By Rik W. Hafer

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The time for enrolling in health exchanges is now upon us. Recent polls show that the majority of Americans continue to disapprove of the health care law — the Affordable Care Act, commonly referred to as Obamacare — enacted in 2010. But how many of us really understand what we can expect and what we will pay for this “affordable” health program? The simple fact is that most of us are just plain bewildered, not knowing how the controversial law will affect us.

A September 2013 USA Today/Pew survey provides some evidence on this. Of those surveyed, only one-quarter believed that they had a very good understanding of what the law’s impact would be on them and their family. When asked what the impact of the law would be on them in the future, over 40 percent thought it would have a mostly negative effect. Only one-in four thought it would have a positive effect.

How the law affects us is becoming clearer, sort of. The Kaiser Health News reported that Obamacare affects treatment choice for many patients in eastern
Missouri. This is because policies offered by Anthem BlueCross BlueShield, made available through Missouri’s online insurance marketplace, would not include Barnes-Jewish Hospital, or St. Louis Children’s Hospital. As reported in this newspaper, subsequent reporting revealed that BJC Healthcare will be part of another insurer, Conventry. Even with that mystery solved, just which services will or will not be covered under the new plan remains uncertain.

There also are broader negative economic affects that will arise from implementing the new law. What are the tax consequences that the average individual will face? How will these tax changes affect decisions to work?

Answering such questions is the purpose of a recent study by University of Chicago economist Casey Mulligan. (Read Mulligan’s New York Times article, “Health care inflation and the arithmetic of labor taxes ”) The basis for his research is the observed fact that policies that raise taxes on your income reduce your incentive to work more. You may need to work to pay the bills, but your incentive to work a second job or someone in your household to take on a part-time work is reduced at a higher tax rate. The after-tax income may simply not be enough to induce you to work.

Mulligan’s study finds that implementing Obamacare will create significant implicit and explicit tax increases that negatively affect the decision to work for many individuals. One avenue for these higher taxes is through employer tax penalties. It also comes through higher taxes on individuals. Mulligan estimates that, on net, “all provisions combined raise marginal tax rates in 2015 by 10 percentage points of total compensation” for about half of the nonelderly adult population.

In other words, under Obamacare a large portion of the working population will experience a significant increase in their effective tax rate. And this increase comes on top of existing tax rates. The disincentive to work is larger under Obamacare than currently exists.

Mulligan’s analysis explores the labor market effects of Obamacare by considering the new, higher implicit tax on full-time work. That is, many individuals currently working full time would find it economically advantageous to shift to part-time, given the provisions of the law. “Some middle-class workers,” Mulligan writes, “will find that they can work substantially less [fewer hours] without losing any disposable income.” That is not a recipe for improving prospects for greater economic growth.

Obamacare will disrupt markets for medical care, forcing individuals to choose hospitals and doctors that they would not have chosen otherwise. Obamacare also will create substantial negative incentives for many individuals to work.
As an increased proportion of the population moves into retirement, this puts increased pressure on government social programs such as Social Security, Medicare, and now health care.

The tax increases under Obamacare will reduce the labor force as people opt out of working by retiring or they chose to work fewer hours. Either way, the growth of output slows and with it income.

Since income funds Social Security and Medicare and now Obamacare, to fund these programs at existing levels -- and with even more individuals enrolled in retirement programs -- it puts strains on those still working, which is a shrinking proportion of the population.

Unless you cut back on existing programs (coverage, services, etc.) and/or raise taxes on those employed, there simply is not enough inflow of funds in out years to pay for all of these programs at current levels of coverage.

The disincentives created by the Affordable Care Act decrease the likelihood that the economic growth will rebound any time soon.

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