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Why Obamacare Will Make America Less Productive

By Veronique de Rugy, Senior Research Fellow
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Washington's shutdown is over and the debt ceiling has once again been raised, yet the long-term budgetary and economic outlook is no more certain than it was before Congress struck a deal.

Adding to the uncertainty is the implementation of President Obama's health-care law, also known as Obamacare. Let's look specifically at the potential impact of Obamacare on the supply and demand of labor.

On the demand side, the health-care law requires employers with more than 50 workers to provide health insurance to all full-time employees (it defines a full-time job as 30 hours or more per week) or pay a $2,000 penalty per worker.

In that sense, the law increases the cost of current and future employees. It also gives businesses an incentive to hire more part-time workers to avoid the costs of providing health insurance or paying the penalty for full-time employees.

There is increasing evidence that this is already happening. Employers ranging from companies such as Walmart and Forever 21 to community colleges in Virginia have already started increasing their share of part-time employees rather than full-time ones.

Obamacare's tax increases will have a negative impact on labor's supply side as well. University of Chicago economist Casey Mulligan has done a significant amount of research on this issue. In his August piece in *The New York Times* about health-care inflation and the arithmetic of labor taxes, he wrote: "The Affordable Care Act also creates explicit taxes on employers, subsidies for layoffs, and various implicit taxes on employees with many of the same economic characteristics as taxes on employers."

In addition to the tax, the law also provides more subsidies to low-income families and adds "four significant, permanent, implicit unemployment assistance programs, plus various implicit subsidies for underemployment," according to Mulligan.

In a National Bureau of Economic Research paper published in August, Mulligan calculated the combined effect of higher taxes and more generous subsidies. He found that it will have an important depressing impact on American's incentive to work, and hence, on our labor supply. In other words, Obamacare will contract the labor market.

Mulligan's findings are unfortunately consistent with the work of other economists. Take the work of Nobel laureate Ed Prescott. In his famous 2004 paper "Why do Americans work so much more than Europeans?" Prescott shows that workers spend considerably more hours working when marginal tax rates on their incomes are lower. So basically, over time, people will reduce the number of hours of work, economic growth slows down, and less revenue is collected.

In other words, we can expect tax increases to have an impact on the available labor supply. But Prescott's other big insight is that a generous redistributive system makes it easier to reduce one's

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labor supply. As George Mason University economist Garett Jones explains, "Prescott argues that if you raise taxes for pure redistribution from the 'average person' back to the 'average person,' then the tax hike doesn't make the 'average person' poorer: The government is taking money out of everyone's right pocket and slipping it into their left. But if the income effect is gone, what's left? The disincentive to work: The pure substitution effect."

In a nutshell, higher taxes coupled with more generous benefits equal a strong incentive to work less.

Finally, there is another group of people who may have a strong incentive to work less under the new law. Obamacare requires nearly everyone to buy insurance.

However, someone between 138 and 400 percent of the poverty line is qualified to receive a federal tax subsidy for health insurance bought on a government exchange. People making just above the 400 percent threshold aren't. At this level of income, one isn't that wealthy, yet subsidies aren't available.

Now, considering that premiums are likely to rise for millions of Americans because of requirements that policies provide certain benefits they didn't offer before, plenty of people will now have pricier plans and no way to defray the cost.

In that context, it is not crazy to think that some people will try to reduce their income below the 400 percent level among other ways by working a little less.

In fact, over the weekend, an article in *SFGate* recommended that people in that situation should do exactly that. As the author writes: "You can also consider reducing your 2014 income by working just a bit less."

Obviously, there's no way to know how many Americans will decide to work less, or even how much less, to benefit from the subsidy or as a response to higher taxes.

But we can be sure it won't be zero, and there is a chance it will be many.

Veronique de Rugy is a Senior Research Fellow at the Mercatus Center at George Mason University. Her primary research interests include the U.S. economy, the federal budget, homeland security, taxation, tax competition, and financial privacy. She has testified numerous times in front of Congress on the effects of fiscal stimulus, debt and deficits, and regulation on the economy.

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Why the Democrat Party Can't Embrace Public-Sector Union Reform

By Ed Ring

Executive Director, the California Public Policy Center

> *"Public employees have a private interest in taking more and more of the taxpayer-generated revenue for themselves. In other words, public employees have a private interest in diverting public funds from public services to their wages and pensions. In this sense, the increasing numbers of public employees and their increasing wages and benefits threaten to hollow out public services in our country."*
>
> *- Roger Berkowitz, Executive Director, Hannah Arendt Center*

The above quote explains quite well the intrinsic conflict of interest that accrues to public-sector unions. This conflict of interest is the primary distinction between public-sector unions and private-sector unions. It is the reason that private-sector unions can muster strong arguments for their continued relevance in society, whereas the very legitimacy of public-sector unions is questionable.

And lest anyone suggest that calls for reform – if not abolition – of public-sector unions emanates solely from the "extreme right wing," consider the provenance of the above quote, and go away. The highly regarded, intellectually elite Hannah Arendt Center boasts perhaps the most impeccable nonpartisan, anti-ideological credentials of any comparable institution in the world.

The reason Democrats don't support public-sector union reform is quite obvious. There is no special interest in America that donates more money to the Democrat Party than public-sector unions.

If you go to OpenSecrets.org, you will see that the vast majority of the $535 million contributed to Democrats between 2000 and 2010 came from public-sector unions, whose membership now exceeds that of private-sector unions. In California, where public-sector union spending on state and local campaigns and lobbying exceeds $500 million per two-year cycle, the same percentages apply.

Democrats are reluctant to recognize the conflict of interest that makes the very existence of public-sector unions a threat to our democracy, our economy, and our civil rights, because the Democrat Party is financially dependent on public-sector unions.

It is significant that corporate campaign contributions are nearly balanced between Democrats and Republicans. If union spending provided a counterweight to corporate spending, as they claim, then one could make a case against reform.

But "union spending" is predominantly "public-sector-union spending," and their primary agenda has nothing to do with protecting the rights of private-sector workers. Their agenda has to do with exempting public-sector workers from the economic challenges facing ordinary American workers, who have to compete – along with corporations – in the global economy. And corporations, facing a monolithic, self-interested, unionized government, play ball. Crony capitalists and the trading departments of Wall Street brokerages – i.e., the most parasitic sectors of the free-market economy – profit from unionized government.

Breaking the power of public-sector unions, if not eliminating them altogether, is a prerequisite, ironically, to reforming the financial sector and restoring a competitive corporate environment. It is also a prerequisite to reforming taxpayer-funded, government-administered benefits and entitlements (such as public-sector pensions) so that all American workers earn them according to the same set of formulas and incentives – regardless of whether or not they work for the government or in the private sector.

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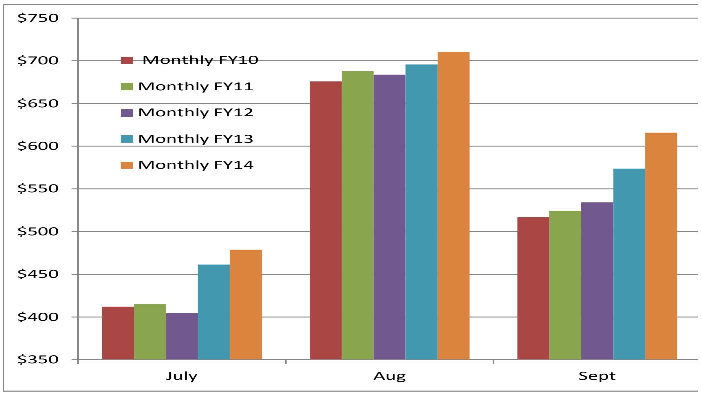
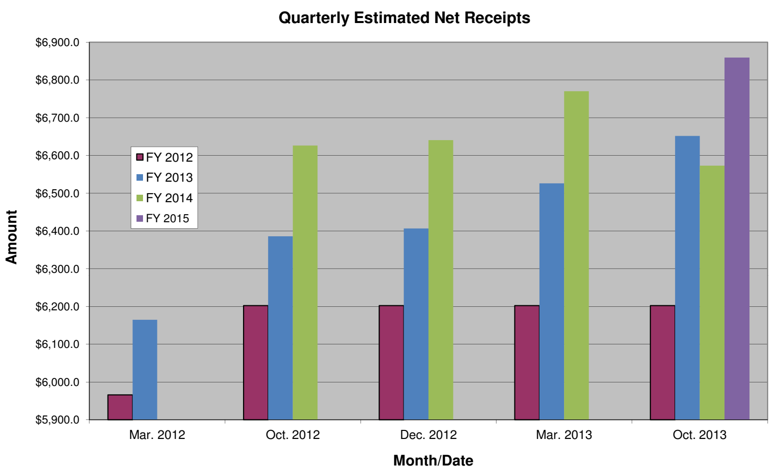
Iowa's Monthly State Revenue and Estimated Net Yearly Revenue (in millions)



Monthly State Revenue:

Monthly tax collections for FY14, which started July 1, continue to be higher than previous years. September alone was almost $100 million more than September of FY10. There is a budget surplus. All rainy day accounts are fully funded. We continue to ask, "Why is it necessary to take so much money from Iowa workers and families?"

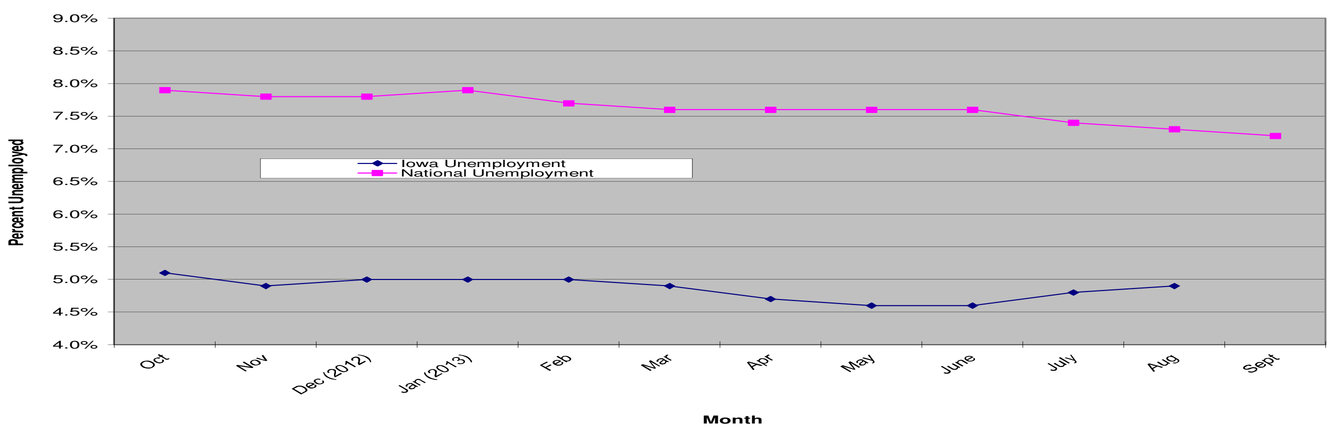


Estimated Net Yearly Revenue:

The Revenue Estimating Conference met in early October, adding FY15 to their predictions, which continue a steep upward trend. FY14 projections reflect the impact of recent legislative actions. The prediction for FY15 is tax collections of $6.8 billion, a record high, and $1.4 billion above FY10 tax collections.

Source: Legislative Services Agency, "Monthly General Fund Revenue Memo," and Revenue Estimating Conference Report

U.S. and Iowa's Unemployment, October 2012 - Present



The September unemployment rate (7.2 percent) remained stagnant, with lower than expected hiring and even more people dropping out of the job market. State unemployment numbers will not be available until November. Unemployment among young people and minorities remains high, with under-employment still a concern. Iowa's unemployment rate in August remained at 4.9 percent, with almost 81,000 unemployed.

Source: Iowa Workforce Development, Labor Market Information Bureau, "Monthly Unemployment Rate News"

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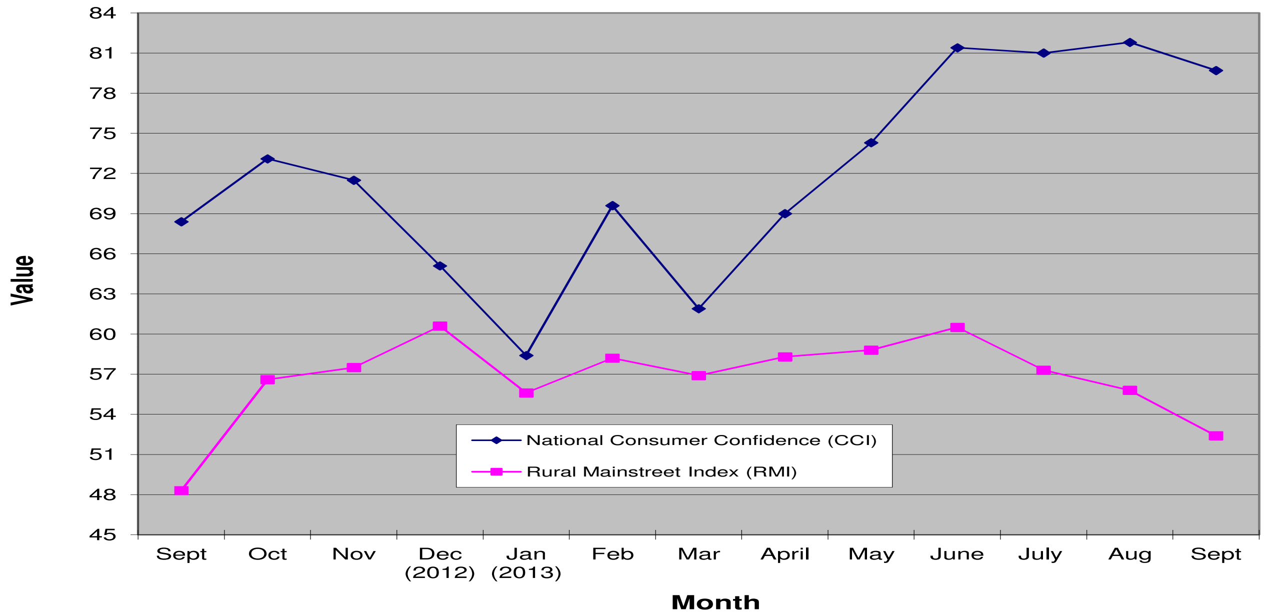
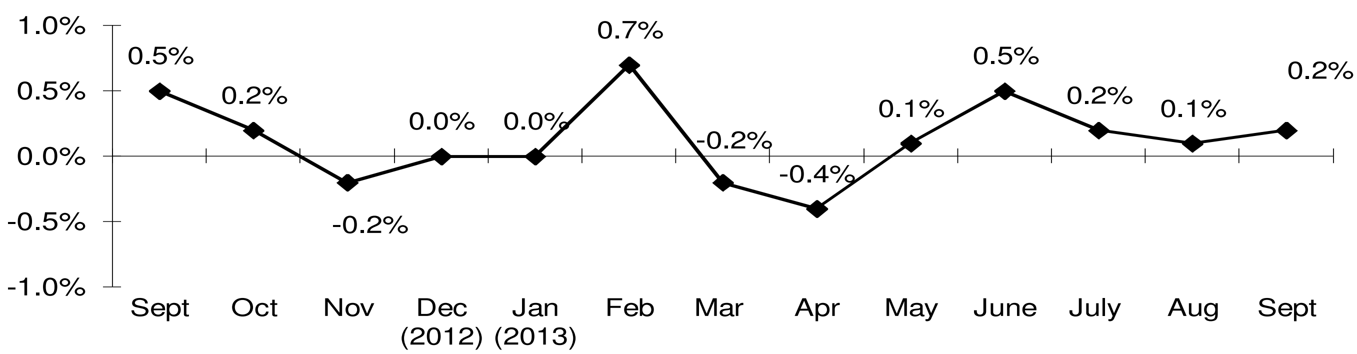
Consumer Confidence Index



The national Consumer Confidence Index (CCI) increased in June and remained higher until September, when it dipped slightly. In contrast, consumer confidence among Iowans continues downward. "Concerns about the short-term outlook for both jobs and earnings resurfaced, expectations for future business conditions were little changed. Consumers are uncertain that the momentum can be sustained in the months ahead," according to the Conference Board.

Source: Conference Board, "Consumer Confidence Survey," and Creighton University

Consumer Price Index, Monthly Change



According to the U.S. Bureau of Labor Statistics, "The energy index rose 0.8 percent in September and accounted for about half of the all items increase. All the major energy component indexes rose in September. The food index was unchanged, with declines in the indexes for fruits and vegetables and for non-alcoholic beverages offsetting increases in other indexes."

Source: U.S. Department of Labor, Bureau of Labor Statistics

Millennials Still Lag in Forming Their Own Households

By Richard Fry
The Pew Research Center

Though the nation is officially four years into economic recovery, a new Pew Research Center analysis of recently released Census data suggests that most Millennials (adults ages 18 to 32) are still not setting out on their own.

As of March 2013, only about one in three Millennials (34 percent) headed up their own household. This rate is unchanged from March 2012 and even lower than the level observed in the depths of the Great Recession (in 2009, 35 percent of 18- to 32-year-olds headed their own households). The absence of any increase in household formation among Millennials is significant because it contributes to lackluster apartment and housing demand as well as the demand for household furnishings that goes along with independent living.

What are Millennials doing if they're not setting up their own households?

In 2013, 34 percent of Millennials lived in their parents' home, a decline from the 35 percent of 18- to 32-year-olds living at home in 2012. This marginal decline is largely a result of the way the Census data source handles young college students. In the Current Population Survey, unmarried 18- to 24-year-olds living in college dormitories are categorized as if they reside in their parent's home. As the Census Bureau reported, college enrollment among 18- to 24-year-olds has declined from its peak in 2011, resulting in fewer Millennials living in college dormitories and being counted as living at home.

When we look at older Millennials – those ages 25 to 32 – we also see little change in the share who are living at home. In 2013, 15 percent of Millennials in this older age segment were living in their parents' home, the same rate as in 2012.

And among 18- to 24-year-olds not enrolled in college, 50 percent lived with their mom and/or dad in 2013. Again, this is unchanged from the 50 percent observed in 2012.

One of the contributing factors influencing household formation among young adults is the vigor of the job market. Millennials with jobs are substantially more likely to establish independent households than Millennials lacking jobs.

In 2013, 40 percent of employed Millennials were the head of their own households, in comparison to 25 percent of Millennials who were not employed. Although job-holding among young adults increased from 2012 (64 percent) to 2013 (65 percent), it remains below 2009 levels (66 percent) and far below pre-recession levels. In 2007, before the recession began, 71 percent of 18- to 32-year-olds were employed.

For more analysis see the Pew Research Center August 2013 report, "A Rising Share of Young Adults Live in Their Parents' Home." Reprinted with permission of the Pew Research Center, originally published October 18, 2013.

Share of 18- to 32-Year Olds:

Year	Employed	Living at Home
2007	71%	31%
2008	70%	32%
2009	66%	32%
2010	64%	33%
2011	64%	34%
2012	64%	35%
2013	65%	34%

Source: Pew Research Center, March 2013 Current Population Survey (CPS)

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Most of the public-sector union reform strategies that have been attempted – successfully or not – have been oriented towards facilitating “opt-out” behavior for government workers.

Right-to-work laws allow employees of unionized government agencies to refuse to pay union dues. Most states permit employees of unionized government agencies to opt out of paying the political portion of their dues. But these reforms do nothing to stop the overwhelming portion of government-union money flowing to Democrats, a partisan strategy on the part of public-sector union leadership that is entirely unrepresentative of their membership.

Taking this concept to its logical extreme makes the point clear: Using very rough numbers, the party identification among America’s government workers nearly mirrors that of the private sector workers, splitting about one-third each between Democrats, Republicans, and Independents (ref. Gallup 2011).

A spectacularly successful paycheck protection law would, arguably, result in government political contributions diminishing by one-third – possibly more depending on the sentiments of independents. That is, instead of diverting, for example, $100 million dollars from the taxpayer-funded government payroll into the coffers of the Democrat Party, only $66 million would go there. The Republicans would still get nothing, and the corrupt essence of a forcibly politicized government workforce would remain intact.

Other than abolition, speculating over what alternative public-sector-union reform strategy might be more effective than “paycheck protection” is dangerous. It might be possible to force, through litigation, allocation of government-union political contributions to parties according to the party registration of the union memberships. Once per year, unionized government workers would fill out a form where they would disclose, anonymously, their party registration. A third-party agency, perhaps a major public

Iowa Statewide Economic Indicators

Latest Economic Indicators	Actual Number	Amount of Change	Time Period Reported
New Vehicle Registrations	95,879	7.5%	January 2013 - August 2013
New Housing Permits	5,511 YTD	35.9%	July 2012 - July 2013
Existing Home Sales - Midwest	1,210,000	16.3%	June 2012 - June 2013
Total Resident Jobs	1,574,400	1.7%	August 2012 - August 2013
Non-Farm Employment	1,532,500	1.3%	August 2012 - August 2013
Factory Jobs	214,700	2.1%	August 2012 - August 2013
Initital Unemployment Claims	11,996	-6.1%	August 2012 - August 2013
Jobless Rate	80,800	4.9%	August 2013
Personal Income (per capita)	$42,126	2.4%	2011 - 2012
Exports of Goods	$14.6 B	10.0%	2011 - 2012
Farmland Values (High Quality)	$8,600	17.8%	July 2012 - July 2013

Source: Iowa Workforce Development News and Trends, October 20, 2013
<www.iowaworkforce.org/trends/>
<www.iowaeconomicdevelopment.com/newsdetails/5654>

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accounting firm, would collect these ballots, collect the political contributions, and allocate the money to the respective parties based on the voting of the members. This is dangerous territory, however, because it implies public-sector unions should exist. And in a healthy democracy, they should not, because their interests are innately opposed to the public interest.

Ed Ring is the Executive Director for the California Public Policy Center. He is also the Editor of UnionWatch.org. Ring has an MBA in Finance from the University of Southern California, and a BA in Political Science from the University of California, Davis.

Reprinted with permission, UnionWatch.org, originally published October 20, 2013, <http://eag-news.org/why-the-democratic-party-cant-embrace-public-sector-union-reform/>.

The Public Interest Institute POLICY STUDY #13-1 School Choice: Not if the Unions Have Any Say, *January 2013, <http://www..org/ps-13-1.html> addresses the details of this issue in Iowa.*

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