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# Why Employer Mandates Hurt Workers

Are employer mandates the best way to pay for health care reform? Virtually all studies of mandates conclude that they kill jobs. Even the Clinton administration agrees.

**An Employer Mandate Is Really an Employee Mandate.** Economists generally agree that fringe benefits are earned by workers and that they substitute for wages. Employers cannot afford to pay more in total compensation than the value of a worker's output. So if labor costs go up because of mandates, the employer usually is forced to reduce wages by an offsetting amount.

Thus, requiring employers to provide health insurance is simply a disguised attempt to force workers to take health insurance rather than wages. Nominally, the proposed mandates apply to employers. Actually, they force workers to purchase health insurance, whether they want to or not.

**Why Mandates Would Cost Jobs.** When the government forces people to earn less and to pay for health insurance they may not want, working becomes less attractive. This is especially true for marginal workers — teenagers, working wives and the elderly — who may already be covered under some other policy. In addition, employers may not be able to substitute lower wages for health insurance for some employees because of the minimum wage law and other legal barriers. In that case, workers would simply lose their jobs.

Moreover, to the extent that the cost of mandated health insurance is not paid for by lower wages, it is a tax on capital. Taxes on capital reduce the amount of capital, which in turn reduces the demand for labor.

**Mandates Under the Clinton Plan.** The Clinton plan's mandates would be especially onerous because:

- Workers such as teenagers, part-time workers, two-worker families and elderly workers on Medicare would have to pay again for coverage they already have.
- The Clinton plan's requirement of community rating would double the cost of health insurance for younger workers, who tend to place the lowest value on health insurance.
- The plan would impose a disguised 7.9 percent tax on labor income.
- Although there are subsidies for small businesses with low-income employees, the taxes needed to fund these subsidies also would cost jobs.

**The Clinton Administration's Estimates of Lost Jobs.** The Clinton administration estimates that its health reform plan would cost 600,000 jobs, but says that most of these losses would be offset by job gains elsewhere in the economy. The administration has modest support among outside analysts. Economist Alan Kruger of Princeton University believes that only about 200,000 jobs would be lost. The Congressional Budget Office claims that the administration's proposal would "probably have only a small effect on low-wage employment." These administration-friendly analysts believe job loss would be minimal because the additional cost of health insurance premiums would be

## Estimated Job Loss from the Clinton Health Plan

| Study | Probable Job Loss | Potential Job Loss |
|---|---|---|
| ALEC | 1.0 million | — |
| State of California | 2.6 million | 3.7 million |
| DRI/McGraw-Hill | 659,000 | 908,000 |
| Employment Policies Institute | 780,000-890,000 | 2.3 million |
| JEC/GOP | 710,000 | 807,000-1.2 million |
| NCPA/Fiscal Associates | *738,000 | — |
| NFIB/CONSAD | 850,000 | 3.8 million |
| RAND | 600,000 | — |
| Average | 1.0 million | 2.1 million |

*The NCPA study also includes an "optimistic" forecast of 677,000 jobs lost.

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largely absorbed by lower wages and slower wage growth, thereby leaving labor costs essentially unchanged.

**More Realistic Estimates of Lost Jobs.** Eight major independent studies of the impact of employer mandates estimate job losses ranging from a low of 600,000 (the Rand Corporation) to a high of 3.8 million (CONSAD Research Corporation). The average predicted loss is 1 million jobs. [See the table.]

The range reflects the uncertainty about how an employer mandate would affect employers and workers. An employer insurance mandate would raise labor costs to employers, but they would pass much of those costs on to workers by lowering wages. The more employers are able to shift their increased labor costs to employees, the fewer jobs would be destroyed. For example:

- The Rand study, which forecast the smallest job loss, assumes that 85 percent of the increased labor cost would be shifted back to workers in the form of reduced wages.
- The Employment Policies Institute study assumes that 70 percent of the increased labor cost would be shifted back to lower wages.
- The American Legislative Exchange Council study assumes wage shifting of both 62 percent and 85 percent.

**Estimates of Lost Wages.** The wages of highly-paid workers who already receive health benefits would be little affected by employer mandates. Because the wages of the lowest-paid workers cannot be cut very much, jobs then would be at great risk. The large in-between group would face significant wage reductions.

Five of the eight studies examine the wage effects of an employer mandate, using different approaches. The studies forecast these aggregate wage losses in 1998:

- Employment Policies Institute: $27 billion.
- State of California: $68 billion.
- American Legislative Exchange Council: $93 billion.
- National Center for Policy Analysis: $69 billion.
- CONSAD Research Corporation: $28 billion.

Only the CONSAD study estimates the number of employees affected. It sets the number at 23 million, making the average wage loss $1,200 per worker in the in-between group. The Joint Economic Committee of Congress estimates that as many as 41 million workers would be affected, with the loss per affected worker ranging up to $2,300.

**Estimates of the Economic Impact.** Four of the major studies also consider the impact of an employer mandate on the economy as a whole. Their predictions:

- DRI/McGraw-Hill: gross domestic product (GDP) will be down by $53 million in the year 2000.
- The National Center for Policy Analysis: GDP will be down by $90 billion in 1998.
- American Legislative Exchange Council: personal income will be down $112 billion by 1998.
- State of California: GDP will cumulatively decrease $224 billion from 1995 through 1998.

**Other Studies.** The Joint Economic Committee of Congress has cataloged 40 studies of employer mandates. Only the eight studies examined here used econometric models to produce specific numbers on job loss. However, all 40 came to the same general conclusion: employer mandates destroy jobs and reduce wages.

*To order NCPA Policy Report No. 185, "Forecasting the Effects of the Clinton Health Plan," send $10 to the National Center for Policy Analysis, 12655 N. Central Expy., Suite 720, Dallas, TX 75243.*