Killer Tax on Low-Income Workers? No! (10/7/09)

Dr. Bob Graboyes, Senior Fellow for Health and Economics
NFIB Research Foundation | 1201 F Street NW, Suite 200 |Washington, DC 20004
202.314.2063 | bob.graboyes@nfib.org | www.NFIB.com/DrBob

Washington Post: *Should health-care reform include an employer mandate?*

The Finance Committee was right to keep an employer mandate out of health reform. It's a bad idea in good times. It is a *really* bad idea during a deep recession and has no place in health-care reform.

An employer mandate (or equivalent payroll tax or play-or-pay) is inefficient for several reasons: It doesn't reduce health-care costs and, instead, substitutes a hefty and direct penalty on the very people struggling to pay for insurance. It does nothing for the unemployed, self-employed or early retirees. It harms small and vulnerable firms, ultimately costing the economy jobs and revenue, which is particularly destructive in the current economic environment where hiring is stagnant and unemployment is climbing to nearly 10 percent.

There is consensus among most economists that an employer mandate is ultimately a tax on low-income workers, depressing the wages of some and throwing others out of work. In fact, Obama adviser **Larry Summers** explained how employer mandates cause unemployment among low-wage workers. Employer mandate advocates defend their position as "shared responsibility," an argument eloquently refuted by Obama adviser Ezekiel Emanuel and Victor Fuchs in "**Who Really Pays for Health Care?: The Myth of Shared Responsibility**":

"Employers do not bear the cost of employment-based insurance; workers and households pay for health insurance through lower wages and higher prices. ... Failure to understand that individuals and households actually foot the entire health care bill perpetuates the idea that people can get great health benefits paid for by someone else. It leads to perverse and counterproductive ideas regarding health care reform."

An employer mandate would do its worst to small-business owners and employees. A 2009 **NFIB study** (and **summary**) predicted that an employer mandate could destroy 1.6 million jobs (over five years), around one million of them in small firms. An employer mandate is especially devastating for the newest and most vulnerable businesses. Mandates lay heavy burdens on small firms, increasing their administrative loads and causing additional cash-flow problems, especially during their first five years. A mandate gives employers strong incentives to cut wages, replace full-time employees with machines or exempt part-timers, or to turn to foreign outsourcing.

Forcing small businesses to provide a benefit they and their employees can't afford won't solve the problems of our health-care system.