EZRA: WORKERS DON'T UNDERSTAND SO AN EXCISE TAX WILL WORK

Ezra has another "workers don't understand" post arguing for the benefit of the excise tax to fund health care.

> There's good reason to think that if health-care costs can be tamed, wages will rise. But one of the big problems in health-care reform is that *workers don't understand this connection.* They think of health-care coverage as a "benefit," rather than a form of compensation engaged in a fairly zero-sum competition against their wages.

To make his argument, Ezra does the following:

- Appeals to the foundational faith of the discredited economics profession
- Shows a correlation while ignoring other factors to imply causation
- Argues that papers arguing one thing prove their inverse

Given that we're about to engage in a big battle between the House funding (taxing millionaires) and the Senate funding (excise tax on employer-based health care), I thought it worth examining this more closely—as well as focusing on recent changes in employers' choices which may—if we have the kind of crappy recovery many people expect—moot all the data that Ezra draws on.

First, the blind faith of economists.

> Earlier in the day, I'd been talking to MIT economist Jon Gruber about this

> issue. “There are a few things economists believe in our souls so strongly that we have a hard time actually explaining them,” he said. “One is that free trade is good and another is that health-care costs come out of wages.” To put it another way: Economists are pretty united on this point. A firm’s compensation for its workers is pretty static, and if relatively more goes to health-care costs, relatively less will go to wages, and vice-versa.

Three things should have tipped Ezra off that this was not a strong argument. First, anytime an expert says, “well, I can’t explain this, I just believe it,” it’s a good sign the expert isn’t drawing on rational argument to support this foundational faith. Furthermore, the yoking of this foundational faith to the value of free trade ought to be another tip-off–so-called free trade, in practice, hasn’t worked out so well for workers in this country. Also note what Ezra is doing: in this quote, at least, Gruber asserts only that “health care comes out of wages,” but from that Ezra asserts a two way relationship, claiming that wages also come out of health care. Perhaps elsewhere in their discussion Gruber offered proof that employers pass on health care savings to employees, but that’s not in the post as written.

Now look at Ezra’s graph, which he honestly admits shows a correlation, not a causation.

Note, first of all, the discrepancy between his title and his graph, which he explains “charts the percent growth in the median household income versus the percent growth in health-care costs since 1990.” Ezra’s not showing (as his title would suggest) the relationship between actual wages and health care costs. He’s showing the relationship between wage growth and health care cost growth. [Update: JTMinIA explains why the raw data v. rate of change doesn't affect the correlation, but that the correlation doesn't show a neat match either. Thanks for the correction.] What he shows is that in a period when health care costs have always gone up, wages have sometimes decreased and sometimes increased, but that wages have never gone up as fast as health care costs. I'd need to see the underlying data, but that suggests to me that while health care costs and wages might be related, there is clearly not a one-to-one correlation between them.

And of course, this shows they "might be related." You'd want to look—at a minimum—at how the relative scarcity of labor plays into this (which might relate to health care costs but also likely relates partly to economic growth) and a bunch of other factors as well. As Ezra correctly points out, growing GDP doesn't necessarily translate into higher wages. That's partly because employers have not passed on profits gained through recent productivity gains. But they've managed to do that because of increasing labor insecurity. So how does that factor in? Is it instead the case that the relentless increase in health care costs (there have never been "savings" in this period) have transformed the employer-employee relationship and so long as health care costs go up, at whatever rate, employers will never have to pass on "savings" to employees?

Ezra's also looking only through 2007. You'd also want to look at the last year and a half—which is a point I'll return to.

Then there are the studies Ezra cites.

> There is, in other words, very good evidence that employers pass health-care savings onto employees. A Rand study by Dana Goldman, Neeraj Sood and Arleen Leibowitz examined a particular firm's response to a period of premium increases and found that "about two-thirds of the premium increase is financed out of cash wages and the

> remaining one-thirds is financed by a reduction in benefits.” Another study by Katherine Baicker and Amitabh Chandra found that a 10 percent increase in premiums “results in an offsetting decrease in wages of 2.3 percent,” which is fairly impressive given that income is much higher than health-care premiums.

Look at the logical structure of this paragraph:

1. “Employers pass health-care savings onto employees” [which is a transition from the previous paragraph]
2. Two-thirds of a premium increase is financed out of wages
3. A 10% increase in premiums results in a 2.3% decrease in wages

To support his transitional sentence that employers pass on health-care savings to employees, Ezra links to two studies that show something else: that when health care costs increase, employers pay for it out of wages. That is, the studies are making the reverse argument, showing only that increased health care costs result in lower wages.

And just so we know what we’re talking about, here’s the second half of the abstract from the second study:

> We estimate that a 10 percent increase in health insurance premiums reduces the aggregate probability of being employed by 1.6 percent and hours worked by 1 percent, and increases the likelihood that a worker is employed only part-time by 1.9 percent. For workers covered by employer provided health insurance, this increase in premiums results in an

> offsetting decrease in wages of 2.3 percent. Thus, rising health insurance premiums may both increase the ranks of the unemployed and place an increasing burden on workers through decreased wages for workers with employer health insurance and decreased hours for workers moved from full time jobs with benefits to part time jobs without.

That is, this study argues that as health insurance premiums increase, people lose their jobs or become underemployed. Which sort of goes back to my point about the relationship between wages and health care costs: one of the things we need to factor in is the labor supply, because one of the things this study, at least, shows is that increasing health care costs has an effect on the labor supply.

One more thing. These studies are both from 2005. So Ezra's working with his own data through 2007 and studies from 2005.

Which brings me to Ezra's assertion that "workers don't understand" how all this works. Now, he promises to explain that assertion later, and I assume he will make a thorough argument on that point.

But any assertion that "workers don't understand" what is happening in today's labor market would need to account for the way the recession is changing the employer-employee relationships drastically, in ways that employers, at least, claim will be permanent. There is some evidence that employers are trying to wring profits out of cuts in both benefits and pay.

> Some shifts in the employer-employee relationship have been building for years, but the recession, by making companies acutely cost-conscious, has accelerated them.
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> "I think we've entered into a fundamentally new era," says David

> Lewin, of the Anderson School of Management at the University of California, Los Angeles. He describes employers as “leery of long-term commitments,” including both benefits and pay increases.

Now, at least where I live in fly-over country (which, as the economic clusterfuck of the country, may be exceptional), when employers send out letters saying “profit is down so we’re cutting health care” followed a few months later by big layoffs, employees are acutely aware that employers consider benefits and wages as means to achieve profitability. Workers are acutely aware that rising health care costs are leading to job insecurity. And for many employees in this market, it’s not a question of either/or. It’s a question of the package employers (sometimes with employee input) choose as a total cut.

And one of the reasons this is important to discussions about the excise tax is that the changes excise tax proponents forsee in the future, when the excise tax begins to hit Chevy plans, are already happening on an accelerating scale.

> This can mean eliminating programs. The percentage of employers offering health-care benefits is 60% this year, down from 63% in 2008 and 69% in 2000, according to the Kaiser Family Foundation.
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> In a survey by Hewitt last winter, 19% of large employers said they planned to move away from directly sponsoring health-care benefits over the next five years.
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> In the meantime, workers’ share of health costs is headed up. For next year, 63% of employers that offer health coverage plan to increase employees’ share of the expense, according to a

> survey of 1,500 employers by another consulting firm, Mercer.
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> One vehicle is the high-deductible plan. Twelve percent of employers offer such a plan today, up from 4% in 2005, the Kaiser Family Foundation says.

Now, frankly, I don't pretend to know how these rapid changes will affect projections on the excise tax, though my guess is that it'll mean the government will be paying much higher subsidies than they expect because there will be a lot more people who don't get health care through work (particularly if the Senate plan's lack of a mandate survives). And that by the time employers cut benefits in response to the excise tax in 8 years or so, many of the acceptable cuts to health care will have already have been made, meaning the cuts made to stay under the excise tax will have unacceptable health care outcomes. But, since health care reform auto-enrolls employees, employees may be stuck paying for an employer-sponsored but not funded plan that they cannot afford.

But let's go back.

What it appears that Ezra has proven is that when health care costs go up, people lose hours and jobs, which drives down wages. He also appears to show that wages never go up as quickly as health care costs. And more recent data seems to suggest that that process may be accelerating–and that employers may be cutting both health care and wages/jobs in a drive for profitability.

It seems that most people agree that the excise tax will increase health care costs, eventually even on the Chevy plans.

Doesn't that suggest, then, that one of the possible outcomes of the excise tax is increased job losses?