

Has Obamacare Been Good for the Economy?

The Claim:

“Our businesses have created jobs every single month since [the Affordable Care Act] became law.”¹

BARACK OBAMA

The Reality:

As ACA provisions have taken effect, GDP and employment growth have slowed sharply.

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Reality Check

President Obama and his advisers defend the Affordable Care Act's economic effects by pointing to continued economic growth since its passage and implementation.² Their conclusions are unjustified because not enough data have yet become available and because the data that we do have are already showing the law's negative effects. As the ACA's most damaging provisions took effect in 2014 and 2015, the economy's trajectory has worsened significantly—exactly in the ways predicted by the law's detractors.

Key Findings

- The most damaging provisions of the ACA have taken effect gradually; so, too, has been the law's effect on economic growth.
 - ◆ Health-insurance subsidies began in 2014.
 - ◆ The employer penalty was partially implemented in 2015, and fully implemented this year. The penalty grows each year.
 - ◆ The full individual mandate did not go into effect until 2016.
 - ◆ The “Cadillac” health-insurance excise tax has been delayed until 2020.
- Based solely on recent economic growth, the ACA has subtracted \$250 billion from GDP. At that pace, the cumulative loss by the end of the decade will exceed \$1.2 trillion.
 - ◆ Annual GDP growth per person has historically averaged 1.9 percent, and even more during recoveries; Federal Reserve projections for 2014–15 were also about 2 percent.³
 - ◆ Actual GDP at the end of 2015 had grown only 1.4 percent per year over what it was in 2012–13, suggesting that the ACA reduced GDP by about \$85 billion in 2014 and \$170 billion in 2015.⁴
- Lost growth in work hours per person has removed the equivalent of 800,000 full-time jobs from the economy.
 - ◆ The termination of the extra federal unemployment assistance program is the only effective “stimulus” that has occurred during the Obama years, and it had nothing to do with the ACA. When the program finally ended in December 2013, jobs per person finally began to recover, growing by 2 percent in 2014.⁵
 - ◆ But that growth pace slowed immediately in 2015, when the federal government began penalizing employers that did not include health insurance as part of what they paid employees. In the 14 months after that, jobs per person have grown at only 0.5 percent per year.
 - ◆ If, instead, jobs had been able to grow at even half the 2014 pace, there would have been 800,000 more full-time-equivalent positions by now.⁶

How the ACA Affects the Economy

We do not have to rely exclusively on just a few years of data to understand the effects that the health reform will have. We can also look at the size of the taxes and disincentives in the ACA, and their timing, and benchmark their likely effects against a long history of taxes and disincentives.

Incentives are affected by the ACA's insurance-premium tax credits, cost-sharing assistance, employer mandates, Medicaid expansions (in the 32 states that did expand their program under the ACA), insurer risk-mitigation provisions, new Medicare taxes, the excise tax on "Cadillac" health-insurance plans, the medical-device tax, and by helping to reduce uncompensated care. The new incentives operate on a variety of margins; but for the purposes of understanding jobs and productivity, two important margins are employment and incomes. That is, the various provisions change the reward to creating and keeping jobs, and change the reward to efforts for obtaining greater incomes.

In some cases, as with the Medicaid expansions from the perspectives of low-skill workers, the incentives are in the direction of working more and working more productively (perhaps by encouraging industries and occupations where health insurance was traditionally not provided). But for each incentive, there are a number of other disincentives.

The major disincentives are:

- ◆ The employer penalty, which has been in effect only since last year, is as costly as a \$275 monthly salary for each full-time employee at a large business that does not offer ACA-approved health insurance.⁷ This is a \$275-per-month disincentive for having full-time employees on the payroll.
- ◆ Small businesses are discouraged from becoming large businesses. By hiring one more full-time employee, a business at the threshold between small and large (about 50 employees) would, in addition to that employee's salary and benefits, add \$5,500 to its monthly penalty expenses.⁸ This extra expense, in many cases, will exceed the salary itself.
- ◆ Most full-time employees and their families are, by virtue of their employment status, prohibited from receiving the new subsidies. This is a major new disincentive for working full-time, and it will grow over time as households and employers become familiar with ACA health plans and how to use them to their advantage.

We should expect these changed incentives to manifest themselves with respect to both overall economic growth and hours worked.

Quantifying the Impact on Economic Growth

Since 2012–13, economic growth has missed its historical average by approximately 0.6 percent per year, reducing GDP by \$170 billion in 2015 and suggesting that the annual loss could top \$300 billion by the end of the decade.

While analysts might attribute slower growth to any number of causes, it is consistent with the historical experience of dozens of incentive changes, including changes to the Earned Income Tax Credit, personal income-tax brackets, public pension rules,⁹ unemployment benefit rules,¹⁰ and regulations regarding the length of the workweek (primarily in Europe).¹¹ Studies of incentive changes typically show that, although a great many people do not change their work habits for any one tax change, the substitution effect of a work disincentive is, on average, in the direction of working less or ceasing to work.

The incentive changes embedded in the ACA, based on past incentive changes, are expected to ultimately reduce employment by 3 percent and GDP by 2 percent. That would be about 4 million jobs and more than \$300 billion per year.¹²

Quantifying the Impact on Hours Worked

It is critical to understand how the ACA would affect work schedules and the number of part-time workers because there are two rescheduling methods that would allow a job that normally is 30+ hours per week to avoid the employer penalty and other full-time work disincentives. One is to reduce the weekly schedule to under 30 hours—the now-infamous "twenty-niner" schedule—and perhaps have additional employees make up for some of the lost work. The second method is to have fewer employees and have them work longer schedules to make up for some of the work lost. Because market participants have an incentive to economize on the costs of avoiding the penalty, jobs that are normally more than, but close to, 29 hours per week will tend to adopt the former method whereas jobs that normally have a long workweek will tend to adopt the latter.¹³

As a result, when we measure part-time employment from the usual data sources that count any schedule less than 35 hours as part-time, the effect should be close to zero. What the law should do is to reduce the hours worked among part-time employees, such as reducing a 32-hour schedule to a 28-hour one. The usual data sources would *not* show such a change as a shift from full-time to part-time, and we do not yet have enough data to conduct an accurate study of gradations of part-time work.

Schools and food-service businesses are disproportionately reporting that the ACA induces them to limit employee work schedules to 28 or 29 hours. *Restaurant News* reported that David Barr, an owner of 22 Kentucky Fried Chicken locations, is "looking at employees who work between 30–33 hours per

On the Record

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week and will likely be reducing their hours to below the 30-hour threshold” but that he would not cut back the hours of those employees working closer to 40 hours per week.¹⁴ Sweetwater County School District #1 in Wyoming said in a press release that staff members with 30–34-hour schedules would be cut to 29 hours and that, in some of those cases, new opportunities would be available for more weeks of work per year.¹⁵ Hundreds of other examples have been compiled by Jed Graham of *Investor’s Business Daily*.¹⁶

Because there is more than one adjustment strategy, it is easier to predict the number of full-time-equivalent jobs than the number of jobs per se. As noted above, the history of taxes and disincentives suggests that there will ultimately be 3 percent fewer full-time-equivalent jobs as a consequence of the ACA.

The jobs-per-person metric is calculated by dividing total hours worked in the economy each week by 40, to create a number of full-time equivalent jobs, and dividing that figure by the number of Americans over the age of 16. Because the ratio is equivalent to calculating the total number of jobs but giving long-hours jobs more weight than short-hours jobs, it best accounts for the ACA’s expected effects of pushing down the hours for already-part-time employees and replacing multiple part-time employees with one employee working more hours, presenting a clear picture of whether the total amount of work is keeping pace with population growth.

What About Massachusetts?

The Obama administration and other advocates of the ACA have insisted that the federal law’s negative impacts (that is, in the direction of a smaller economy) will be hardly visible, based on the experience in Massachusetts. The Bay State’s 2006 health law, aka Romneycare, specified that state residents must have health insurance, or potentially face a monetary penalty; it created a couple of health plans with means-tested subsidized premiums; and it penalized those employers that did not provide health insurance for enough of their employees. Because the Massachusetts labor market did not noticeably contract relative to the rest of the nation after Romneycare went into effect,¹⁷ the U.S. Department of Health and Human Services stated: “The experience in Massachusetts . . . suggest[s] that the health care law will improve the affordability and accessibility of health care without significantly affecting the labor market.”¹⁸ An Urban Institute study said that “the evidence from Massachusetts would suggest that national health reform does not imply job loss and stymied economic growth.”¹⁹

These assertions assume that the Massachusetts reform increased tax rates on employment and incomes in the state by roughly the same magnitude that the ACA is increasing them across the country. The assumption is incorrect, as shown by application of the same incentive-measurement methodology to both health reforms. Not surprisingly, Massachusetts reduced incentives to work as it attempted to target assistance to

low-income families. However, the state-average disincentive added by the Massachusetts law was about 11 times less than it will be nationwide with the ACA.²⁰ For example, Romneycare charged an employer penalty of less than \$25 per month per full-time-equivalent employee, and, unlike the ACA’s penalty, this payment was deductible for the purpose of determining the employer’s income tax.

The obvious conclusion from these data is to expect the ACA to depress labor markets substantially more than did the Massachusetts health law. If Romneycare had depressed the Massachusetts labor market by 0.2 percent or 0.3 percent, that would simultaneously be difficult for econometricians to detect in the Massachusetts data and would be right in line with my estimates of the nationwide labor-market consequences of the ACA.

Endnotes

- ¹ See <https://www.whitehouse.gov/the-press-office/2016/01/12/remarks-president-barack-obama-%E2%80%93-prepared-delivery-state-union-address>.
- ² See <http://www.bloomberg.com/news/articles/2015-04-02/obamacare-aids-economy-white-house-says-without-much-evidence>.
- ³ Historical average per-capita GDP growth is for the 60 years prior to 2012, as measured by St. Louis Federal Reserve Economic Data (FRED) series A939RX0Q048SBEA. The Federal Reserve projection is from <http://www.federalreserve.gov/monetarypolicy/fomcprojtabl20140319.htm>, subtracting 1 percent for population growth.
- ⁴ Real GDP per capita is from FRED series A939RX0Q048SBEA.
- ⁵ Jobs per person are weighted by the number of weekly hours for the job (e.g., full-time jobs count more than part-time jobs). The St. Louis Federal Reserve series AWHAETP (Average Weekly Hours of All Employees: Total Private), CNP16OV (Civilian Noninstitutional Population), PAYEMS (All Employees: Total Nonfarm Payrolls), LNS12027714 (Employment Level: All Industries Self-Employed, Unincorporated), LNS12032184 (Employment Level: Agriculture and Related Industries, Wage and Salary Workers), as indicated in Casey Mulligan, *Side Effects and Complications: The Economic Consequences of Health-Care Reform* (University of Chicago Press, 2015).
- ⁶ Through March 2016.
- ⁷ The penalty for 2014 was \$2,000 per year, which is \$167 per month. The Health and Human Services secretary has adjusted the penalty to \$181 per month. Because the penalty is not deductible for the purposes of determining an employer's income taxes (but salaries are), the salary equivalent for an employer liable for payroll tax and liable for business income tax at a 39 percent marginal rate (federal and state combined) is \$275 per month.
- ⁸ The 50th full-time employee triggers a penalty for employees 31–49 as well. The monthly salary equivalent of 20 penalties is about \$5,500.
- ⁹ Raj Chetty et al., "Does Indivisible Labor Explain the Difference Between Micro and Macro Elasticities? A Meta-Analysis of Extensive Margin Elasticities," NBER Working Paper 16729 (2011).
- ¹⁰ Casey Mulligan, *The Redistribution Recession* (Oxford University Press, 2012), redistributionrecession.com, appendix 4.2.
- ¹¹ Robert A. Hart, *Working Time and Employment* (Allen & Unwin, 1987).
- ¹² Mulligan, *Side Effects and Complications*.
- ¹³ See also n. 5.
- ¹⁴ Erin Dostal, "Restaurants to Mitigate Health Care Costs by Cutting Hours," *Restaurant News*, October 18, 2012. <http://nrr.com/latest-headlines/restaurants-mitigate-health-care-costs-cutting-hours#ixzz2CCIVEKK3>.
- ¹⁵ Sweetwater Now News Desk, "Sweetwater County School District #1 Extends Work Year to Reduce Impact of Affordable Care Act on Employees," May 16, 2014, <http://www.sweetwaternow.com/sweetwater-county-school-district-1-extends-work-year-reduce-impact-affordable-care-act-employees>.
- ¹⁶ Jed Graham, "ObamaCare Employer Mandate: A List of Cuts to Work Hours, Jobs," *Investor's Business Daily*, September 5, 2014, <http://news.investors.com/politics-obamacare/020314-669013-obamacare-employer-mandate-a-list-of-cuts-to-work-hours-jobs.htm>.
- ¹⁷ Lisa Dubay, Sharon K. Long, and Emily Lawton, "Will Health Reform Lead to Job Loss? Evidence from Massachusetts Says No," Urban Institute, June 2012, <http://www.urban.org/sites/default/files/alfresco/publication-pdfs/412583-Will-Health-Reform-Lead-to-Job-Loss-Evidence-from-Massachusetts-Says-No-.PDF>.
- ¹⁸ Steve Contorno, "Localities Split on Providing Health Benefits for Part-Time Workers," *Washington Examiner*, February 14, 2013, <http://washingtonexaminer.com/localities-split-on-providing-health-benefits-for-part-time-workers/article/2521655>.
- ¹⁹ Dubay et al., "Will Health Reform Lead to Job Loss?"
- ²⁰ Mulligan, *Side Effects and Complications*.