September 2, 2009, at <http://www.bls.gov/news.release/prod2.nr0.htm> (September 2, 2009).
8. See footnote 6.

- The version of H.R. 3200 that passed the House Energy and Commerce Committee does not automatically “outdate” the versions passed by the Ways and Means Committee and the Education and Labor Committee. Moreover, the chairmen of those committees would likely take offense to Volsky’s characterization of their bills as “outdated.”
- Table 1 of the Heritage report clearly shows that the number of firms that will be covered by play-or-pay mandate runs from 509,000 to 1.4 million, depending on which version of mandate would be enacted. The report never implies that the overwhelming majority of American businesses would see higher costs.

**Myth: The mandate is simply a safeguard to prevent big businesses from dropping coverage.**

As Pat Gorafalo alleges, “this is essentially a mandate on large employers, to ensure that they can’t simply drop their coverage” and send their employees into the health insurance exchange or the non-group market.”

**Fact: The bill actually makes it more likely that businesses will drop coverage.**

- According to the Bureau of Labor Statistics, health insurance benefits currently cost employers 11.6 percent of wages and salaries.<sup>10</sup> Some employers will find it more attractive to pay the 8 percent tax than to continue offering benefits. Thus, the bill actually encourages some employers to drop their coverage and send employees into the exchange.
- According to the Congressional Budget Office, under H.R. 3200, 9 million part-time, low-wage employees will lose their employer-provided

health insurance because some employers, both large and small, will make the decision to pay instead of play and drop their coverage.<sup>11</sup>

- As noted above, all four health care reform bills will cover some small businesses.

**Myth: Mandates will help businesses.**

“With increased access to care, *all* firms would benefit from the reduction in unpaid medical bills incurred by the uninsured and the savings due to a reduced rate of health care cost growth and greater labor productivity.”

**Fact: This is wishful thinking.**

- Employers who currently do not provide health insurance to their employees will not benefit from the current bills. They will have to pay up to an 8 percent payroll tax or pay for their share of the cost of providing health insurance under the mandate.
- These costs will be passed on to employees.

**Hurting Those Who Need Help.** Volsky and the Center for American Progress may want policymakers to focus on the benefits of an employer mandate, but that does not mean there will not be costs and unintended consequences associated with it.

Policymakers need to know that the costs and benefits of an employer mandate will not be equally borne by firms and employees. Some firms will see their health care costs decline, and some will see their costs rise. For those whose costs rise, it will be the low-wage, unskilled workers who will bear the brunt of the burden.

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9. Richard V. Burkhauser and Kosali I. Simon, “Who Gets What from Employer Pay or Play Mandates?,” National Bureau of Economic Research, *Working Paper* No. 13578, November 2007, at <http://www.nber.org/papers/w13578> (September 2, 2009); David Neumark and William Wascher, “Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research,” National Bureau of Economic Research, *Working Paper* No. 125663, November 2006, at <http://www.nber.org/papers/w12663> (September 2, 2009).
10. Bureau of Labor Statistics, “Employer Costs for Employee Compensation—March 2009,” Table 1, June 10, 2009, at <http://www.bls.gov/news.release/pdf/ecec.pdf> (September 2, 2009).
11. Congressional Budget Office, “Additional Information Regarding the Effects of Specifications in the America’s Affordable Health Choices Act Pertaining to Health Insurance Coverage,” July 26, 2009, at <http://www.cbo.gov/ftpdocs/104xx/doc10400/07-26-InfoOnTriCommProposal.pdf> (September 2, 2009).