Healthcare Reform and Wages

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Healthcare reform must lead to slower growth of healthcare costs, or wages could stagnate or decline for decades - especially for low-income workers. This comes from a must-read **paper** by Steven Nyce and Sylvester Schieber of Watson Wyatt. (**Summary here.**) Schieber is chairman of the **Social Security Advisory Board**. The authors divide the workforce into 10 income ranges and estimate the wages of each through 2030 under the following baseline scenario [B] and 5 alternatives:

[B] Some employees uninsured. Employer health benefit costs grow more slowly. RESULT: Healthy wage growth for all income ranges, but slower in the middle-income range.
[1] All employees insured. Employer health benefit costs grow more slowly. RESULT: High-earners do fine. The bottom 20% see wage declines through 2015 and moderate increases through 2030.
[2] All employees have insurance. Employer health benefit costs grow at present rate. RESULT: Wage growth is lower for everyone. The bottom 20% see their wages decline at least through 2030.
[3] All employees insured. Employer health benefit costs grow more rapidly. This wider coverage/higher-cost scenario resembles what happened after Medicare was implemented in 1965. RESULT: 90% of see their wages decline through 2030. The lowest income range's wage is devastated.
[4] All employees insured. Employer health benefit costs grow more rapidly. Entitlements reformed, taxes added. RESULT: Wages decline for the bottom 40% and rise slowly for others through 2030.
[5] Some employees uninsured. Employer health benefit costs grow more rapidly. RESULT: Lethargic wage growth through 2030.

Nyce and Schieber say: "[U]nless we can reel in health costs, the outlook for increasing returns on labor and higher productivity is bleak." They see solutions in reducing the practice variation seen in the **Dartmouth Atlas** data and explored in Atul Gawande's New Yorker **article**. Like Gawande, they suggest lower costs may come from coordinated care providers like **Mayo**, **Geisinger**, and **Intermountain**. The history of these and other successes provide clear messages: Innovation emerges unpredictably in unlikely places. It often arises from small businesses. Inside-the-Beltway micromanagement doesn't create them. Innovators can be not-for-profits or for-profits. What works one place may not elsewhere. In ***The New York Times***, Gawande and three other authors describe 10 regions that have scored considerable success in controlling costs while maintaining quality. A recent book, " **The Innovator's Prescription: A Disruptive Solution for Health Care**," explores the importance of innovation.

Mayo went from frontier clinic to world-class system. No one in DC decided that this would happen in Rochester, MN, or told the Mayos how to do it. Mayo has successfully branched into Arizona and Florida, defying a frustrating rule -- in a country as large and varied as the U.S., success is often difficult to transplant to other localities. Healthcare reform can't succeed if it stifles diversity and the spirit of enterprise. Bottom line: Nyce and Schieber say our wallets depend on innovation. I'll add, so do our lives.