Op-Ed

Free Lunch In Calif. Will Relegate Many to the Bread Lines

Published in the **Investor's Business Daily** • *October 27, 2004*

A ticking time bomb threatens to devastate the state of California. Powerful special interests watch impatiently as their plan nears fruition, while most everyone else goes about their business, unaware of the impending meltdown.

This isn’t a Hollywood B-movie script. Proposition 72 is poised to blast a hole through California’s economy.

If it passes on election day, Proposition 72 will force every California business with 20 or more employees to pay their employees’ health insurance bill.

While this “free lunch” may sound attractive to many employees, my own recently published study of U.S. Census data indicates that Proposition 72 will cost employers more than $12 billion a year and destroy up to 150,000 jobs. For comparison, the 1994 earthquake that shook California’s economy resulted in less than half that number of lost jobs.

The layoffs will be concentrated among the people who need their jobs the most: the poor and unskilled. High school dropouts comprise 17% of the California workforce, but my study shows that they will account for up to 40% of the jobs lost because of Proposition 72.

Minorities will also take a disproportionate hit. While Hispanics make up 30% of the workforce, they will bear 53% of the job losses.

In Los Angeles County, the mayor’s office recently announced that nearly a third of working-age adults can’t locate an intersection on a street map. Nearly half can’t use a bus schedule. That’s more than 3.8 million people in Los Angeles alone who desperately need training, including on-the-job training. But many businesses simply cannot afford ever-higher healthcare and labor costs for people who do not know how to read or make change.

Losing Coverage

No academic study can tell you exactly which 150,000 Californians will begin receiving unemployment checks in place of paychecks. It could be you. It could be a family member or neighbor. Proposition 72 is almost like a reverse lottery for the unlucky.

What economic research can tell you is that this referendum, intended to provide Californians with health insurance, will actually cost 32,000 people their existing coverage. They should have plenty of time to consider Proposition 72's bitter irony: Employer-provided health insurance is a hollow promise if you no longer have an employer.

As people lose jobs and payrolls shrink, the shockwaves from Proposition 72 will ripple through the entire economy. Meanwhile, the initiative won't even address the real problem.

Its backers concede that nearly 70% of the uninsured will remain without coverage. It turns out that only one third of the $12 billion price tag for Proposition 72 goes toward providing health insurance to those who don't have it. Nearly half the expense is for people who are already covered by employer-provided insurance.

Because the referendum requires employers to pay 80% of premiums, the thousands of businesses currently paying lower percentages will experience increased costs.

Under Proposition 72, poor Californians can receive a subsidy for their 20% share of health insurance premiums. That sounds like a good idea, until you realize that eligibility is based on employee wages rather than family income.

Distorted Data

Tens of thousands of people with family incomes over $100,000 will receive a subsidy intended for the poor. Proposition 72 advocates failed to include the poverty subsidy in their cost projections. In fact, they have systematically and intentionally hidden its real price tag. Their estimates range from 10% to 22% of the actual $12 billion figure.

To arrive at these drastically understated numbers, advocates have engaged in statistical gamesmanship. For example, their number crunchers slashed the final cost tally by 40%, figuring that employers deduct healthcare expenses from their corporate taxes. This conveniently ignores the many employers who don't pay corporate income taxes, such as schools and non-profits.

In another statistical slight of hand, Proposition 72 supporters didn't count the cost to businesses of covering employees currently enrolled in Medicaid. But this didn't stop them from brazenly counting the cost shift as a pure "savings." To be sure, Medicaid is expensive. But it's important to remember that the federal government picks up half the bill for this Great Society program. In contrast, Californians will be responsible for the entire cost of coverage under Proposition 72.

Already on board against 72 is Governor Schwarzenegger. "Well-intentioned as it may be," he cautioned, "Proposition 72 will only reverse California's recovery and trigger an exodus of jobs from the state."

As this economic time-bomb ticks closer to disaster, every California voter has a rare opportunity to play hero.

Dr. Aaron Yelowitz, formerly an assistant professor at UCLA, is an associate professor at the University of Kentucky specializing in labor and health economics.

— Dr. Aaron Yelowitz

Topics: Health Care (https://www.epionline.org/category/health-care/)