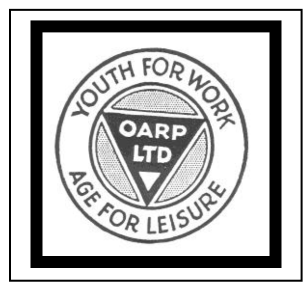
Mitchell's Musings: 2-17-14: Bush's Remark May Be Right on Target

Daniel J.B. Mitchell

President George H.W. Bush (Bush, Sr.) was known for his fumbles in language. He is reported to have said, "*I want to be sure that everyone who has a job, wants a job.*"[1] Whether he really said it is uncertain. But the remark –whether he made it or not – may in its literal form be applicable to current economic policy issues in health care.

Recently, the Congressional Budget Office (CBO) was widely reported (inaccurately) to have come with a projection about "Obamacare" indicating that something like 2 million folks might be hanging on to jobs they really don't want because the jobs provided health insurance, something they could not obtain – probably because of an existing medical condition – in the individual marketplace. With Obamacare providing a system under which individuals could buy insurance even if they had pre-existing conditions, such persons might quit their jobs and buy policies on their own, so it was said. In short, there were folks who had a job but really didn't want it, the Bush case. Presumably, if these hypothetical folks quit their jobs and bought policies as individuals (or maybe were newly-covered by Medicaid), they would be better off.

In actual fact, the CBO explained the results of its report more in terms of traditional income and substitution effects and talked about hours of work rather than jobs. But the news media had trouble with reporting such nuanced aspects of economic analysis and so the story was put more as someone quitting a job because he/she no longer needed their employment-based policy.[2]



CBO's report was first spun by those who don't like Obamacare as proof that the program would cause job loss.[3] Defenders promptly responded with a version of President Bush's possibly apocryphal remark. Why should people who don't want to work - and would be better off personally by not working - be constrained to work?

The only surprising thing about the response of Obamacare defenders was the lack of historical context, particularly in a period in which unemployment is relatively high. Back during the Great Depression of the 1930s, proponents of the Townsend Plan pushed for government-provided old age pensions on the grounds that moving the elderly out of the workforce would open jobs for the young.[4] (See the

[1] See the second quote in http://geobeck.tripod.com/jokehold/qbush1.html.
[2] http://www.cbo.gov/publication/45096
[3] http://www.usnews.com/news/business/articles/2014/02/06/fact-check-anti-obamacare-chorus-is-off-key; http://www.washingtonpost.com/national/health-science/they-quit-their-jobs-thanks-to-the-health-law/2014/02/08/7b10df46-901a-11e3-84e1-27626c5ef5fb_story.html ; http://blog.metrotrends.org/2014/02/urban-institute-experts-cbos-aca-report/
[4] Individuals age 60 and over would be eligible for $200/month, a very large sum in that era, if they promised a) not to work and b) promised to spend the entire sum each month. See http://www.anderson.ucla.edu/Documents/areas/fac/hrob/mitchell_townsend_roosevelt.pdf

Townsend movement's emblem in the box.) In the end, they got Social Security. In short, the CBO estimate could have been spun – following the old Townsend logic – as job creating.

Apart from spin, the question seems to be (once it is recognized that we are not talking about a job "loss" in the sense of a layoff) whether the various elements of Obamacare that produce a net voluntary reduction in hours are causing an economic distortion of some type. Once you put the question that way, you then have to recognize the need to ask what a non-distorted labor market would look like. Note first that Obamacare is an overlay upon a pre-existing system of indirect government-subsidies via the tax system to private employers providing health insurance.

One dollar of cash paid to workers as a wage is subject to the personal income tax. One dollar of health insurance provided to those workers escapes taxation. So there is a powerful incentive for job-linked health insurance – a tax subsidy – as part of longstanding federal policy. (State income taxes provide similar treatment.) Indeed, the tax treatment of health insurance can be viewed as a major federal (and state) health program.

Grafted on to the tax subsidy is the provision of Medicare to the elderly and disabled, Medicaid to those on welfare, more recent programs subsidizing health insurance for children of the working poor, the requirement that emergency rooms take all comers regardless of ability to pay, health programs for veterans, etc. All of these programs affect labor market behavior in some way.

The idea that health insurance should be job linked is largely a post-World War II concept, although there were some embryonic employer programs before that time. Apart from the tax subsidy, insuring workers in large firms overcomes a market failure in health insurance, adverse selection. In a purely individual market in which everyone buys his/her own individual policy voluntarily, those most at risk of high medical costs will be the ones most likely to buy insurance. The problem is asymmetric information; potential insurance customers know their risks whereas insurance providers do not.

Insurance works only when risks are spread. It can't work if only those at risk by insurance. So a purely voluntary and individual market starts with a major problem. It can be overcome to some extent by exclusions of pre-existing conditions by insurance carriers and other such requirements. But any pure market system will tend to leave gaping holes in coverage. Essentially, you would need an individual mandate *at birth* - and regulations even in that case - to fill in the holes completely.

If an individual mandate at birth begins to sound like a single payer plan with universal coverage, that similarity is no accident. A labor market operating in the presence of such a universal system would spread risk and create no odd incentives and disincentives to work.[5] It would not hinder labor mobility between jobs. However, Obamacare is not single payer. It is a patchwork designed to build on an existing system with myriad health plans operated by myriad employers and other entities. Obamacare is an attempt to make those myriad plans work as an approximation to single payer. But in the end, it

[5] This statement looks only at the insurance side and would have to be qualified depending on the tax system used to finance the insurance.

has to rely on complex rules and incentives to achieve a rough approximation. Each of those rules can affect labor market behavior.

In short, if your goal is to have the least impact on labor market behavior, single payer is the approach you want. But single payer doesn't seem to be politically feasible. If your goal is to build on the existing patchwork system and extend coverage in lieu of single payer, you have to accept a variety of behavioral consequences. It's anyone's guess whether those consequences represent a distortion relative to the pre-Obamacare system which was already full of distortions. Finally, if you don't like Obamacare or single payer and you want to maintain what we had before Obamacare began, keep in mind that the old system was full of distortions.