



Is ObamaCare Slowing the Economy?

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Everyone knows that ObamaCare will discourage employment. Everyone who stops and thinks that is.

Yesterday's [job report](#) was genuinely awful. Here is a [congressional hearing](#) on why ObamaCare is making things worse.

By mandating that employers buy expensive health insurance for their employees, the new health reform law will raise the cost of labor and make it more expensive than otherwise to hire new workers. Plus, the law forces employees to have this expensive fringe benefit, even if they would prefer a less costly health plan in exchange for higher wages.

To make matters worse, the health plan that employers will be required to buy will not be viewed by employees as a valuable benefit if they can get the same coverage at highly subsidized rates in the newly created health insurance exchanges. A family with an annual income just over of \$30,000, for example, will be able to obtain insurance whose cost is nearly \$15,000 for a premium of only about \$950. Government (the taxpayers) in this case will be subsidizing 94% of the real cost. If the employer provides that same insurance, there is no new government subsidy (except for very small enterprises) and the benefit is about 50% of the worker's wage!

Of course, the mandate to buy will not kick in until 2014. But is it possible that the law is already affecting employer hiring decisions? There is evidence to back up that supposition. It comes to us courtesy of University of Chicago economist [Casey Mulligan](#), writing at *The New York Times* economics blog.

What do employers do in a downturn? Their first response to a slump in the demand for their products tends to be to reduce the hours of work for their employees. If the problem continues, or gets worse, they lay workers off. We've seen both responses in the recession we have been experiencing. From pre-recession levels, the number of hours worked by those with jobs fell by 2% nationwide. The fraction of the population that has a job fell by 7%.

But here is what's really interesting. The number of hours worked by those with jobs has now returned to its pre-recession level. Looking at this statistic alone, you would think that the economy has fully recovered. On the other hand, the percent of the adult population that has a job is continuing to bottom out. Looking at this statistic alone, you would think that we are still in a recession and that there has been no recovery at all!

What explains this complete dichotomy in the labor market? Mulligan offers ObamaCare as a possible explanation. Here's why.

Although the health insurance mandate makes labor more expensive, it's one-health-plan, one-worker. The cost of health insurance is independent of the number of hours worked. So if an employer increases production by increasing the number of hours each worker works, there is no additional health care cost. On the other hand, if the employer hires additional workers, he must purchase expensive health insurance for each one of them.

The new health law, then, encourages businesses to expand by increasing the number of hours worked rather than by increasing the number of employees.

But isn't there some chance that the mandate to purchase insurance will be struck down by the Supreme Court this month? There is indeed. But this isn't necessarily helping the unemployed find jobs.

In my [column last week](#), I pointed out that this recovery is one of the slowest on record. In fact, of the past eleven recessions, recovery from this one is the worst. Moreover, a major reason for the slow recovery is uncertainty. A [new index](#) that measures public policy uncertainty has been created by economists at Stanford University and the University of Chicago and it tracks back for almost 40 years. Unfortunately, the index has been at its [highest levels ever during the years of the Obama presidency](#).

In fact, the uncertainty surrounding what ObamaCare will do (and whether it will come into existence at all) may have more negative impact on the labor market than the law itself.