INVESTOR'S BUSINESS DAILY®

October 7, 2003

Davis' Bid To Stay In Office Will Cost Jobs In California

By CRAIG GARTHWAITE
INVESTOR'S BUSINESS DAILY

It's 10 minutes to midnight for Gov. Gray Davis. As judgment day approaches, measures that were once, or twice, vetoed on grounds of cost or even national security have become law with a flourish of the governor's pen.

No surprise, then, that he signed a bill Sunday that requires every employer with more than 20 employees to provide employee health coverage that will cost Golden State businesses $11.4 billion a year.

As a consequence, the least-skilled workers in the state will find themselves without a job or insurance.

The consequences of this new law are presented in a report on its impact by Dr. Aaron Yelowitz, a nationally respected labor and health economist formerly at UCLA and now at the University of Kentucky and the National Bureau of Economic Research.

Taking The Hit

This research shows the "how" and "why" employees will suffer from this law as employers adjust to this new costly mandate by lowering wages, cutting benefits and laying off workers.

Yelowitz's research confirms what scores of other studies have found: Government-mandated increases in wages and benefits often trigger the law of unintended consequences.

According to professor Yelowitz, hardest hit will be the over half-million employees who earn the state minimum wage or just above it.

These vulnerable employees risk losing their jobs either through labor force cuts as employers downsize to cut costs, or through competition as employers hire more experienced employees to justify increased hourly wages.

Despite these significant economic and human costs, nearly 4.5 million people - two-thirds of the uninsured - will remain without coverage under this new mandate.

Yelowitz estimates the cost of this new mandate to be significantly higher than its supporters admit.

They claim the cost is closer to $1 billion. But the bill's proponents mysteriously fail to consider the legislation's most damaging and wasteful provisions.

The new law requires employers to provide duplicate health insurance to over 1 million Californians who currently receive comprehensive medical coverage through Medicaid, Medicare or Champus.

Flawed Estimates

The legislation further requires employers to cover over 600,000 employees who currently buy their own health insurance.

These costs of providing coverage to those who are already covered were conveniently left out of their impact estimates.

Also glossed over by the bill's advocates are the subsidies that will now go to high-income families. The new mandate includes payments to employees to help them pay their share of the premiums.

But because the legislation awards this subsidy based on individual earnings as opposed to family income, many who don't need it will receive it.

Tens of thousands of people whose family income exceeds $100,000 a year and nearly three-quarters of a million Californians who have an annual family income higher than $50,000 will receive a subsidy intended for the poor.

Strip away the rhetoric, and this costly new mandate is nothing more than yet another compelling disincentive to create jobs and grow businesses in California.

The state's unemployment rate, already higher than the national rate, is 10% higher than neighboring Arizona's and 27% higher than in Nevada.

The latest U.S. Census data show that income growth in California is lower than the national average. And for the first time in decades more people are leaving the Golden State than arriving to work or set up business.

Into this troubled economic environment arrives this ill-considered new burden, which is so draconian it drove away businesses even before the governor decided to endorse it.

Just last week a Dallas restaurant group announced it was backing away from a planned purchase of Chevy's, a struggling chain of restaurants with 58 outlets in California, citing the increased labor costs contained in the bill and others either pending or recently passed by the legislature.

Steep Cost

Like every Californian, Davis wants health coverage for the Golden State's millions of uninsured.

Unlike most, he has been preoccupied with his political future or, failing that, his legacy.

In politics, as in life, there is no free lunch. Decreeing coverage for employees as he did on Sunday came with a price. The highest price will be paid for by California's vulnerable workers, who want health insurance but also need a job to feed, clothe and house their families.

They depend on the state's economy being able to grow jobs and benefits. By vetoing this bill, the governor could have acted to protect their jobs. Instead, he signed it into law in a bid to save his own.

Craig Garthwaite is an economist at the Employment Policies Institute, a nonprofit, business-funded research group that studies issues surrounding entry-level employment.

Investor's Business Daily Inc.