The Health Care Blog
Everything you always wanted to know about the Health Care system. But were afraid to ask.

November 08, 2010

The $6-an-Hour Health Minimum Wage

By JOHN GOODMAN 

The stunning election results will put even more pressure on Congress to deal with the economy and jobs when it reconvenes in mid-November. But as it turns out, one way to boost the economy is to reconsider the health reform bill.

Most people intuitively know that the worst thing government can do in the middle of the deepest recession in 70 years is enact policies that increase the expected cost of labor. Yet that is exactly what happened last spring, with the passage of the Affordable Care Act (ACA).

How bad is it? As I explained at my own blog the other day, right now we're estimating the cost of the minimum benefit package that everyone will be required to have at $4,750 for individuals and $12,250 for families. That translates into a minimum health benefit of $2.28 an hour for full time workers (individual coverage) and $5.89 an hour (family coverage) for fulltime employees.

Granted, the law does not specify how much of the premium must be paid by the employer versus the employee — other than a government requirement that the employee's share cannot exceed 9.5% of family income for low- and moderate-income workers and an industry rule of thumb that employers must pick up at least 50% of the tab. But the economic effects are the same, regardless of who writes the checks.

In four years' time, the minimum cost of labor will be a $7.25 cash minimum wage and a $5.89 health minimum wage (family), for a total of $13.14 an hour or about $27,331 a year. (I think you can see already that no one is going to want to hire low-wage workers with families.)

What difference does all this make? Economists have been studying the labor market for a long, long time and there are three principles that are well established in the literature:

1. Total employee compensation tends to equal the value of what workers produce — that is what they add to overall output, at the margin.
2. Noncash benefits (e.g., health insurance) substitutes dollar-for-dollar for cash wages.
3. If the minimum compensation required is higher than what workers are able to produce, they will be priced out of the labor market.

To confirm these principles, economists use sophisticated mathematical models and conduct elaborate statistical tools. But everything that is really going on here is what ordinary common sense would predict anyway.

Imagine you are an employer. You certainly aren't going to pay an employee more than his value to the organization and competition from other employers will tend to prevent you from paying less. What matters here will be the total cost of employment, not the individual components. If your employees would rather have more in health insurance and less in wages, you will likely comply. If the government forces you to spend more on health insurance, you will spend less in wages in order to pay for the mandated benefits.

For above-average-wage employees, this is all straightforward. Expect wage stagnation for the next four years, as employers use potential wage increases to pay for expanded health benefits instead.

At the low end of the wage scale, however, the effects of this new law are going to be devastating. Low-wage workers at Walmart and such fast food chains as McDonald's either have no insurance or they are enrolled in "mini-med" plans with limited benefits.

Ten-dollar-an-hour workers and their employers cannot afford $6-an-hour health insurance. If they bought it, only $4 would be left for cash wages and that would violate the (cash) wage law. Further (and this may come as a surprise to readers) although health economists have known for decades that these are the workers who most need help in obtaining insurance, there are no new subsidies for them in the ACA! Zero. Zip. Nada. There are some small business subsidies tacked on in a Rube Goldberg fashion. But there is nothing to help employees at Walmart and McDonald's or Denny's, or KFC or any other restaurant chain buy health insurance!

This is undoubtedly why McDonald's told the federal government the other day that it was considering dropping its mini-med insurance for 30,000 employers. No doubt millions of other workers will be in the same boat.

Of course, McDonald's won't get off scot-free when its employees seek subsidized coverage in the newly created health insurance exchange. It will have to pay a fine of $2,000 per worker — that's about $1 per hour for a full-time employee and a lot more for a part-timer. Plus, does anybody really believe that the fine is going to remain at $1? As more employers dump their employees onto the exchange and as the cost to taxpayers rises, the potential pressure to increase the fine will become inexorable. Note that one-third of uninsured workers earn less than $3 above the minimum wage. These workers and many others are at risk of losing their jobs.

What will happen when millions of people are priced out of the labor market? That's hard to say, but the past may provide a guide. I remember a time when teenage waitresses brought real food to customers who ate it on real tables; teenage boys and girls served as ushers with flashlights to help moviegoers find their seats in the dark; teenage boys pumped gasoline for filling station patrons; and teenage boys mowed lawns and rode bicycles to deliver the morning newspaper to people's doorsteps. Most of these jobs and many more have been priced out of existence by minimum wage laws and other labor market regulations — leaving us with a teenage unemployment rate that is double digit even in good times (currently at 23.1%) and a black teenage unemployment rate that is double that of whites (currently 49.1%).

Bottom line: expect huge labor market upheaval and high unemployment, looking indefinitely into the future.

I will close with three end notes:

End Note 1: There is some disagreement among economists about the effects of small increases in the minimum wage and interested readers may want to consult this literature review. But the increases here are not small.

End Note 2: It is tempting to conclude that the White House and the Democratic leadership in Congress are absolutely clueless about labor economics. Am I right? Or can you think of another explanation for the ACA?

End Note 3: Exercise for the reader: Show why it doesn't matter how the premium is shared between the employer and the employee unless you are bumping up against the minimum wage.

John C. Goodman is president and CEO of the National Center for Policy Analysis. He is also the Kellye Wright Fellow in health care. The mission of the Wright Fellowship is to promote a more patient-centered, consumer-driven health care system. Dr. Goodman's Health Policy Blog is considered among the top conservative health care blogs on the internet where pro-free enterprise, private sector solutions to health care problems are discussed by top health policy experts from all sides of the political spectrum.