Story of the health wedge

- Researching *Deaths of despair*, Anne Case and I were looking for economic factors implicated in distress among workers without a BA, especially men
- Globalization and automation (China and robots) were obvious possibilities
- BUT: Other rich countries face those same forces with similar employment consequences
  - WITHOUT increases in suicides, alcohol related mortality, and overdoses
  - Some exceptions, especially in English speaking countries
- We were looking for another factor that hurt less-educated people in the US relative to Europe
  - Safety-nets are one possibility: e.g. in UK, widening wage inequality does not show up in widening family income inequality
  - But the size and funding of healthcare also was worth investigating

Tale from the C-suite

- Executives in a large US company have annual meeting with benefit managers
- "Our health premiums will be 40 percent higher next year"
- HELP!
- Bring in McKinsey: lose those whose premiums are high relative to their value to company
- Outsource everything that can possibly be outsourced
- Few large US corporations now employ their own security, drivers, cleaners, food service workers, etc: many of those were good jobs in many dimensions
- Because premiums do not vary with wages or skill, the people who got outsourced are the low-skill low-pay people
  - Outsourcing as another consequence of health costs and of the wedge

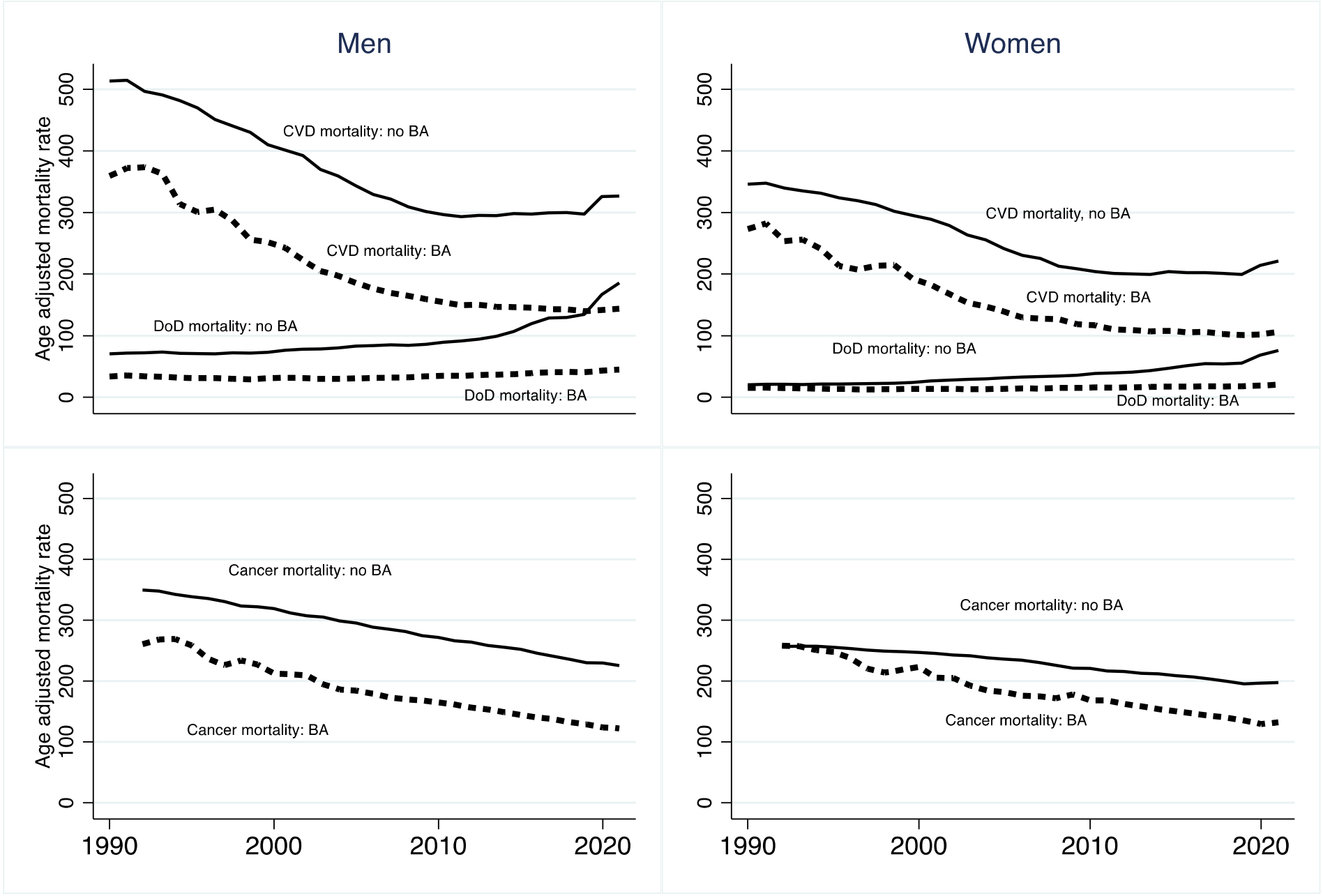
Flat tax and the literature

- Cost and financing of healthcare through a flat tax came to be a key part of the story in our book, but at a relatively late stage
- Literature search and discussions with labor economists drew a blank (or puzzled stares)
  - We wondered if we'd lost it
  - Contrast with minimum wage, which, as FMZZ document, is of similar quantitative importance
- When Saez and Zucman's book appeared while our book was in press, we were delighted to see that we were not alone
  - And further delighted that the wedge is being taken seriously by FMZZ

Healthcare related inequality

- FMZZ focus on the effects on college wage premium and on relative employment levels of those with and without a college degree
- Note that higher than necessary healthcare costs oppress us all and especially those without a college degree
  - 18% of GDP means many other things are sacrificed
  - Transferring resources from employees to hospital executives, pharma, some docs, etc
- Several calculations, including IOM, argue that it costs us about $1tn in excess costs judging by costs elsewhere (e.g., Switzerland)
  - Total military expenditure in US is around $0.8 tn
  - Why? Much higher prices (Reinhardt) but also heavy use of high cost and low value procedures
- I am not arguing that the system does not improve our health, nor that progress is not being made

CVD, Cancer, and DoD mortality

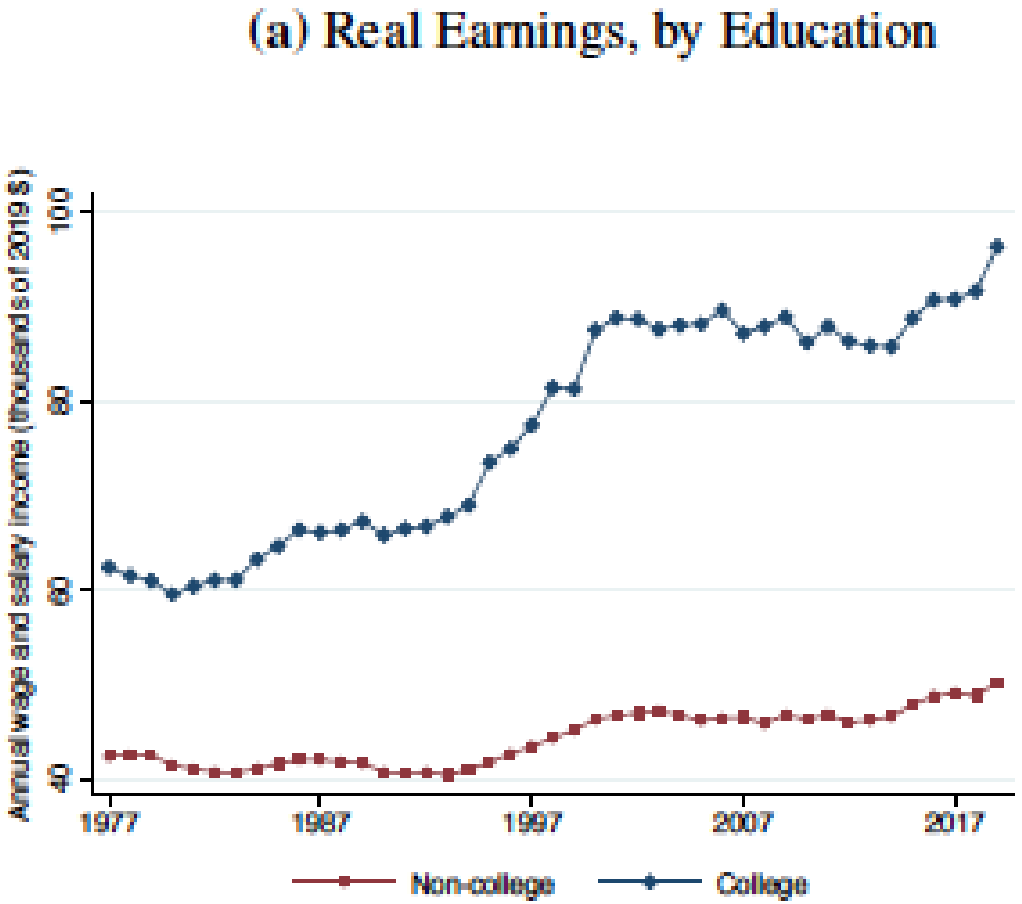


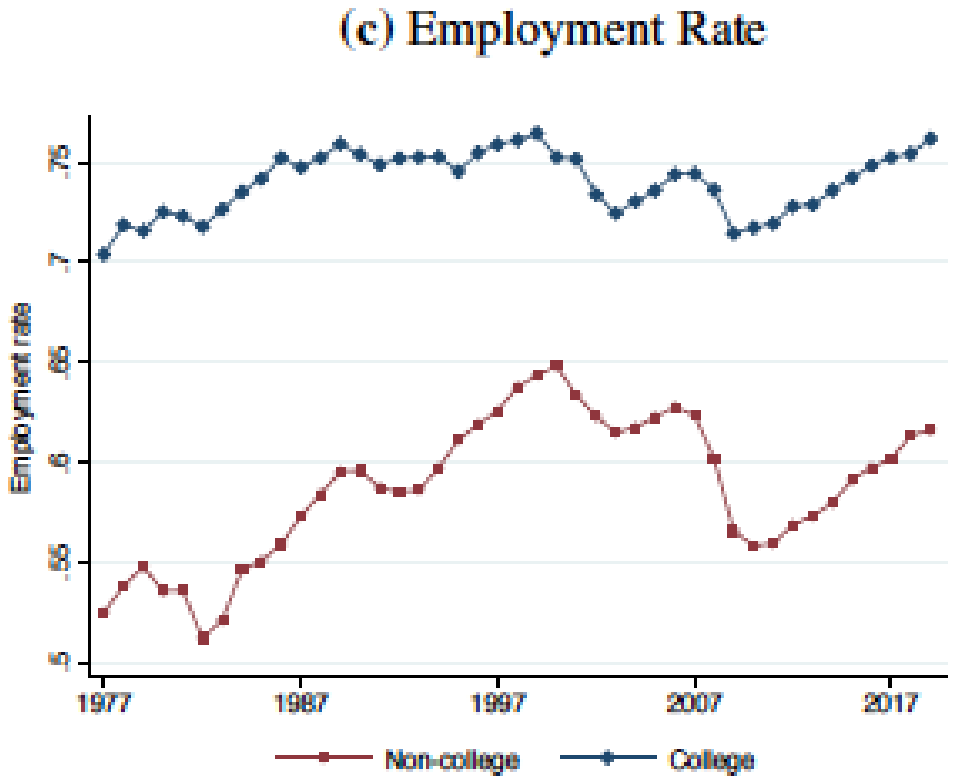
Mixed outcomes: but not without successes

- Cancer mortality in decline: mostly lung cancer but also declines in colon, ovarian, and breast cancer for women, and prostate for men
  - David Cutler, Nixon's war on cancer, and nothing for a long time
- CVD long-term decline (in part medicines) but fading for those with a BA and reversed for those without a BA
- DoD rising for those with BA, and pharma companies bear much responsibility
- Consistently poorer outcomes for those without a BA
  - Women with BA used to have higher mortality from breast cancer, but not any more
- Where's the beef? What are we getting for the cost?

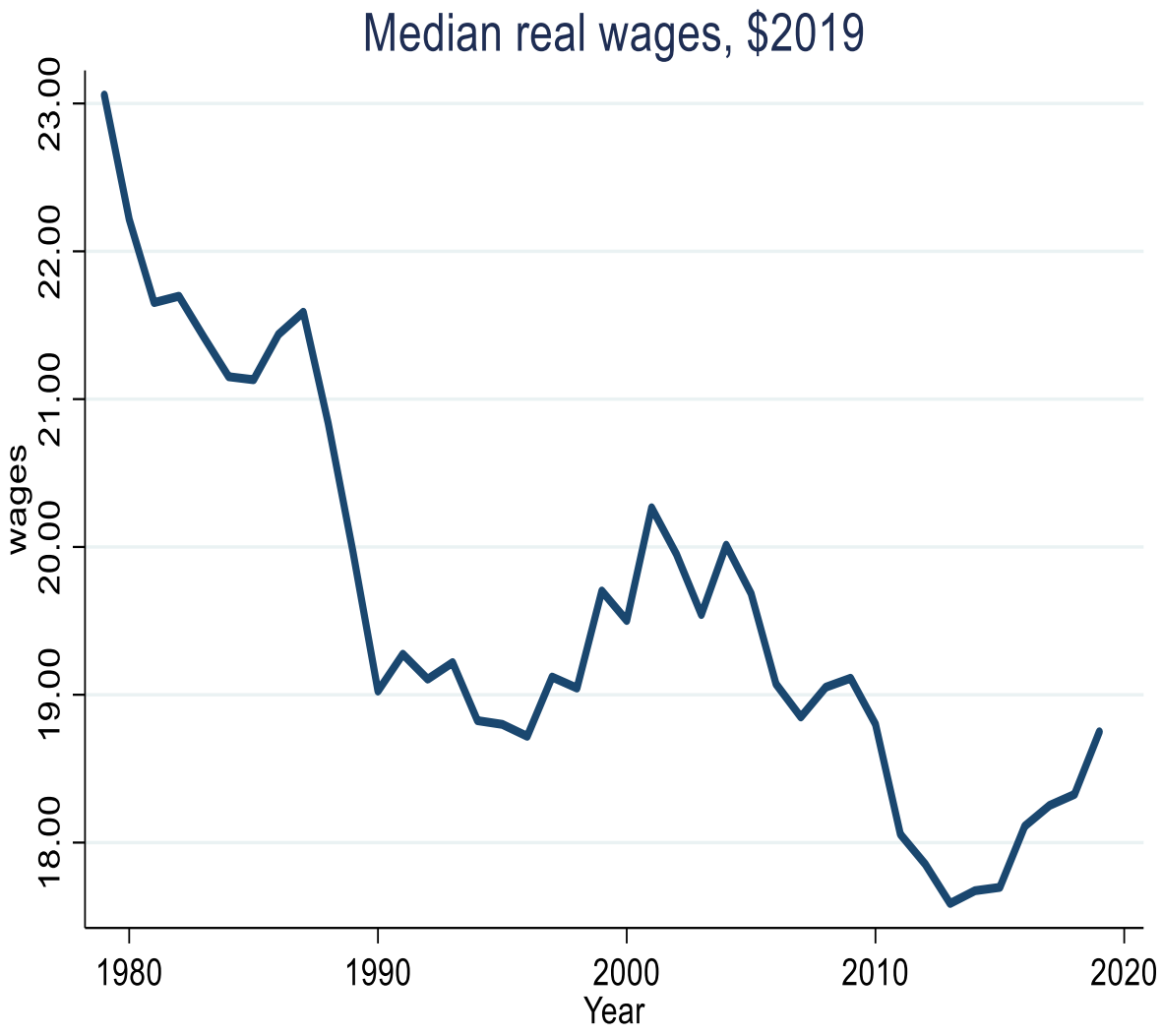
Measurement of material outcomes

Earnings for those without a BA: FMZZ v CD





Wages and labor market attachment, men ages 25-54, less than a four-year degree



Choices in measuring real income/earnings

- FMZZ have men and women together, and women have done relatively well, at least until recently
- FMZZ deflate by PCE deflator (IPD of CE), and CD use CPI
  - This is important, 3.14 percent per annum versus 2.91 from 1980 to 2020
  - Perhaps to do with substitution bias: but IPD is biased too, and standard theory permits IPD to be less than CPI
  - 1980 to 2020: CPI inflation was 2.90 percent p.a.: IPD of CE was 2.41 percent
  - Over 40 years, 16 percent more inflation
- Different weights: PCE deflator more medical care, CPI more housing
- NB CBO and others define market income to include employer contributions
  - Makes some sense, but rising healthcare prices is counted as benefiting people

Quality changes

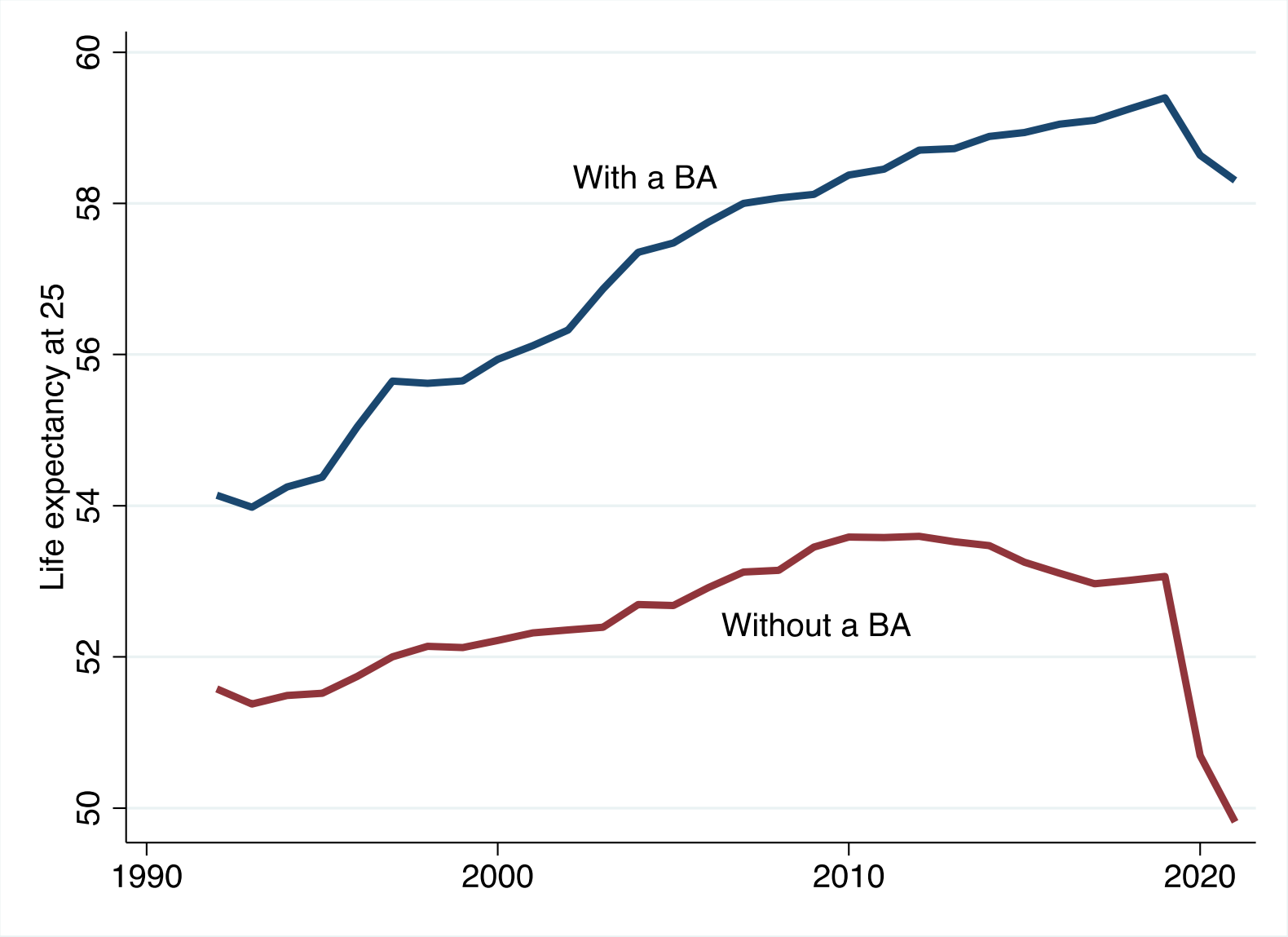
- Both CPI and IPD of CE use of hedonics to adjust for quality
- Quality change is not something we understand
  - In contrast to extensive work on COLIs, bias, etc
- Many new goods and services *replace* old goods that are no longer available
- Many quality changes cannot be reduced to quantity changes
  - Simple repackaging is the standard model, and it doesn't work for hips or for cars
  - Functional use of a good or service cannot be maintained with lower quantity
- Good argument that people are doing worse than the standard data show

Cass's COTI index

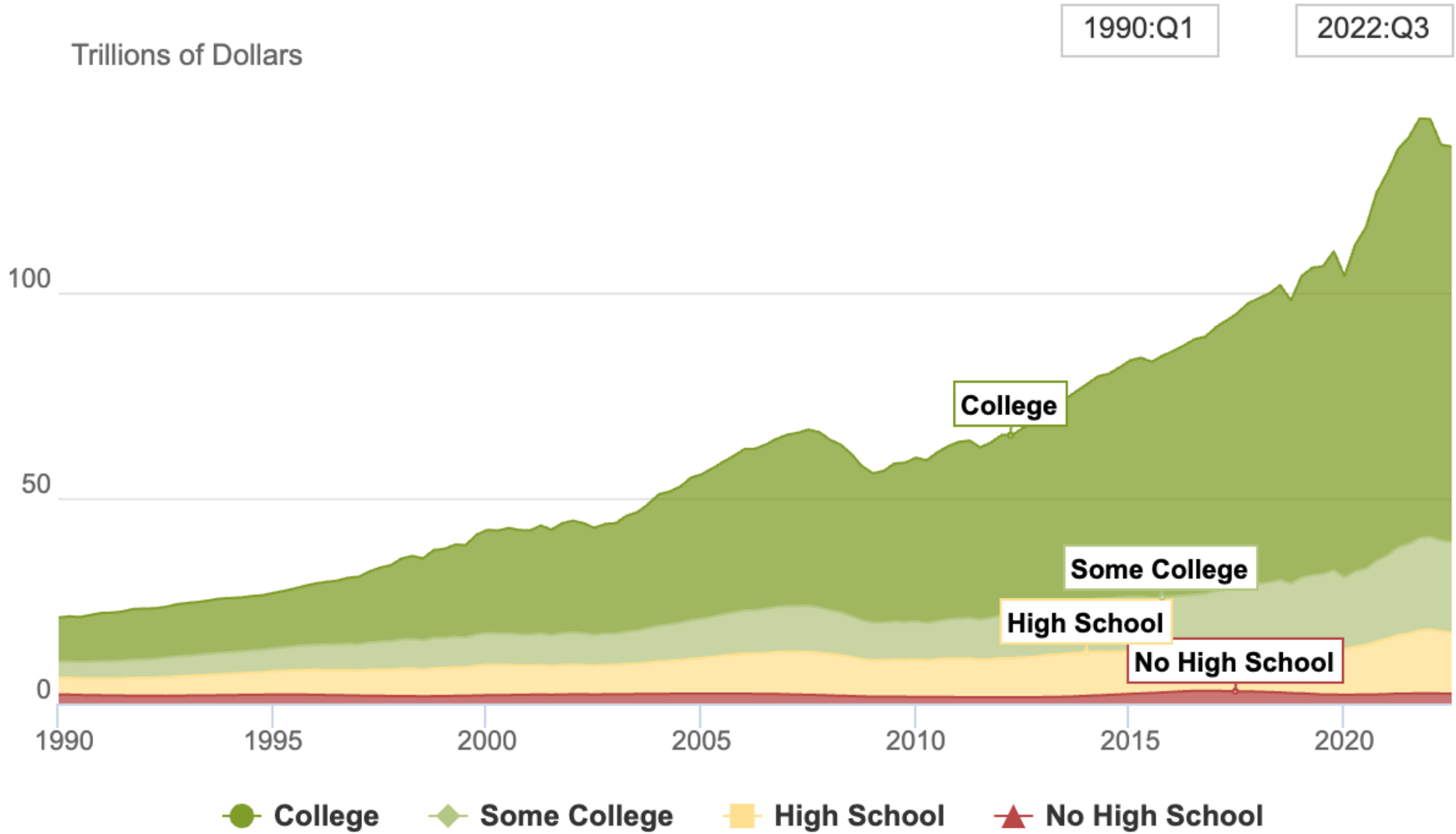
- "In 1985, the COTI stood at 303—the median male worker needed thirty weeks of income to afford a house, a car, health care, an education. By 2018, the COTI had increased to 53—a full-time job was insufficient to afford these items, let alone the others that a family needs."
- I am not endorsing this specific number, but the way we deal will quality is not correct in general
- I have long resisted the Boskin Commission's recommendation to subtract 1 percent a year to the CPI
- Beginning to think that we should be *adding* not *subtracting*
- Applies to both those with and without a BA, though perhaps the third of the population with a BA can take more advantage of quality change?

Other aspect of relative wellbeing

Adult life expectancy



Wealth by education



Source: Survey of Consumer Finances and Financial Accounts of the United States

And more

- Education is becoming more important than race in incarceration numbers
- People without a BA have the lowest expected years of marriage since 1890: nothing of the kind for people with a BA
- Rising pain for those with a BA, but not for those without
- Much more . . . .
- Healthcare system is presumably not ALL of this, but we forget just how costly it is, and as we and FMZZ show, it hurts the less educated by more

And to note, before someone else does

- Some of these differences are possibly being driven by the increasing fraction of those with a BA
  - From 21.3 in 1990 to 37.7 in 2022 (FMZZ says fraction of college equivalents is falling? Some college fraction has not changed by much)
- NB: effect on gaps is ambiguous, though likely exacerbates average outcomes for the less educated group
- For wealth, per capita wealth ratio of BA v no BA has not changed by much
  - Ratio of pc wealth around 4 times v. 6 times for whites v blacks
- For adult life expectancy, trends and gaps are the same for top quartile v bottom quartile of educational distribution