

Health care costs and the needless attack on public sector employees

From the April 27 edition of *Mass-Care*

In late spring, the Massachusetts House of Representatives passed a budget that would allow cities and towns to strip public employees of their right to bargain over health care benefits. This is tragic for three reasons:

First, it is not true that public employees enjoy better wages and benefits than the rest of us. Compared with private employees with the same education level, public workers have better benefits but lower wages. This trade-off turns out to apply to all of us: the economics literature has found that employers do not pay for any health care costs, but rather pass these costs on to employees in the form of lower wages. When the country goes through periods of rapidly climbing health care costs, real wages stagnate or decline. In fact, almost all of the stagnation in lower- and middle-class wages is due to our health care system producing out-of-control costs. Unionized workers just have the luxury, if you can call it that, of trading better health coverage for their families in exchange for lower wages than private sector workers receive for the same work. If the House budget were to become a reality, it is likely that municipal employees who have been sacrificing wages for years to retain health care coverage, will lose both and fall behind their private-sector counterparts.

Second, none of this is necessary. We are the only country in the world with health care costs as high, and growing as rapidly, as ours. In exchange for our high and rapidly rising costs, we actually get worse health outcomes and extraordinarily poor access to needed care. Health care is now about half of the state

budget, consumes almost all of municipalities' new revenue each year, and we are getting literally nothing for our new spending each year. A single payer plan for Massachusetts, which is not experimental and has been tried and proven around the globe, would save the state between \$1.5 and \$2 billion according to estimates from UMass economist Gerald Friedman. This would close our budget deficit. Municipalities, like all other employers, would pay a 7.5 percent payroll tax, and would not have to face rising health care premiums ever again. Almost all municipalities currently spend upwards of 15 percent of payroll on health care costs—the city of Boston, for example, spends about 20 percent.

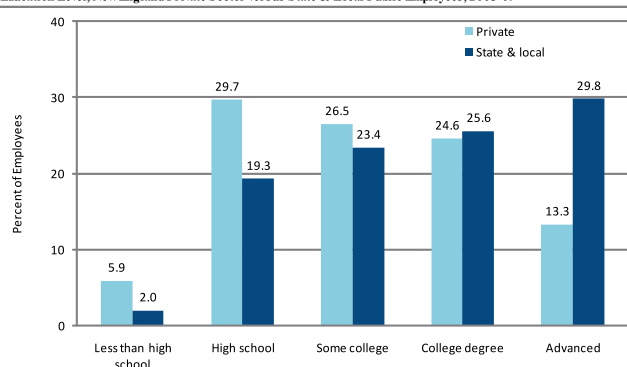
Lastly, although you have all heard a lot of rhetoric about public employees having lavish benefits paid for by taxpayers (which we have just disproven—public employees are paying for their own benefits with lower wages), remember who pays for most tax revenue: rich people! Massachusetts has a flat income tax, which means it is not as progressive as the federal income tax, but still—because income inequality is so high in Massachusetts—a very large share of our total tax revenue comes from high income households paying their share. When we shift costs from tax revenues on to patients, which is what the state is proposing by cutting coverage for public workers, we are also making our health care financing much more regressive, and letting high-income earners off the hook.

To read more about the reality of public employees' benefits and wages, visit peri.umass.edu/fileadmin/pdf/working_papers/working_papers_201-250/WP233.pdf. ■

On average, state and local government employees in New England earn more than private-sector workers. But, state and local workers are also, on average, older and substantially better educated than private-sector workers. When state and local government employees are compared to private-sector workers with similar characteristics—particularly when workers are matched by age and education—state and local workers actually earn less, on average, than their private-sector counterparts. The wage penalty for working in the state and local sector is particularly large for higher-wage workers. Taking benefits into account reduces, but does not eliminate, the wage penalty for state and local workers.

Source: "The Wage Penalty for State and Local Government Employees in New England" Political Economy Research Institute. Thompson and Schmitt; Sept. 2010.

Education Level, New England Private Sector versus State & Local Public Employees, 2005-09



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