The Truth about Health Reform, Jobs, and the Economy

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When the Congressional Budget Office issued its latest report about the Affordable Care Act in early February, public reaction was sharp – and mostly focused on a drop of worrisome news in a sea of encouraging findings. On the good news side, the report found that insurance premiums are considerably lower than previously anticipated by the Budget Office, and that health reform is now projected to cost $9 billion less than previously estimated. And it debunked worries about a legal provision designed to buffer insurance companies from risk; it is not at all a "bailout," as some have claimed, and indeed the federal government is projected to take in billions more than it spends. These and other encouraging findings were overshadowed by attention to another projection – that reform may reduce employment and worker hours by the equivalent of about two million full time positions in 2017.

We told you so, critics instantly declared: ObamaCare is a Job Killer!!

But the Congressional Budget Office report does not say the 2 million jobs will be lost. Instead, it anticipates that Americans may *voluntarily* leave jobs or reduce work hours. Job leaving is not at all equivalent to lost jobs. Confusion and misplaced controversy warrants a closer look at what this report actually says about labor market participation and the various additional effects Affordable Care reforms are likely to have on the U.S. economy.

Jobs and Wages

Voluntary reductions in paid work are not a cost of the Affordable Care law – they are mostly a benefit. To see why, consider the case of a 62-year-old worker who hates his job and would like to retire on his Social Security benefits. Unfortunately, before the Affordable Care Act, this worker could not retire if he were married to a 55-year-old breast cancer survivor, who in most states was uninsurable in the individual insurance market. If that worker left his job, he and his uninsurable wife would face catastrophic medical bills. Now, with health reform assuring his access to affordable coverage, this man is no longer trapped. This is a good outcome!

Rather than make the untenable claim that everyone has a moral duty to stay put in his or her current job no matter what, our aim should be to level the playing field in the labor market. From both a human and an economic standpoint, we want people to be able make decisions to work or not – and decisions about how many hours to put in – for good personal, economic, and family reasons, not because they are fettered to an employer health insurance plan.

But the likelihood of voluntary reductions in work time is not the only issue. The Congressional Budget Office also projects reductions due to individuals who cut back on hours or avoid moving up the job ladder, because they don't want to lose Medicaid eligibility or make so much income that they would lose tax credits to help pay insurance premiums. Unlike voluntary departures from jobs, this second kind of work reduction would entail real economic distortions and be a cost, not a benefit, to the economy.

Even so, the disincentive perturbation will be slight, amounting at most to a fraction of one percent of total U.S. wage compensation. And we need to bear in mind that any government program that targets benefits to lower income people has this kind of disincentive effect. Hundreds of programs costing billions work like that. The only way to avoid disincentives is to make social benefits universal, not in any way targeted toward people who need help more. But that would explode costs – and force huge tax increases.

The Larger Economic Impact of Health Reform

The Affordable Care Act has additional impacts on the economy, which also need to be factored into our overall assessment.

- The Congressional Budget Office projects that health reform will reduce the federal budget deficit by $100 billion over the first decade of implementation, and by more than one trillion dollars over the second decade.

- Since the passage of Affordable Care, health care costs have also grown at historically low rates even as the recession has eased, leading many to conclude that the system reforms in the Act are working to lower health care spending.

Gains to the U.S. economy from reducing the deficit and slowing health care spending likely outweigh any losses from slightly reduced labor compensation.

In addition, the Congressional Budget Office report notes, but does not quantify, the new efficiencies we can expect in the U.S. job market from the reduction of a problem called “job lock.” Once Americans have ways to get access to affordable health insurance coverage no matter where they work, they will be able to choose self-employment, participate in small business ventures, or switch to new jobs where they can be more productive. Prior to reform, the best research suggests that job mobility in the U.S. economy was reduced by one-quarter due to worker fears about losing health insurance. By freeing workers from that fear, health reform will not only improve lives; it will also boost innovativeness and efficiency for the entire economy.

Huge Stakes

The various effects of health reform add up to a net plus for workers and the economy. Critics calling for repeal of the Affordable Care Act would have our country forego enormous gains in social wellbeing and economic efficiency. According to current enrollment projections, repeal of the health reform law would deprive at least 25 million Americans of health insurance coverage. Millions of people would face possible financial catastrophe and suffer the adverse health consequences of going uninsured all or part of the time. If naysaying politicians really believe it is worth throwing 25 million Americans off the rolls of the insured to avoid a fraction of a percent of reduced labor market compensation, then they should stand up and say so. Otherwise they are simply scare-mongering without presenting a constructive solution to our national health insurance problems.