

THE IMPACT OF THE CLINTON HEALTH CARE PLAN ON JOBS, INVESTMENT, WAGES, PRODUCTIVITY, AND EXPORTS'

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Introduction

Although the health care reform debate has just begun, already a major point of disagreement is the effect of the Clinton Administration proposal on employment. The Clinton plan requires all employers to pay at least 80 percent of the average premium cost for each worker and a prorated amount for each part-time worker, with subsidies for small firms and caps on total costs for all firms. Some people, particularly members of the small business community, argue that these mandates will raise labor costs and result in significant job losses.

This paper examines the potential economic impact of two aspects of the Clinton health reform proposal: (1) the initial redistribution of health costs that will result from the employer mandate requiring all employers to provide health insurance to workers, the use of community rating, and coverage of early retirees through the public program; and (2) the cost-containment component of the plan. We investigate the effects of the plan on employment, investment, wages, net exports (exports minus imports), and productivity in manufacturing and in the economy as a whole. We also evaluate claims that the mandates will result in large job losses in small firms.

The complexity of the Clinton Administration healthcare reform plan makes it very difficult for researchers to simultaneously determine all the effects of all the provisions of the plan. Specifically, we do not attempt to identify the employment effects on particular industries or

occupations whose employment would be affected, either adversely or positively, by cost containment efforts or by the specific means of financing the health care plan (e.g., job losses in the tobacco industry). The study *does*, however, determine the major effects of some of the plan's most important elements.

Using standard macroeconomic assumptions and a modified microsimulation model, we find:

- * Under the Clinton health care plan, in 1994 the manufacturing sector will save \$18 billion compared to its expenditures under the current system. These savings will increase manufacturing-related employment by 112,800 jobs by the fifth year of the plan.
- * The economy-wide effect of the redistribution of health costs is a net increase of 75,900 jobs by the fifth year.
- * The cost containment provisions of the plan will increase employment in manufacturing-related sectors by 52,000 by the fifth year. The combined effects of the cost redistribution and cost containment provisions of the plan will create an additional 164,700 jobs in manufacturing-related industries by the plan's fifth year and 258,700 jobs by the 10th year.
- * The economy-wide effects of the cost containment provisions will depend on how the health dividend is used. If it is invested, then the new jobs created will more than offset the slowdown in Job growth in the health care sector. Cost containment will also lead to greater efficiencies in health care delivery.

This analysis also finds that the Clinton health care plan promotes an improved mix of jobs, with relative increases in permanent and full-time employment and manufacturing-sector employment growing relative to service-sector employment. In addition, we argue that reports of large job losses in small firms because of the employer mandate rest on assumptions completely irrelevant to the Clinton plan. However, undoubtedly some job loss and dislocation will result from the Clinton plan.

While all sectors of the economy will be affected by the Clinton plan, this analysis focuses primarily on one sector--manufacturing--for two reasons. First, manufacturing plays a singularly important role in the economy. Manufacturing is the sector most subject to foreign competition. Insofar as manufacturing firms' health costs are reduced, the firms will be better able to export abroad as well as compete with imports in domestic markets. This will improve the country's trade balance, boost employment, and increase economic growth. Also, manufacturing continues to set the pace for the economy as a whole in raising productivity. So as the share of manufacturing in the economy rises, so will average productivity growth and real wages.

Second, manufacturing is similar to other sectors of the economy and thus can illustrate the various aspects of the Clinton health care plan. Because many manufacturing workers are already

provided with health insurance (75 percent in 1991 [Employee Benefits Research Institute 1993]), many firms can expect to see their costs fall. However, the firms employing the 25 percent of manufacturing workers who do not receive insurance from their employer likely will see their costs rise. In addition, many firms in the manufacturing sector will benefit when they are relieved of the health costs of early retirees. As in all sectors, the impact of the health care plan on manufacturing will be the net result of these contradictory effects.

This study is based on the Clinton health care reform plan as of September 7, 1993.² The effects are determined assuming that the plan is fully implemented on January 1, 1994. Our purpose in this analysis is not to endorse or verify the various components and projections of the Clinton plan. We are not attempting to go behind their numbers, nor are we endorsing the plan as the best means of providing high-quality, affordable health care. Our intent is to evaluate selected employment and economic effects of the plan as it has been outlined by the Administration.

Employer Mandates and Small Firms

Mandates on employers to provide insurance to their workers will impact most heavily those firms not currently insuring their employees. Since most currently uninsured workers are employed in small firms, the mandate will have its greatest potential impact on employment in small firms. However, the subsidies for low-wage firms with 50 or fewer employees will mitigate this impact.³ Recent concerns about the effects of an employer mandate on employment have been driven primarily by two studies,⁴ widely cited in the press,⁵ that have presented a picture of large-scale job loss stemming from a health care mandate. However, neither of these analyses examined the *Clinton mandate*, which caps firms costs and provides generous subsidies to small firms.⁶ The other studies also exclude the effects of reductions in health costs in many sectors that could lead to job growth. Finally, both of these analyses assume an extremely high employment response to changes in labor costs that is not supported by recent empirical work.⁷ In fact, no existing study has examined the effects of the Clinton mandate on employment in small firms. See “Mandates and Small Firms” in the Appendix for more information.

Scenarios

In determining how the savings in health care costs could affect employment, investment, net exports, productivity, and wages, we consider three distinct possibilities, all of which are plausible. First, it may be the case that firms' savings in health care costs will be passed directly to

the firms' workers in the form of higher wages. There are many economists who argue that firms see health care expenses as simply part of the cost of hiring labor: they do not care if they pay the money as a premium for health insurance or to the worker in his or her wage. In this view, savings that the firm receives from the Clinton health plan would be paid to workers as higher wages.

A second possibility is that firms will use the savings in health care to raise their profit margins. By this logic, when a worker is hired, the employer and employee agree on the compensation package. If the compensation includes health insurance and if the cost of the premium climbs faster than productivity grows or wages fall, then firms would be forced to pay the higher health costs out of their profits. If health costs were reduced, as they would be in the Clinton plan, then firms would see their profits rise. The increase in profits could be invested by the firm or could be paid to shareholders as larger dividends.

A third possibility is that firms pass along the savings in health care to consumers in the form of lower prices. This could occur due to competition driving down prices, or it could be explained by a mark-up pricing model, where firms set their prices at some fixed margin above their costs. In either case, if firms' costs for health care fall, then the price they charge for their product will fall a corresponding amount. This would mean that savings in health care are passed along to consumers in lower prices.

These three situations outline the range of possible uses of the health cost savings. The most likely outcome of the Clinton plan would be some combination of these: that is, some portion of the savings would be used to raise wages, to increase profits, and to reduce prices. Therefore, in estimating the impact of the Clinton plan, we have chosen to present a variety of scenarios that are combinations of the situations described above. The following four combinations will be considered:

- (1) half the savings are used to raise wages, half to raise profits
- (2) half to raise wages, half to reduce prices
- (3) half to raise profits, half to reduce prices
- (4) one-third to raise wages, one-third to raise profits, and one-third to reduce prices.

Most of the discussion below highlights the fourth combination, the midrange scenario in which one-third of the savings goes to wages, profits, and prices. The cases from which these scenarios are derived are described in more detail in the Appendix.⁸ We estimate these scenarios for two different time periods: years 1 through 5 of the Clinton plan and years 1 through 10. For

each period. we make an assessment of the cumulative impact over the period and of the effects of the plan in a single year.”

The Clinton Health Care Plan and the Redistribution of Costs Among Firms

The Clinton plan will redistribute health costs among firms. Currently, firms that provide health insurance to their employees are also paying for the health care of many other people. The Clinton plan’s mandate that all employers provide insurance to their workers will raise costs for firms not currently buying insurance. But the mandate also will immediately reduce costs for many firms that already insure employees. These savings will come through two channels. First, mandating all employers to cover their employees will reduce cost shifting for uncompensated care and lower the costs for firms that already provide insurance. Currently, an estimated 30 percent of private insurers’ hospitals payments actually cover the nonreimbursed expenses of people who are uninsured, underinsured, or covered by Medicare or Medicaid, both of which reimburse providers at levels below the actual cost of the care provided. Since everyone will be insured under the Clinton plan, this cost shifting will no longer occur, reducing the bills of firms that now provide insurance.

Further immediate savings by firms currently providing insurance will occur because all workers will have their own insurance. At present, workers who are insured on the job commonly provide coverage for spouses and dependents who may be working but who do not have coverage through their own employer. This subsidy from firms that do provide insurance to those that do not would be eliminated under the Clinton plan because all employers would be required to insure their workers.

In addition to the mandate, a second source of immediate savings for many firms currently providing insurance, particularly small firms, will be the switch to community rating. At present, many firms, especially small firms, are experience rated, meaning that their health costs are determined by their employees’ age, health status and existing medical conditions, and the level of health risks faced by workers. In addition, small firms are charged much higher administrative fees than are large firms. Under the Clinton plan, all firms will be charged the same rates. This means that for some firms rates will rise, while others will see rates fall. Among those most likely to see falling rates are small firms that currently insure their workers and manufacturing firms, whose workforces are usually somewhat older than the average for the economy as a whole.

A third source of immediate savings for many firms, particularly in manufacturing, will be the large reduction in or elimination of expenditures for the health care of early retirees. As part of

their strategy to become more competitive, many firms have been shrinking the size of their workforce. They often try to do this through early retirements (before age 65) to avoid layoffs or through outright dismissals. In many cases, in return for employees agreeing to take early retirement, the firm promises to maintain workers' health care benefits. While the promise of health insurance is very important to early retirees who are not eligible for Medicare until age 65, these agreements can be very costly to employers because these older individuals tend to use more medical services than do average-age workers. Under the Clinton proposal, the government will pick up 80 percent of the expense of a basic health insurance package for early retirees age 55 to 64. This will provide substantial and immediate savings for firms with large numbers of early retirees."

Methods: **Measuring** the Savings from the Redistribution of Costs

The savings to the manufacturing sector from the redistribution of costs is calculated as the difference between projected expenditures under the current health care system and estimated expenditures under the Clinton proposal, both calculated for 1994, the year in which we assume the plan is fully implemented. Expenditures under the Clinton plan are estimated using a modified microsimulation technique based on the National Medical Expenditure Survey (NMES), with firm level information from the Census of Manufacturers and the Bureau of Labor Statistics' (BLS) Current Employment Statistics. Based on this technique, manufacturers' expenditures in 1994 under the Clinton plan are estimated at \$49 billion. (For more details on these estimates, see the Appendix.) Manufacturers' spending in 1994 under the current system is estimated as a projection of current health care expenditures based on the BLS' Employer Costs for Employee Compensation and Employment and Wages. Manufacturers' expenditures in 1994 under the current system are projected to be \$67 billion. Thus in 1994, the manufacturing sector would save \$18 billion under the Clinton plan compared to the current system. The following sections of this paper show how these savings will affect employment, investment, net exports, productivity, and wages in manufacturing and in the economy as a whole.

We begin with an examination of the economic effects of the redistribution of health costs and reductions in firms' costs of health care for early retirees. From there, we address the economic effects of cost containment and the combined effects of the redistribution of costs and cost containment.

The Effects of the Redistribution of Costs on Manufacturing

The first set of projections (Table 1) shows the effects of the immediate savings to manufacturing resulting from the redistribution of costs among all employers and relief from the health costs of early retirees. Specifically, Table 1 shows the effects on employment, investment, net exports, productivity, and wages. The discussion below describes the midrange outcome (Scenario 4), where one-third of the savings goes to each of wages, profits, and prices.

Compared to continuing with the current health care system, by the fifth year of the Clinton plan, 112,800 new manufacturing-related jobs would be created. By the 10th year, 123,900 additional jobs would be created (see Scenario 4 in Table 1).

Cumulative investment would rise by \$9.8 billion over the first five years and by \$20.5 billion over 10 years. The cumulative increase in net exports would be \$15.2 billion and \$33.9 billion over five and 10 years, respectively. Productivity would rise 0.22 percent by the end of the fifth year and 0.52 percent by the end of the 10th year. Wages would rise 1.05 percent by the end of the fifth. As can be seen in Table 1, each of the four scenarios shows gains in all areas. In addition, these gains are significant relative to the size of the manufacturing sector. For example, three of the four scenarios show gains of employment greater than 112,000 in the fifth year after the plan is implemented. This would represent a 0.7 percent increase in manufacturing employment over the baseline scenario with the current health care system. Manufacturing investment rises by approximately 2 percent in two of the four scenarios, and net exports increase by approximately 1 percent. When half of the savings is passed along in higher wages, real wages take an immediate jump of almost 1.6 percent. In general, the effects of the initial savings increase over time as the higher profits gradually lead to more investment and the lower prices increase net exports.

The Effects of the Redistribution of Costs on the Economy as a Whole

The manufacturing sector will see its health costs fall due to the redistribution of healthcare expenditures. As shown above, these health care savings will increase employment, output, and investment, as well as raise productivity and wages in manufacturing-related sectors. However, other sectors that currently do not insure their workers will see their health costs rise. Since many of the uninsured are in the service sector, the cost increases will be largest there.”

There are no reliable data available to show the exact impact that these cost increases will have on wages, employment, investment, and productivity in small, primarily service-sector firms.

Table 1
The Effects of the Cost Redistribution on Manufacturing

	Scenario 1 ^a	Scenario 2 ^b	Scenario 3 ^c	Scenario 4 ^d
Employment (<i>Thousands of Jobs</i>)				
Effect in				
Fifth Year	54.4	115.1	169.2	112.8
Tenth Year	72.0	113.8	185.8	123.9
Investment (<i>Billions of 1994 Dollars</i>)				
Effect in				
Fifth Year	\$ 2.7	\$ 0.0	\$ 2.8	\$ 1.8
Tenth Year	3.5	0.0	3.6	2.4
Cumulative Effect				
First Five Years	13.2	1.8	15.0	9.8
First Ten Years	29.1	1.8	30.9	20.5
Net Exports (<i>Billions of 1994 Dollars</i>)				
Effect in				
Fifth Year	\$ 0.0	\$ 5.6	\$ 5.6	\$ 3.8
Tenth Year	0.0	5.6	5.6	3.8
Cumulative Effect				
First Five Years	0.0	22.7	22.7	15.2
First Ten Years	0.0	50.8	50.8	33.9
Productivity (<i>Percent Change from Baseline</i>)				
Effect in				
Fifth Year	0.29	0.06	0.34	0.22
Tenth Year	0.73	0.06	0.78	0.52
Wages (<i>Percent Change from Baseline</i>)				
Effect in				
Fifth Year	1.57	1.57	0.0	1.05
Tenth Year	1.57	1.57	0.0	1.05

^a 1/2 Higher Wages, 1/2 Higher Profits

^b 1/2 Higher Wages, 1/2 Lower Prices

^c 1/2 Higher Profits, 1/2 Lower Prices

^d 1/3 Higher Wages, 1/3 Higher Profits, 1/3 Lower Prices

In the absence of clear evidence, we assume that the losses in the service sector directly due to the redistribution of current health care expenditures would exactly offset the gains in manufacturing and other high health cost sectors that directly result from their savings. In other words, we assume

that for every dollar that wages rose in manufacturing due to lower health care costs, wages fell a dollar in the service sector due to higher costs. We make the same assumption for employment, investment, and productivity.” Insofar as the mandates lead to a net increase in national health expenditures, we have assumed that the additional revenue flowing to the health care sector has a positive employment effect of approximately the same magnitude as the negative employment effect resulting from the additional costs incurred in the rest of the economy.

However, the net impact for the economy as a whole is not zero. The reason for this is that manufactured goods are in general traded internationally, whereas services for the most part are not. This means that a decline in the price of U.S. manufactured goods will increase our exports and decrease our imports (because domestically produced goods are comparatively cheaper) in a way that will not be offset by a corresponding increase in the price of goods in the service sector.

By mandating a more even distribution of health care expenses among all employers, the Clinton plan is in effect removing an excess burden that U.S. manufacturers currently are being forced to bear in their efforts to compete with foreign manufacturers. In addition, firms will see large reductions in their costs for retiree health care. Lowering their health expenditures will increase their ability to compete, leading to more exports and more jobs in the economy as a whole, even assuming that the service sector’s losses otherwise completely offset the gains in manufacturing.

It is also worth noting that there are not only gains in net exports and employment, but also in investment and productivity. The reason for the gains in these latter two categories is that higher export sales act to stimulate investment. Although these gains are comparatively modest, over time even these secondary effects are a substantial stimulus to the economy. In general, the manufacturing sector has been the most significant source of productivity growth in the economy. By lessening the extent to which manufacturing is being forced to subsidize health care costs in the rest of the economy, the Clinton plan will be a boost to the economy as a whole.

The economy-wide effects of the redistribution of costs are shown in Table 2. Assuming the complete offset in services discussed above, there would be a net increase of 75,900 jobs in both the fifth year and 10th year of the plan compared to continuing with the current health care system. There will be a small cumulative increase in investment of \$1.2 billion by the fifth year. Net exports would rise by a cumulative total of \$15.2 billion over the first five years and by \$33.9 billion over the first 10 years of the plan.

Table 2
The Effects of the Cost Redistribution
on the Economy as a Whole

	Employment <i>(Thousands of Jobs)</i>	Investment <i>(Billions of 1994 Dollars)</i>	Net Exports <i>(Billions of 1994 Dollars)</i>	Productivity <i>(Percent Change)</i>	Wages <i>(Percent Change)</i>
Effect in					
Fifth Year	75.9	\$ 0.0	\$ 3.8	0.01%	0.0%
Tenth Year	75.9	0.0	3.8	0.01	0.0
Cumulative Effect					
First Five Years		\$ 1.2	\$ 15.2		
First Ten Years		1.2	33.9		

Note: These projections assume savings are equally distributed between higher wages, higher profits, and lower prices.

The Clinton Health Care Plan and Cost Containment

In addition to these immediate savings, the cost containment provisions of the Clinton plan will reduce the rate of growth of health care costs, creating substantial savings for firms. In recent years, health expenditures have been rising at a rate of 9 to 11 percent annually. If the health care system is not reformed, the rate of growth is projected to remain very high for the indefinite future, and firms' already heavy health cost burden will grow even larger. The Clinton plan will put in place a mechanism to slow the growth in costs, which will create large savings that we are calling a health care dividend. In the fifth year of the new plan, this dividend will equal \$72 billion.

Methods: Measuring the Savings from Cost Containment

To measure the longer term savings to manufacturing from cost containment, we subtracted the targeted rate of growth in the Clinton plan from current forecasts of the rate of growth of health care spending over the next 10 years. Since the cost-containment target of the plan has been criticized as being unrealistic, we also calculated the plan's effects based on the assumption that just half the amount of predicted long-term saving is actually realized. In this way we have set out a range between an optimistic and a pessimistic scenario for cost containment. We have estimated the impact of this cost-containment program under the same set of scenarios in which savings flow

to some combination of higher wages, higher profits, or reduced prices. We estimate the effect of the savings due to cost containment on employment, investment, net exports, productivity, and wages both in manufacturing and in the economy as a whole.

The Effects of Cost Containment on Manufacturing

Whatever the benefits associated with the redistribution of costs among firms, ultimately the major source of potential gain to manufacturing and to the economy will result from the cost containment program put in place by the Clinton plan. The economic effects of cost containment are shown in Table 3, and further details are in the Appendix. Table 3 shows a range of outcomes: in each case the smaller numbers show the effects of the Clinton plan achieving half its targeted savings, and the higher numbers show the effects of achieving all the targeted savings.

Table 3 shows that the gains to manufacturing from cost containment will eventually be even larger than the gains resulting from the redistribution of expenditures and the immediate reduction in costs. Again, we assume the midrange (Scenario 4) outcome, where one-third of savings flows to each of wages, profits, and prices. Due to cost containment, employment in manufacturing will be higher by 26,000 to 52,000 jobs in the fifth year of the plan, and by 68,100 to 135,100 jobs in the 10th year. By the fifth year of the plan, cumulative investment will have increased by \$1.1 billion to \$2.2 billion, and by \$5.4 billion to \$10.8 billion by the end of the 10th year. Cumulative net exports will increase between \$2.1 billion and \$4.2 billion over the first five years and between \$10.2 billion and \$20.3 billion over the first 10 years. Productivity will rise by 0.15 to 0.30 percent by the end of the 10th year. By the fifth and 10th years of the plan, wages will be an average of 0.29 to 0.57 and 0.66 to 1.32 percent higher, respectively.

The Effects of Cost Containment on the Economy as a Whole

Effective cost containment will present both opportunities and hazards for the economy as a whole. As noted earlier, there should be an unambiguous positive effect on manufacturing from cost containment as savings in health care are passed through in the form of higher wages, higher profits, and lower prices. This clearly leads to gains in the form of increased employment, investment, productivity, and net exports.

There is a second unambiguously positive effect that can be associated with cost containment. To some extent cost containment will involve lowering incomes (reducing economic rents) earned by some of the workers and corporations in the health care industry. This would

Table 3
The Effects of Cost Containment on Manufacturing

	Scenario 1 ^a	Scenario 2 ^b	Scenario 3 ^c	Scenario 4 ^d
Employment (Thousands of Jobs)				
Effect in				
Fifth Year	11.1 - 22.1	28.0 - 55.3	29.0 - 78.0	26.0 - 52.0
Tenth Year	33.4 - 66.8	67.9 - 135.8	101.3 - 202.6	68.1 - 135.1
Investment (Billions of 1994 Dollars)				
Effect in				
Fifth Year	\$ 0.6 - 1.1	\$ 0.1 - 0.2	\$ 0.7 - 1.3	\$ 0.4 - 0.8
Tenth Year	1.7 - 3.3	0.1 - 0.2	1.8 - 3.5	1.2 - 2.3
Cumulative Effect				
First Five Years	1.2 - 2.3	0.3 - 0.6	1.7 - 3.3	1.1 - 2.2
First Ten Years	7.3 - 14.5	0.8 - 1.6	8.1 - 16.2	5.4 - 10.8
Net Exports (Billions of 1994 Dollars)				
Effect in				
Fifth Year	\$ 0.0 - 0.0	\$ 1.3 - 2.6	\$ 1.3 - 2.6	\$ 0.9 - 1.7
Tenth Year	0.0 - 0.0	3.3 - 6.5	3.3 - 6.5	2.2 - 4.3
Cumulative Effect				
First Five Years	0.0 - 0.0	3.1 - 6.2	3.1 - 6.2	2.1 - 4.2
First Ten Years	0.0 - 0.0	15.3 - 30.5	15.3 - 30.5	10.2 - 20.3
Productivity (Per-cent Change from Baseline)				
Effect in				
Fifth Year	0.04 - 0.08%	0.0 - 0.01%	0.05 - 0.09%	0.03-0.06%
Tenth Year	0.21 - 0.42	0.02 - 0.04	0.23 - 0.35	0.15 - 0.30
Wages (Percent Change from Baseline)				
Effect in				
Fifth Year	0.43 - 0.86%	0.43 - 0.86%	0.0 - 0.0%	0.29 - 0.57%
Tenth Year	0.99 - 1.99	0.99 - 1.99	0.0 - 0.0	0.66 - 1.32

^a1/2 Higher Wages, 1/2 Higher Profits

^b1/2 Higher Wages, 1/2 Lower Prices

^c1/2 Higher Profits, 1/2 Lower Prices

^d1/3 Higher Wages, 1/3 Higher Profits. 1/3 Lower Prices

mean reducing the excessive fees received by highly paid health care professionals or cutting the extraordinary profits earned by some of the corporations producing pharmaceutical and other health care supplies and equipment. However, despite the lower incomes and reduced profits, there is likely to be little change in behavior or employment. In other words, highly paid specialists might still work roughly the same hours even if their pay rates were somewhat lower. Or, pharmaceutical companies may still produce roughly the same supply of drugs even if their profits were no greater than those received by firms in other industries. Insofar as health cost containment brings savings of this sort, it represents a pure gain to the economy. There is no effect on employment in the health care sector, but because of the lower cost to the rest of the economy, there will be additional money going to higher wages, higher profits, or lower prices.

While these first two effects are unambiguously positive, there is a third and probably more important effect, the impact of which can be either positive or negative. To some extent, effective cost containment is almost certain to involve the reduction of waste in the form of eliminating unnecessary paperwork or reducing the provision of unnecessary services. Reduction of waste of this sort means increasing the efficiency of the health care sector, but it also means that fewer workers will be employed than if current trends continued. The rate of growth of health care employment would decrease. Thus, the increase in efficiency presents an opportunity to the economy in the sense that these workers could be more productively employed in other sectors. It also presents a risk, however, in that it is possible that alternative forms of employment will not be forthcoming. In this case, an increase in the efficiency of the health care sector may actually lead to a loss of jobs for the economy as a whole.

In most economic analyses of the impact of health care reform this possibility is not considered, since most analyses use economic models that assume the economy will always be at or near full employment. We have explicitly not made such an assumption, since historically (and certainly in recent years) the economy has generally not been at or near full employment. If full employment is not assumed, then the reduced rate of job creation in the health care sector could pose a real problem. In the three years since the onset of the last recession in June 1990, the health care sector has accounted for over 25 percent of all the new jobs that have been created. If the growth of employment in the health care sector over this period had been slower, then in all probability overall job growth would have been slower as well. The economy is still operating well below full employment, and most forecasts predict slow economic growth for the rest of the

decade. In such a situation, there is a real risk that the primary impact of increasing the efficiency of the health care sector will be to raise unemployment.

However, the cost savings and resultant increased efficiency also present an opportunity. The savings can be seen as a health care dividend. If this money is put to productive use--for example, if both the private and public sector invest the bulk of their savings--then it can lead to alternative sources of employment and higher productivity for the economy as a whole. Policies that are conducive to private investment in plant and equipment and public investment in education, training, and infrastructure can ensure this result. If, however, a large portion of the savings in health care is used in less economically productive ways, such as to purchase imports or to reduce the deficit, then the net effect of the cost containment may well be to produce higher unemployment. In short, if we do not assume the economy automatically attains full employment, whether or not the economy actually gains from the cost savings and increased efficiency of the health care sector will depend on how the dividend is used. This will in turn depend upon the macroeconomic policies pursued by the government at the time.

Combined Effects of the Clinton Plan

This section examines the effects of the redistribution of costs among all employers, firms' savings on early retirees' health care, and savings from cost containment on the manufacturing sector and on the economy as a whole. By combining these three factors, it is possible to determine the major economic effects the Clinton health plan will have on employment, investment, net exports, productivity, and wages.

The Combined Effects of the Clinton Plan on Manufacturing

The impact of the combined effects of the Clinton plan on the manufacturing sector--the effect of the immediate saving from the redistribution of costs (Table 1) and the longer-term savings from cost containment (Table 3)--is summarized in Table 4. We assume that savings are equally distributed between higher wages, higher profits, and lower prices. The numbers shown also assume that the Clinton plan's cost containment targets are achieved.

Employment will be 164,700 higher in the fifth year of the plan and 258,700 higher in the 10th year (see Figure 1). In the fifth year, investment will be \$2.8 billion higher (see Figure 2). The cumulative increase will equal \$11.0 billion by the end of the fifth year and will rise to \$30.5 billion by the end of the 10th year. Net exports will be \$5.4 billion greater in

Table 4
The Combined Effects of the Cost Redistribution
and Cost Containment on Manufacturing

	Employment <i>(Thousands of Jobs)</i>	Investment <i>(Billions of 1994 Dollars)</i>	Net Exports <i>(Billions of 1994 Dollars)</i>	Productivity <i>(Percent Change)</i>	Wages <i>(Percent Change)</i>
Effect in					
Fifth Year	164.7	\$ 2.8	\$ 5.4	0.28%	1.62%
Tenth Year	258.7	4.7	8.0	0.82	2.37
Cumulative Effect					
First Five Years		\$ 11.0	\$ 19.2		
First Ten Years		30.5	53.9		

Note: These projections assume savings are equally distributed between higher wages, higher profits, and lower prices.

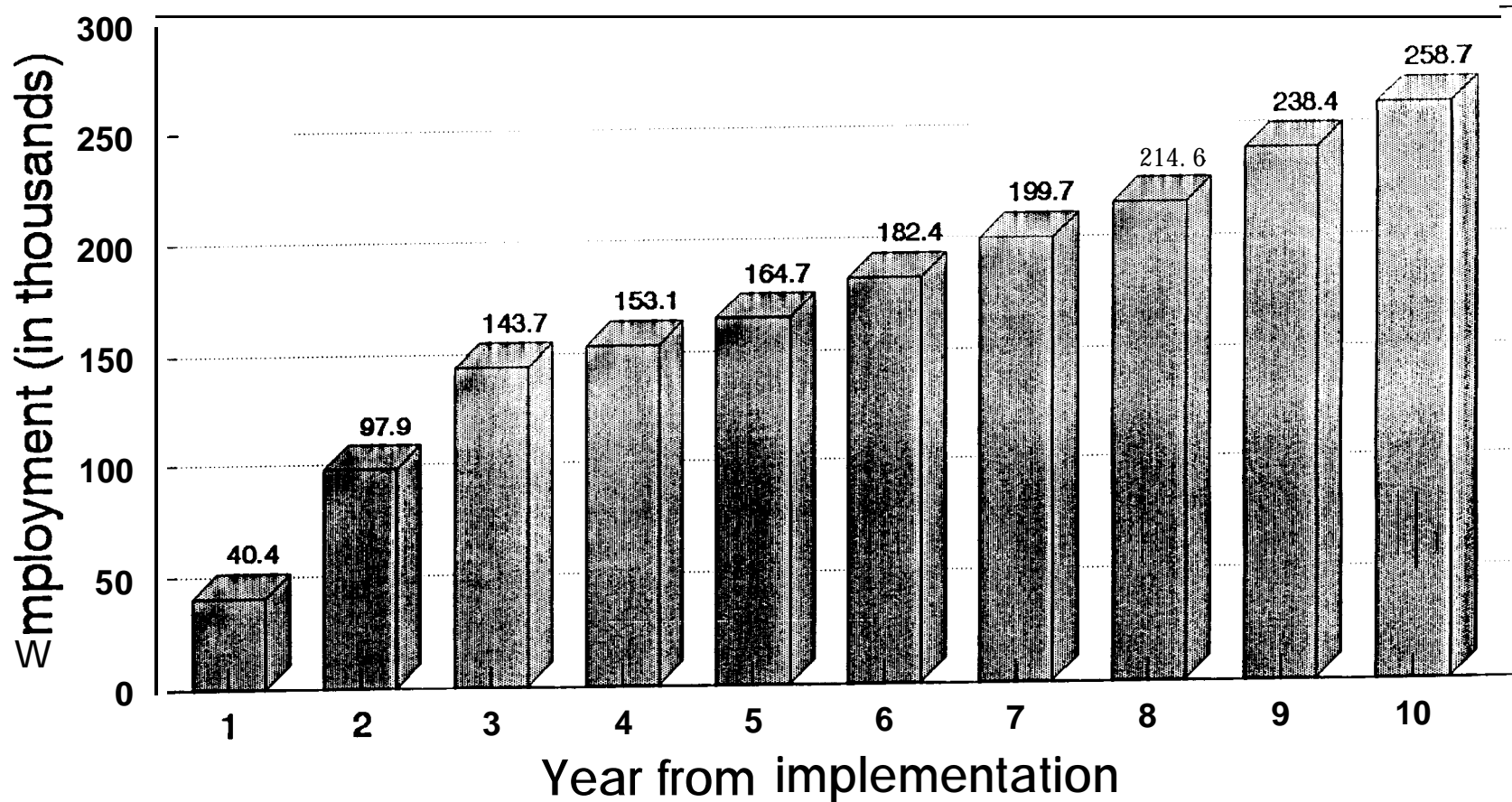
the fifth year (see Figure 3). The cumulative increase will be \$19.2 billion by the end of the fifth year and \$53.9 billion by the end of the 10th. Productivity will have increased by 0.28 and 0.82 percent by the end of years 5 and 10, respectively. Wages will be 1.62 percent higher on average by the fifth year and 2.37 percent higher by the 10th year.

The Combined Effects of the Clinton Plan on the Economy as a Whole

To complete the analysis, we examine the effects of the redistribution of costs and the cost containment on the economy as a whole. As pointed out above, the effects of cost containment on the economy as a whole cannot be quantified with any precision. We can note again, however, that the savings in manufacturing produce a net gain. The net effect outside the manufacturing sector will be somewhat ambiguous. Obviously, efficiency gains in health care will be a pure gain to the economy. However, the ultimate impact of the Clinton plan will depend on the success in redirecting the health care dividend toward more productive ends.

Figure I

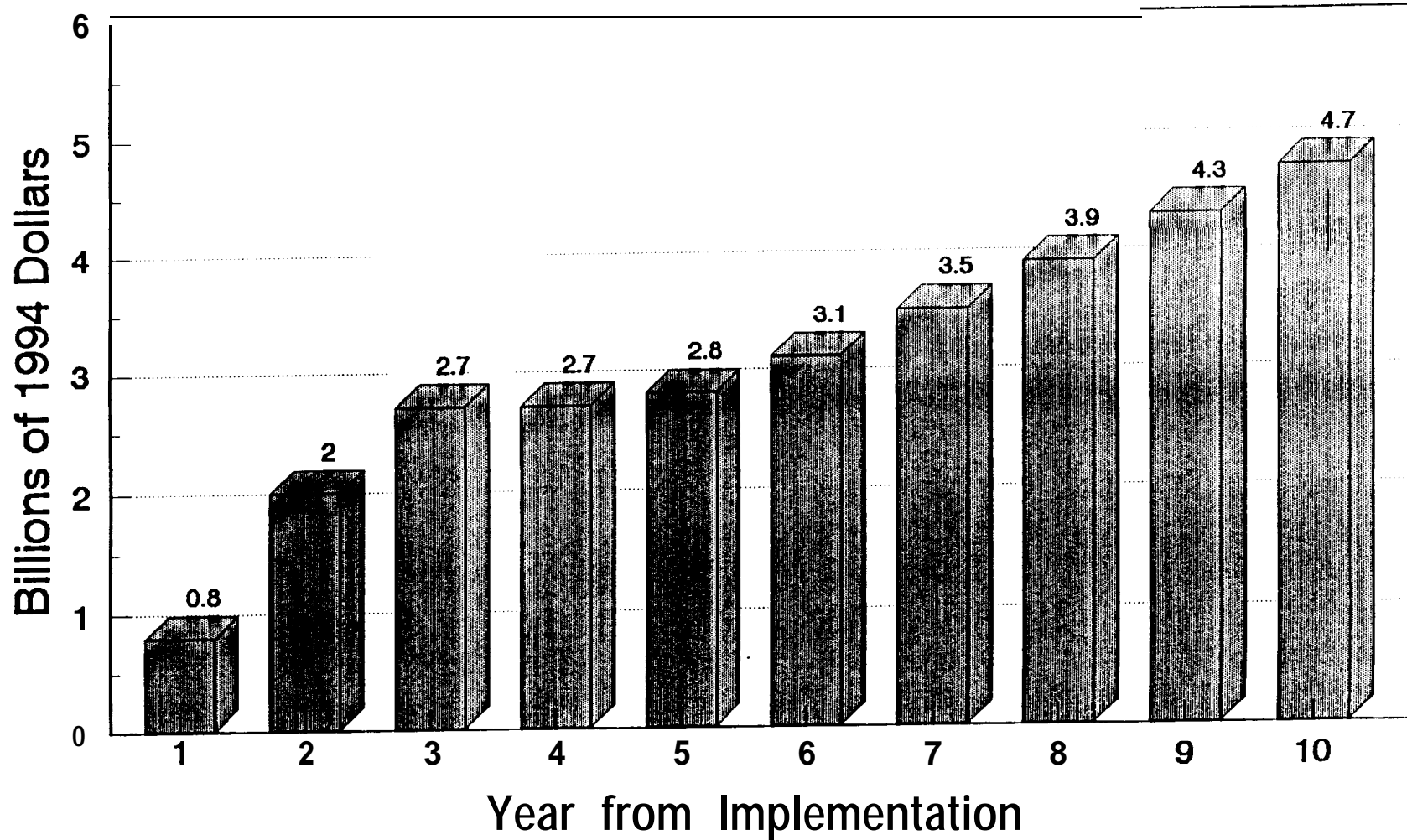
Job Growth in Manufacturing under the Clinton Plan



Note: Findings based on authors' estimates_

Figure 2

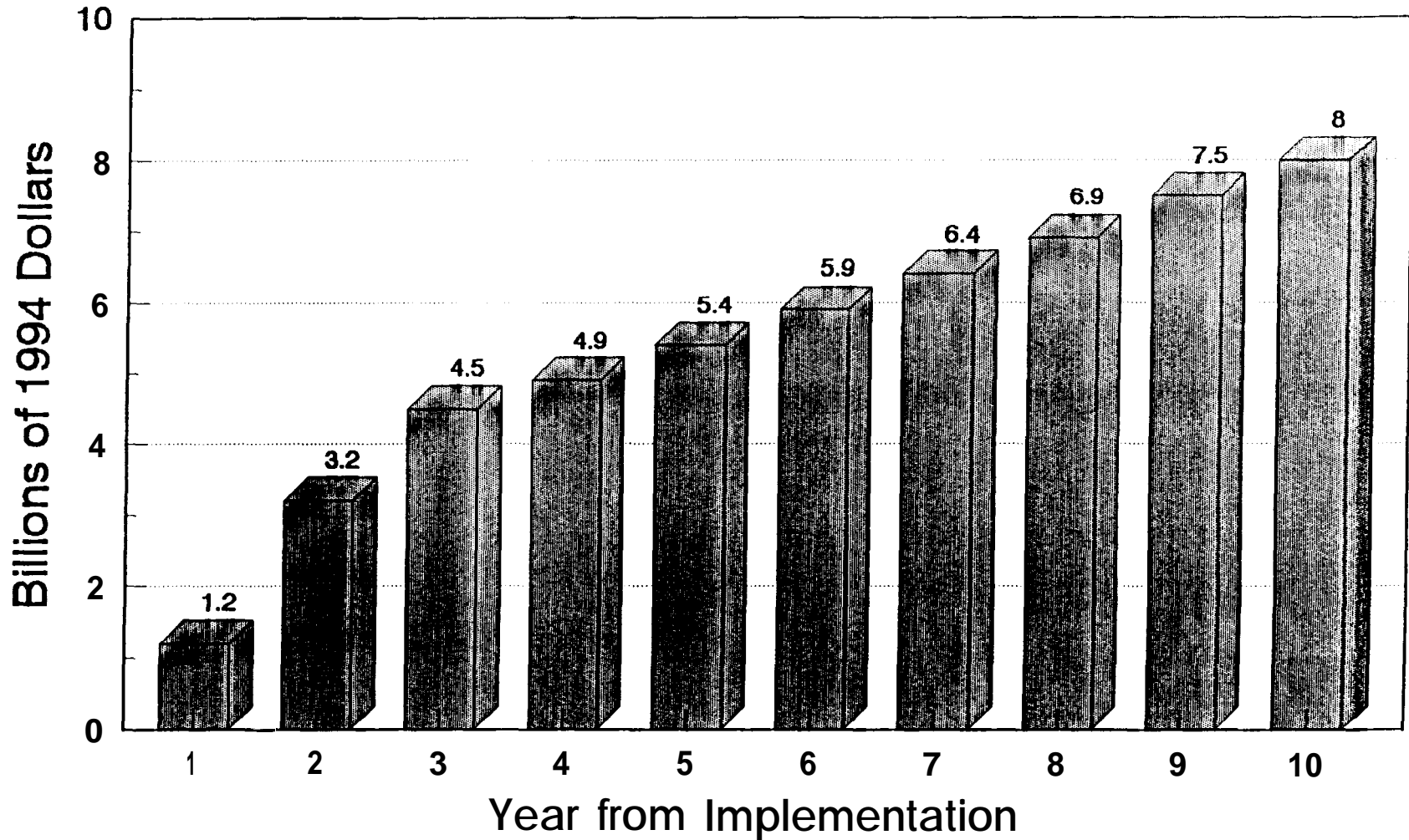
Increase in Investment under the Clinton Plan



Note: Findings based on authors' estimates.

Figure 3

Increase in Net Exports under the Clinton Plan



Note: Findings based on authors' estimates.

Conclusion

Our results clearly show that the Clinton health care plan could produce significant economic benefits for the economy. Although some firms will pay more, the cost burden for many firms that already provide insurance will be reduced. Due to the redistribution of costs that will result from the employer mandate, community rating, and firms' savings on retiree health care, in the economy as a whole there will be a net increase of 75,900 jobs by the fifth year of the plan. In addition, investment will increase and net exports will rise. The manufacturing sector will save approximately \$18 billion in the first year of the plan. These savings will increase manufacturing-related employment by 112,800 by the plan's fifth year as well as produce economically significant gains in exports, wages, and profits and reduce prices. This will in turn lead to more jobs, more investment, increased net exports, higher productivity growth, and more rapid real wage growth.

As the cost containment provisions in the Clinton plan reduce the rate of increase in health care expenditures, there will be even larger savings for health care purchasers. In manufacturing, cost containment will create an additional 52,000 jobs by the fifth year of the plan and increase net exports. In addition, cost containment will increase efficiency in the health care sector. By the fifth year of the plan, the health care dividend will total \$72 billion and will be rising rapidly. The net economy-wide effects of cost containment will depend upon how this dividend is used. If it is invested either in the public or private sector, the new jobs created will more than offset the slowdown in job growth in health care. If the dividend is not invested, then the reduced rate of job creation in health care could lead to higher unemployment.

The proposed health care reform will also shift the economy toward a better mix of jobs, in part because of the already discussed expansion of the manufacturing sector that provides well-paying jobs for the non-college-educated workforce, precisely the group experiencing adverse wage and job trends in recent years. Equally important, the employer mandates in the health care plan will reduce the existing financial incentives for employers to use contingent forms of work--hiring part-time and temporary workers or using independent contractors.

During the 1980s and into the current economic recovery, there has been an excessive growth in contingent employment (duRivage 1992; Mishel and Bernstein 1993) that has undercut the living standards and economic security of the workforce. This growth of contingent employment has been partially driven by employers seeking to escape fringe benefit costs, especially health insurance. Such moves will no longer be possible under the new health care plan. Employers will have to pay a prorata share of the insurance premium of part-time workers, with the

Conclusion

Our results clearly show that the Clinton health care plan could produce significant economic benefits for the economy. Although some firms will pay more, the cost burden for many firms that already provide insurance will be reduced. Due to the redistribution of costs that will result from the employer mandate, community rating, and firms' savings on retiree health care, in the economy as a whole there will be a net increase of 75,900 jobs by the fifth year of the plan. In addition, investment will increase and net exports will rise. The manufacturing sector will save approximately \$18 billion in the first year of the plan. These savings will increase manufacturing-related employment by 112,800 by the plan's fifth year as well as produce economically significant gains in exports, wages, and profits and reduce prices. This will in turn lead to more jobs, more investment, increased net exports, higher productivity growth, and more rapid real wage growth.

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costs of a 15 hour-per-week worker being half that of a full-time worker. Temporary help agencies will be required to pay 80 percent of the insurance premiums for the temporary workers on their payrolls, as will all employers for their employees. Last, independent contractors who receive 80 percent of their income from one firm will be considered an employee of that firm and will have 80 percent of their premiums paid for by the firm. Thus, the employer mandates will reduce employer financial incentives to shift toward contingent work. The result will be that employers will structure their workforce based on productivity and quality considerations, not on their savings from providing fewer benefits.

The main purpose of the Clinton plan is not to aid the economy but rather to provide high quality health care to all Americans at a reasonable cost. The plan's merits will ultimately depend on how effectively it meets these goals. However, the plan's economic impact could be very positive as well.

November 1993

APPENDIX

The Effects of the Redistribution in Costs: Three Scenarios

The calculations for the scenarios discussed in the text are based on combining, with different weights, three cases in which savings in health care are passed on completely in the form of higher wages, higher profits, or lower prices. We first model each of these “pure” scenarios before averaging them together to get the results discussed in the text. Each of these pure scenarios is constructed using assumptions about elasticities that are well within the range frequently used in economic modeling and are well supported by empirical research.

Wages

The scenario in which savings in health care expenditures are passed on entirely in the form of higher wages is extremely straightforward. We simply assume that wages rise dollar for dollar in accordance with declines in health care costs. We then calculate this increase as a percentage of current wages in manufacturing. There are no other effects from this change because the price of manufactured goods is completely unchanged, as are firm profits. This means that there should be no impact on either investment or net exports. While workers in manufacturing industries will have more income to spend as a result of their higher wages, this should be offset exactly by the reduction in incomes of providers in the health care industry who will be earning less than in the baseline scenario and by the increased health care expenditures of firms that had not previously provided insurance to their workers. Since the gains in income for workers in manufacturing are offset exactly by losses of income elsewhere, there is no change in total demand. This leaves output and employment unaffected. The impact of \$18.4 billion in health care savings for manufacturing firms passed on entirely in the form of higher wages is summarized in Appendix Table 1.

Profits

In the scenario where the health savings are kept entirely by firms as increased profits, we have to make an assumption about how higher profits affect investment. For this we relied on recent work on the effect of cash flow on investment by Steve Fazzari (1993). In the most extensive microlevel study to date of the investment patterns of manufacturing firms, Fazzari found a very strong link between cash flow and investment. We aggregated the coefficient for the

Appendix Table 1
Effects of Cost Redistribution

	Employment <i>(Thousands of Jobs)</i>	Investment <i>(Billions of 1994 Dollars)</i>	Net Exports <i>(Billions of 1994 Dollars)</i>	Productivity <i>(Percent Change)</i>	Wages <i>(Percent Change)</i>
Higher Wage Scenario					
Effect in					
Fifth Year	0.0	\$0.0	\$0.0	0.0%	3.15%
Tenth Year	0.0	0.0	0.0	0.0	3.15
Cumulative Effect					
First Five Years		0.0	0.0		
First Ten Years		0.0	0.0		
Higher Profit Scenario					
Effect in					
Fifth Year	108.0	\$5.3	\$0.0	0.57%	0.0%
Tenth Year	144.1	7.1	0.0	1.45	0.0
Cumulative Effect					
First Five Years		26.3	0.0		
First Ten Years		58.1	0.0		
Lower Price Scenario					
Effect in					
Fifth Year	230.2	\$0.1	\$11.0	0.10%	0.0%
Tenth Year	227.6	0.0	11.0	1.10	0.0
Cumulative Effect					
First Five Years		3.6	45.4		
First Ten Years		3.6	101.6		

different categories of manufacturing firms in his study to derive a coefficient for the manufacturing sector as a whole. The aggregate coefficients are as follows, with the subscript indicating the length of the lag in years:

$$CF_t = 0.072$$

$$CF_{t-1} = 0.11$$

$$CF_{t-2} = 0.067$$

The rate of growth of sales also affects investment. This means that as investment increases the sales of firms producing capital goods, it will induce further investment. To estimate the size of this effect we again used the results of the Fazzari study. His estimated coefficient for the effect of

sales growth (expressed as a percent of current sales) on the firm's investment divided by their capital stock is:

$$SG_t = 0.138$$

$$SG_{t-1} = 0.085$$

$$SG_{t-2} = 0.042$$

To use these coefficients to calculate the amount of investment induced by sales growth, we multiplied the sales growth by the size of the capital stock in manufacturing. We estimated that this will be \$2.4 trillion in 1994 (in 1994 dollars) based on data from the U.S. Department of Commerce's *Fixed Reproducible Tangible Wealth in the United States, 1925-I 989*, and subsequent investment data. To calculate the growth rate of final sales we used a denominator of \$2.0 trillion, which is approximately equal to final sales of manufactured goods in 1993. We assumed that the only change in sales was that due to the profit-induced effect on investment, with the rest of the redistribution in demand from the service sector to manufacturing bringing no net change in final demand.

Over the longer term this increase in investment raises national output by increasing productivity. To calculate this impact we assumed that the effect of capital on productivity is the same in manufacturing as elsewhere in the economy. DRI, a leading econometric forecasting firm, estimates the elasticity of output with respect to capital services to be 0.33. This means that a 1 percent increase in capital services will increase output by 0.33 percent. This figure is similar to estimates that have been produced in a wide range of studies over the years. At present capital services are being used up at an approximately \$650 billion annual rate (all numbers are in 1987 dollars unless otherwise indicated). Gross domestic product (GDP) is approximately \$5.0 trillion. This means that a \$6.5 billion increase in capital services would lead to a \$16.7 billion increase in output. To translate current investment into capital services in future years it is necessary to adjust for the life of the investment. According to BLS' most recent multifactor productivity tables, the annual rate of depreciation for structures and equipment is approximately 5.5 percent and 11.7 percent, respectively. The ratio of investment in equipment to structures was approximately 4.8 for the five years from 1986 to 1990. This gives an annual rate of depreciation of slightly more than 10 percent. If the ratio of equipment to structure investment remains the same, this means that roughly \$65 billion dollars of investment is needed to generate an additional \$6.5 billion of capital services. Applying the elasticity cited earlier, we calculate that an additional dollar of capital generates

approximately \$0.25 in additional output in subsequent years. This is the ratio we used in calculating the impact of increased manufacturing investment on productivity and GDP.

In order to be consistent, we assumed that the increase in productivity is translated entirely into higher profits. Prices do not fall and wages do not rise even as workers become more productive and profit margins are growing. As productivity and profits grow, the amount of investment they induce grows as well. We translated the increase in investment into gains in employment at the rate of 20,270 jobs per billion dollars of additional demand. This ratio is derived from an Economic Policy Institute study (Baker and Lee 1993) that measured the secondary employment impacts associated with jobs in various sectors of the economy. Baker and Lee estimated the average number of jobs created either directly for the end product or indirectly in the supplier industries per billion dollars of expenditure on manufactured goods. This number was adjusted to take account of inflation from the year used in the study (1991) until 1994. The impact of the entire \$18.4 billion in savings to manufacturing firms being added to profit is summarized in Appendix Table 1.

Prices

In the scenario where savings in health care are all passed along in the form of lower prices, the initial impact comes entirely through net exports. While lower prices should make manufactured goods more affordable for domestic consumers, the reduction in purchasing power for workers or owners of firms in the service sector largely offsets this effect. The increase in net exports, however, has a secondary impact in that higher net exports create higher growth in sales which leads to more investment. We calculated the impact on investment of this sales growth using the estimates from the Fazzari study discussed earlier. We also assumed that any productivity gains resulting from this investment are passed along in the form of lower prices, although this second-order effect is too insignificant to be of any consequence in these calculations.

We calculated the effect of lower prices on net exports using estimates of price elasticity calculated by Barry Bosworth (1993). In his recent book he estimated the elasticity of demand for nonoil, nonfood manufactured exports as -1.02. He calculated the elasticity for imports as -1.43. This means that a 1 percent reduction in the price of manufactured goods should lead to a 1.02 percent increase in U.S. exports of manufactured goods and 1.43 percent decline in U.S. imports of manufactured goods. These elasticities are consistent with many other estimates in the literature. Since Bosworth estimated these elasticities with a three-year lag structure, when we applied them to

our calculations we assumed that 30 percent of the impact is felt in the first year, 75 percent by the second year, and the full impact by the third year.

Our calculations of employment gains are based on multiplying the increase in net exports plus the increase in investment by 20,270 jobs as described above. In both the case of health care savings being passed on in lower prices and in the case of the savings being kept as increased profits, we have not included any multiplier effect for the induced increases in demand. We have not estimated this multiplier effect for two reasons: (1) it would be difficult to attempt to calculate how much of this spending will produce a second round of demand for domestic manufactured goods; and (2) it would be difficult to determine the multiplier impact associated with the reduction in demand in the service sector. By excluding any multiplier effect we have probably underestimated the effect that health care savings will have on the manufacturing sector. The impact of the savings to manufacturing firms being entirely passed along in lower prices is summarized in Appendix Table 1.

The Effects of Cost Containment

We estimated the savings from the Clinton plan's cost containment by assuming that costs for manufacturing would follow the same path as health care costs for the economy as a whole under both the baseline scenario and the Clinton plan. In order to keep the numbers in 1994 dollars and directly comparable to our other calculations, we assumed a 3 percent annual inflation rate for the whole period and deflated each year's savings accordingly. After calculating the level of savings year by year, we examined the same three pure scenarios described above, assuming in turn that all savings are passed along in higher wages, higher profits, and lower prices. The summaries of the impact of the health care plan in each of these scenarios appear below in Appendix Table 2.

Estimating Health Costs in the Manufacturing Sector

Health care savings in the manufacturing sector are the difference between health care expenditures under the Clinton plan and spending under the current health care system. The calculation is made for 1994 because the Clinton plan premium estimates are for that year. We project manufacturers' spending under the current system to 1994. Health costs as a share of wages

Appendix Table 2
Effects of Cost Containment

	Employment <i>(Thousands of Jobs)</i>	Investment <i>(Billions of 1994 Dollars)</i>	Net Exports <i>(Billions of 1994 Dollars)</i>	Productivity <i>(Percent Change)</i>	Wages <i>(Percent Change)</i>
Higher Wage Scenario					
Effect in					
Fifth Year	0.0	\$0.0	\$0.0	0.0%	1.72%
Tenth Year	0.0	0.0	0.0	0.0	3.97
Cumulative Effect					
First Five Years		0.0	0.0		
First Ten Years		0.0	0.0		
Higher Profit Scenario					
Effect in					
Fifth Year	44.2	\$2.1	\$0.0	0.15%	0.0%
Tenth Year	133.6	6.6	0.0	0.81	0.0
Cumulative Effect					
First Five Years		5.5	0.0		
First Ten Years		29.2	0.0		
Lower Price Scenario					
Effect in					
Fifth Year	111.7	\$0.4	\$5.1	0.02%	0.0%
Tenth Year	271.6	0.4	13.0	0.08	0.0
Cumulative Effect					
First Five Years		1.1	12.3		
First Ten Years		3.1	60.9		

and salaries in manufacturing were obtained from the BLS' Employer Costs for Employee Compensation. The health insurance share of all insurance costs was obtained from the U.S. Chamber of Commerce survey of employee benefits. Total wages and salaries in manufacturing were obtained from BLS' Employment and Wages (ES-202 data). Spending was adjusted to reflect a continuation of current trends in manufacturing employment and health insurance coverage. Manufacturers' health costs in 1994 were estimated to be \$67 billion.

Manufacturers' costs under the Clinton plan were estimated using the National Medical Expenditure Survey (NMES) as the primary data source. To estimate firms' eligibility for subsidies under the Clinton plan and to determine whether the payroll cap was binding, we needed to know manufacturing workers' enterprise size, average wage in their enterprise, enterprise payroll, and the

mix of family types (single, single-headed household, couples without children, and couples with children) in the firm. The average enterprise size, average wage, and payroll information for durable and nondurable manufacturing by range of firm size was obtained from the 1987 Census of Manufacturers conducted by the Bureau of the Census. Payroll and wage data were projected from the BLS' Employer Cost for Employee Compensation.

These firm level data were appended to the records of manufacturing workers in the NMES using firm size and durable/nondurable as match variables. (The 1988 May Current Population Survey was used to estimate enterprise size from establishment size in manufacturing, holding constant durable/nondurable manufacturer and rural/urban/suburban location; these relationships were then used to determine enterprise size in the NMES.) The mix of family type by firm size, durable/nondurable manufacturing, and rural/urban/suburban location was determined by averaging over manufacturing workers in the NMES. Premium costs were estimated at \$1,881, \$3,761, \$3,789, and \$4,243 for singles, couples without children, single-headed households, and couples with children, respectively.” Firms' minimum premium costs, i.e., 80 percent of the total premium adjusted for numbers of workers per family, were estimated to be \$1,504, \$2,068, \$2,412, and \$2,412, respectively.

Enterprise costs were then estimated by assuming firms would pay the lesser of their payroll-capped premiums, where the caps varied by firm size and average wage according to the specifics of the Clinton plan, or 80 percent of the estimated premiums of the workers. Where under the current system firms paid more than 80 percent of premiums, these additional costs were added to the firms' expenditures, as were the costs of supplemental insurance not included in the Clinton basic plan. We adjusted for changes in the health insurance status of workers between 1987 and 1994, and for the change in the size of the manufacturing labor force over the period. Finally, we added on the costs of the over 65-year-old retirees' insurance premiums by inflating the costs in 1987, taken from the NMES, by the rate of increase in national health care expenditures, plus a 15 percent increase in the number of retirees. Expenditures by manufacturers under the Clinton plan in 1994 were estimated at \$48.6 billion.

With the exception of the premium costs shown just above, these calculations are based on the “leaked” description of the Clinton plan dated September 7, 1993. Since that time, some changes have been made in the plan. Eligibility for subsidies has been broadened to include firm with up to 75 workers. This should further reduce potential job loss. However, since the size of the increase will be quite small--an estimated \$16 billion over five years or an increase of 4

percent--the effects will also be very small.” In addition, the subsidy has been changed so that it is no longer an entitlement. However, the administration estimates that funds raised by the health plan provisions will cover all the subsidies. So, in keeping with our goal of estimating the effects of the plan as it is written and estimated by the administration, these calculations assume complete funding of the subsidies.

Mandates and **Small Firms**

Under the Clinton plan, firms with 50 or fewer employees and with average wages of \$12,000 or less would pay no more than 3.5 percent of payroll for employee health insurance premiums. For a worker in a small firm earning \$12,000 per year, or about \$5.75 an hour, the Clinton mandate would mean an additional cost of about 20 cents an hour, or \$8.08 a week. A new payroll tax of 3.5 percent is approximately equal to the decline in the value of the minimum wage due to inflation over the last 14 months. Just as this decline has produced no employment boom, it is unlikely that the mandate will lead to large job losses. Recent research by leading labor economists indicates that the employment effects will not even be large enough to be picked up in national statistics (Card 1992; Katz and Krueger 1991; Spriggs forthcoming).

Under the Clinton plan, small low-wage firms will have their costs capped at 3.5 percent of payroll. As average wages in small firms rise from \$12,000 to \$24,000, the payroll cap rises from 3.5 to 7.9 percent of payroll. No firm will be required to pay more than 7.9 percent of payroll for health insurance premiums. However, the studies most frequently cited in critiques of the Clinton mandates assume much higher costs. A study by the Employment Policies Institute assumes employer premium costs of \$5,310 for family coverage and \$2,160 for individuals (O’Neill and O’Neill 1993). The report concludes that such mandates would result in a loss of 3.1 million jobs. While we strongly disagree with many of the assumptions and technical aspects of this work, our central objection to its use in the current debate is that it is irrelevant to the question of the effects of the Clinton mandates on employment. This work assumes that low-wage, small firms’ premium costs for a family policy would be more than 12.5 times greater than they actually would be under the Clinton plan and that costs for individual premiums would be more than five times greater. Under the Clinton plan, even large high-wage firms would not face costs as high as those used in this work. The study’s family premiums are more than twice as large, and individual premiums are nearly 1.5 times as large as those that would be faced by large high-wage firms under the Clinton

ENDNOTES

1. This report was funded by the Henry J. Kaiser Family Foundation as part of the Kaiser Health Reform Project, an effort to help inform policymakers, the media, and the public on critical issues in health reform. This study by the Economic Policy Institute examines one such issue and is one of several the Foundation is funding on the economic impact of health reform. The Kaiser Family Foundation does not endorse the findings of any single study, and hopes that each will contribute to the debate.
2. As of early October 1993, when this report was being written, the Clinton health reform plan had not been officially released. The basis of this analysis is a "leaked" but widely circulated description of the plan, dated September 7, 1993.
3. Since this analysis was completed, the Administration has announced changes in the health care plan. See "Estimating Health Care Costs in the Manufacturing Sector" in the Appendix for a discussion of the effects of these changes.
4. See "The Impact of a Health Insurance Mandate on Labor Costs and Employment," by June E. O'Neill and Dave M. O'Neill of the Employment Policies Institute, Washington, DC, September 1993, and "The Employment Impact of Proposed Health Care Reform on Small Business," prepared by the CONSAD Research Corporation for the National Federation of Independent Business, Washington, DC, May 1993.
5. Kathleen Day, "The Reformer Meets the Restaurateurs," *The Washington Post*, September 14, 1993, and Sylvia Nasar, "Health Care Quandary: Will Coverage Cut Jobs?" *The New York Times*, August 30, 1993.
6. The Clinton plan would provide approximately \$421 billion in subsidies over five years to small firms for the purpose of offsetting their expenditures for health insurance premiums. This would greatly reduce their premium costs and eliminate much of the employment effects of the mandates. See Dana Priest, "Health Subsidy Estimate Rises by \$16 Billion," *The Washington Post*, October 5, 1993.
7. The Employment Policies Institute study uses an elasticity of -0.3 in calculating the sensitivity of labor demand to changes in labor costs. This implies that a 1 percent increase (decrease) in labor costs leads to a 0.3 percent decrease (increase) in labor demand. This degree of sensitivity would imply that the 20 percent rise in the real value of the minimum wage between 1989 and 1990 would have led to a 6 percent drop in employment for minimum wage workers. In fact, a variety of studies by the nation's leading labor economists found no evidence of any decline in employment (Katz and Krueger 1991; Card 1992; Spriggs forthcoming).
8. In all of these scenarios we count only the direct impact of increased spending on net exports or investment. We do not include any responding or multiplier effects from the higher wages, etc., under the assumption that this spending is largely displacing other spending that, in the absence of the redistribution of costs, would have been done by firms or workers in the service sector. Insofar as this is not the case, we have understated the positive impact of the redistribution of health care costs.

9. A key assumption we made in modeling the Clinton plan is that it is possible for the economy to be below full employment and to have unused resources. Economists often use general equilibrium models, which assume full employment, to assess the impact of policies. In these models, changes only come about through the reallocation of resources from less to more productive uses, or vice versa. There can be no overall gains to the economy as a whole except for the increased efficiency associated with such reallocations. We did not take this route in modeling the Clinton health care package, because we do not believe it presents an accurate description of the economy. By almost any standard measure, such as unemployment rates or capacity utilization, the economy is nearly always operating below its potential. This means that the impact of a policy in dampening or stimulating demand for unused resources is likely to be far more significant than its impact in reallocating resources between more and less productive sectors.

10. The latest details on this issue from the Clinton Administration indicate that for the first three years of the plan firms may be assessed a fee equal to one-half of their savings on early retirees' health costs (*Wall Street Journal*, October 14, 1993). Such fees are not included in this analysis.

11. Health Insurance Coverage from Own Employer, 1991

<u>Industry</u>	<u>% Insured</u>
Wholesale Trade	66
Retail Trade	35
Business and Repair Services	44
Personal Services	26
Entertainment and Recreational Services	33
Professional Services	56
Finance, Insurance, and Real Estate	67

Source: Employee Benefit Research Institute, 1993.

12. It is possible that the negative impact of increased costs in the service sector is larger than the positive impact of lower costs in the manufacturing sector. This would require a greater elasticity of demand for labor in the service sector than in manufacturing. There is no evidence that this is the case. Furthermore, since most estimates of the elasticity of demand for labor are very low in any case, it is very unlikely that any difference between sectors could have much of an impact on our calculations.

13. Personal communication. Health Care Task Force,

14. Priest, Dana. "Health Subsidy Estimate Rises by \$16 Billion." *The Washington Post*, October 5, 1993.