

# National Health Insurance

What Now, What Later, What Never?

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## COMMENTARIES

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Phelps's assessment of the impact of mandated employee health insurance benefits is a careful analysis. He uses a large set of data on past employer health insurance costs to estimate the likely increase in costs due to national health insurance. The cost projections entail a variety of assumptions that appear reasonable and are also delineated clearly so that the underpinnings of the analysis can be scrutinized. The sensitivity of the findings to the most crucial assumption—the extensiveness of the national health insurance plan—is also addressed through consideration of low, high, and intermediate plans. Since the analysis throughout the paper is of consistently high quality, the emphasis of the discussion below will be on the relationship of these findings to several broader issues raised by mandated compensation.

The first issue pertains to the nature of the financing of national health insurance. In particular, why is the program to be funded by the equivalent of a payroll tax rather than an income tax? The structure of the financing closely resembles that of the social security payroll tax with deductions from worker earnings and a division of the tax between the employer and employee. The principal difference of mandated compensation is that the tax would probably be a fixed amount per worker rather than an increasing function of one's earnings.

The parallels with the social security payroll tax not only reflect the political advantage of having an off-budget expenditure, but also may be an attempt to replicate the success of social security. That program is the most successful remnant of the New Deal, in part because there is widespread perception that beneficiaries have an earned right to benefits. Although the link between contributions and benefits under social security is not as strong as it should be to preserve work incentives fully, there is a substantial relationship between the two. Unless national health insurance taxes and benefits are also linked, it is doubtful that the program image will be enhanced. The widespread awareness by female spouses of the lack of a link between their social security taxes and benefits suggests that taxpayers have a sufficient understanding of program incentive structures to distinguish policies that reward one on the basis of one's financial contributions from those that do not.

A second concern pertains to the effect of mandated compensation on employment. One side effect of the tax is that wages will rise. Consider the following simplified example. Suppose initially that only workers at Firm X receive health insurance, but after national health insurance all individuals in society will receive these benefits. Coverage of all individuals diminishes the relative attractiveness of jobs at Firm X since they are no longer receiving additional health coverage not re-

ceived by others. As a consequence, the wage must rise to attract these workers in the future.

Viewed somewhat more generally, there will be a long-run negative effect of mandated benefits on labor force participation rates (that is, the employed and the searching unemployed). An increase in the costs of hiring workers will not only have short-run unemployment effects but will also diminish the size of the labor force.

The employment effects of the tax do not hinge on the division of the employer and employee shares. If one ignores the differential tax status of the payments, there will be no difference in the impact of the tax whether it is labeled an employer contribution or a tax to be borne by workers. In competitive contexts, the effects will be identical. This argument does not involve any complicated analysis of short-run or long-run tax incidence, but rather stems from the irrelevance of labels in assessing the economic consequences of a financing system. The wage plus nonwage costs imposed by workers will be identical regardless of the formal division of the burden, if markets function in the conventional fashion.

In assessing the incentive effects of the policy, one must know not only the tax rate but also the link between the taxes and the benefits. To the extent that the mandated-compensation approach permits a linkage between taxes and benefits, there will be greater preservation of work incentives than if there were no such relationship. Tax payments are expected to be in terms of a levy per worker rather than in terms of a percentage of one's earned income throughout a broad range, as in a standard payroll tax. The primary effect of preserving a link between taxes and benefits will not relate to the worker's hours-of-work decision (although employer attitudes toward overtime will be altered), but will pertain instead to the discrete choices of whether or not to work, which enterprise to select, and which occupation to pursue.

The mandated-compensation concept also offers an additional advantage in terms of increasing the diversity in health insurance coverage. Plans with different degrees of coverage can better match individual needs, such as different levels of health insurance demand for different income groups. Unless the array of plans offered becomes too broad, it is doubtful that any major economies of scale will be forgone. Moreover, a diverse approach offers potentially large gains in terms of creating an environment that will encourage innovative responses to health care needs, such as new institutional responses and various kinds of health maintenance organizations. The motivation for permitting additional coverage of individuals above some minimal insurance level can be traced to several economic advantages of this approach and need not be attributed to the tax breaks that can be

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potentially reaped by arranging the compensation package in this fashion.

It should be emphasized that even Phelps's dramatic estimates of the impacts of national health insurance are likely to be quite conservative. A critical input to ascertaining the increase in employer costs is the likely cost to be imposed by national health insurance—a figure that was not calculated by Phelps. If there is any lesson from the Medicare experience, it is that the imposition of increased demands on the health care system will boost prices and diminish quality.

What we can reasonably expect is that national health insurance will be costly and will have a profound effect on the medical care system. The principal missing input is some assessment of the likely benefits of this effect. More specifically, what effect will national health insurance have on medical care received and, more importantly, on the health status of the beneficiaries? How would health insurance coverage of different groups in the economy differ, and what would be the change in the level of coverage and morbidity and mortality distributions? In view of the substantial costs of this policy, it seems ill-advised to make a major commitment of resources to this area without ascertaining the answers to such fundamental questions.