WHITE HOUSE STILL PUSHING THE EXCISE TAX HOCUS POCUS

As Brian Beutler reports, Nancy Pelosi's snippy comment about Obama's campaign promises was a reference to the White House's demand that the House accept the Senate excise tax.

> [Pelosi] aides say she's particularly steamed that the White House wants her to largely adopt the Senate bill in its entirety. And she's particularly unhappy that the White House has thrown its weight behind the Senate bill's chief funding mechanism: an excise tax on so-called "Cadillac" insurance policies, which she and many in her caucus have long believed violates President Obama's pledge not to raise taxes on the middle class. According to one aide, that—not the public option—was likely the reason she ribbed Obama at her press conference yesterday, quipping, "there were a number of things he was for on the campaign trail."
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> The House proposes paying for its bill by imposing a surtax on high-income Americans. And though there's been speculation for months that the final reform package will include a combination of both sources of revenue, Pelosi, who's already had to accept the demise of the public option, wants the excise tax gone.

Yet, the White House has not revisited any of the assumptions it has made about the excise tax that seem to be increasingly dubious—such as that it will end up giving workers a raise.

Interestingly, the EPI has just released a paper debunking the claim.

> There is logic to [the argument that cutting health care costs leads to wage growth], but it is only skin-deep and deeper examination will show it to be simply not true. The logic can be seen looking at trends in health care premiums and wages—wage growth fared better in the late 1990s when health care premiums grew more slowly than in the early 1990s and wages performed poorly in the 2000s, a period when health premiums grew strongly again.
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> However, digging just a bit beneath the surface reveals the following:
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> 1. *Health care costs are not large enough to substantially move wages as these proponents claim;*
> 2. *Examination of actual wage and benefit trends confirms that changes in the trajectory of health care costs did not materially affect wage trends over the last 20 years; and*
> 3. *The wage behavior described—accelerating in the late 1990s and more slowly thereafter—actually best characterizes wage growth for low-wage workers who have minimal access to employer-based health care. Conversely, this*

> *pattern of wage-growth over time is least pronounced for higher paid workers with the most health coverage.*
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> Clearly, this “health care theory of wage determination” is wrong, and other factors explain these overall wage trends. The simple explanation is that productivity accelerated in the mid-1990s, and the low unemployment (and hikes in the minimum wage) facilitated faster wage growth. That this wage growth disappeared entirely in the 2002-07 recovery is not due to faster health care cost increases but to weak employment growth and employers’ ability to achieve increased profitability rather than pass on productivity gains to workers. This reveals a fundamental flaw in our economy: productivity gains are not passed on to higher living standards for workers.

Now, it should surprise no one that EPI is taking this on. After all, if I can debunk this myth, than surely real economists can, too.

But I find it interesting in that the paper itself cites an earlier paper co-authored by Jared Bernstein.

> About half of all workers don’t even receive employer-provided coverage. According to the U.S. Bureau of Labor Statistics (BLS), 47% of workers did not participate in employer-provided health care benefit plans in 2005. Thus, there is no health care squeeze that would explain the wage losses of nearly half the workforce. In addition, the BLS data show that among workers whose average wage was less than $15 per hour last year, only 39% participated in employer-provided health plans….. low-wage

> workers also lost the most ground in terms of real wages. Thus, those least likely to get health care experienced the greatest loss in real wages, the opposite of what the trade-off explanation would predict.

Bernstein, of course, has gone on to a new job: working in the White House (albeit advising Biden, not Obama directly).

In other words, they've got to know that their earlier claims are–at the least–potentially flawed. Yet still they push it.

Of course, there's a reason for that. It's that the White House has promised some kind of cost controls. There were a number of cost controls discussed which used the power of the market to bring costs down: things like drug reimportation and a public option. But the White House chose, instead, to pursue this stinker. And now it has to invent some myths–the wage increase myth debunked here–to try to get around the fact that this does amount to a middle class tax hike.