

“EXCISE TAX WILL BOOST WAGES,” “A CHEVY IS A CADILLAC,” AND OTHER HEALTH CARE URBAN LEGENDS DEBUNKED



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Robert Reich, Rep. Joe Courtney, and EPI’s Lawrence Mishel and Josh Bivens review, refute non-factual “facts” in lead-up to Senate-House health care debate

As the national wrestling match over the future of the nation’s health care system moves to its new conference committee arena, there are growing signs that some essential facts are already on the ropes.

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In a news conference call today experts including **Robert Reich**, Labor Secretary in the Clinton administration; **Rep. Joe Courtney** (D-CT); and **Lawrence Mishel** and **Josh Bivens**, president and economist/health care expert, respectively, at the Economic Policy Institute sought to give the facts a fighting chance by sharing their expertise and research findings.

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Mishel took on one of the latest claims by excise tax supporters, which has been espoused by a range of public officials, journalists and pundits: the argument that an excise tax will rein in health care costs and that those savings will lead to much higher wage growth. Those who make this argument point to the latter half of the ‘90s – a time when health costs were relatively stable and wages rose – as their evidence. While that argument seems logical, Mishel pointed out on the call and in a detailed paper issued concurrently that the logic is only skin deep and doesn’t pass the test of deeper examination.

Rep. Joe Courtney, who represents Connecticut’s Second District, released the text of his letter to Speaker Nancy Pelosi, which he has spearheaded in the House, urging leadership to abandon the excise tax idea, given its well-documented pitfalls.

“One-hundred-ninety House Democrats have joined my effort to stop the proposed ‘Cadillac’ tax on health care plans, which is a number that cannot be ignored during health care reform negotiations,” Rep. Courtney said. “The Economic Policy Institute’s report should serve as another red flag to the misguided Senate-backed excise tax on health care benefits because there is no question that the tax will hurt the wages of working families. The House must stand firm in its opposition to the tax.”

Mishel’s paper, [“Employer Health Costs Do Not Drive Wage Trends”](#), notes that the size of health care costs, large as it is, is too small to explain the magnitude of the rise that occurred in wages during the late ‘90s. What’s more, the rise in wages was most dramatic among lower-paid workers, who are much less likely to have any health care coverage on the job at all. He notes that about half of all U.S. workers currently do not receive health care coverage from their employers and, thus, could not have benefited from the theoretical health care-wages trade-off.

“Just as the sun doesn’t rise because the rooster crows, moderating health care costs had little to do with why wages rose in the late ‘90s,” Mishel said.

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“Many economic benefits will flow to the nation as a whole and to working people from sound health care reform, but there’s precious little evidence that these benefits will be driven by the proposed excise tax on high-cost plans and its effect on workers’ wages,” he added. “In fact, recent history would argue that any reduction in businesses costs for health care will more likely go to boost income for CEOs and top managers, at least in the short run, not to raise wages across the workplace. Even if workers’ wages eventually manage to claim some of the gains from lower health costs, these costs just aren’t large enough to make a significant contribution to their paychecks.”

Economist Josh Bivens focused his remarks on a particularly persistent and misleading claim by supporters of the excise tax that it will only affect the highest paid workers with the most generous insurance plans, which they refer to as “Cadillac” plans to reinforce their point. The fallacy in this argument, as Bivens pointed out, is that the cost of health care coverage is not a reliable indicator of its quality. Far more important in determining the price of an insurance plan are factors like the size of the workplace and the age and health care needs of its workers. He noted that insurance companies charge small businesses 18% more than big companies for identical coverage. [See further analysis here: [“House Health Bill is Right on the Money: Taxing High Incomes Better Than Taxing High Premiums”](#).)

“The excise tax proponents say their target is a Cadillac, but in reality they’re about as likely to hit a Chevy,” Bivens explained. “The excise tax is not a progressive levy on lavish plans, instead it’s a tax that will hit small businesses, older workers, and those most in need of health care the hardest.”

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