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Analysis: A health care overhaul could kill 2 million jobs, and that's OK

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As calls for radical health reform grow louder, many on the right, in the center and in the health care industry are arguing that proposals like "Medicare for All" would cause economic ruin, decimating a sector that represents nearly 20% of our economy.

While exploring a presidential run, former Starbucks chief Howard Schultz called Medicare for All "not American," adding, "What industry are we going to abolish next -- the coffee industry?" He said that it would "wipe out the insurance industry."

A fellow at the libertarian Cato Institute wrote that it would "carpet bomb the industry." David Wichmann, the chief executive of UnitedHealth Group, warned that it "would surely have a severe impact on the economy and jobs."

It's true: Any significant reform would require major realignment of the health care sector, which is now the biggest employer in at least a dozen states. Most hospitals and specialists would probably lose money. Some, like the middlemen who negotiate drug prices, could be eliminated. That would mean job losses in the millions.

Though it will be economically painful, the point is to streamline for patients a Kafka-esque health care system that makes money for industry through irrational practices. After all, shouldn't the primary goal of a health care system be delivering efficient care at a reasonable price, not rewarding shareholders or buttressing the economy?

In 2012, Harvard economists Katherine Baicker and Amitabh Chandra warned against "treating the health care system like a (wildly inefficient) jobs program." They were rightly worried that the health care system was the primary engine of recovery from the Great Recession. And yet the revelation that the health care sector added more jobs last year than any other in the economy was greeted by many as good news.

It's not surprising that those involved in the business of medicine have joined forces in a lobbying and media campaign, the Partnership for America's Health Care Future, to ward off transformational reform, particularly Medicare for All. But fed-up voters seem ready to upend an industry that saps their finances, wastes their time and doesn't deliver particularly good care. Few people would mourn the end of $35 million annual compensation packages for insurance executives or the downsizing of companies that have raised insulin prices to 10 times what they are in Canada -- though they might miss hospitals' valet parking and private rooms.

Well over half of Americans already say they have a favorable view of Medicare for All. Though approval falls off when confronted with details such as higher taxes, it is clear that the electorate is searching for something big. Change could come in many guises: for example, some form of Medicare expansion, government negotiations on drug prices or enhancing the power of the Affordable Care Act. The more fundamental the reform, the more severe the economic effect.

The first casualties of a Medicare for All plan, said Dr. Kevin Schulman, a physician-economist at Stanford, would be the "intermediaries that add to cost, not quality." For example, the armies of administrators, coders, billers and claims negotiators who make good middle-class salaries and have often spent years in school learning these skills. There would be far less need for drug and device sales representatives who ply their trade office to office and hospital to hospital in a single-payer system, or one in which prices are set at a national level.

Some geographic areas would be hit particularly hard. A single hospital system is by far the biggest employer in many post-manufacturing cities like Pittsburgh and Cleveland. Hospitals and hospital corporations make up the top six employers in Boston and two of the top three in Nashville. Hartford is known as the insurance capital of the world. Where would New Jersey be if drugmakers took a big hit, or Minnesota if device makers vastly shrank their workforce? (That may be why some Democratic representatives and senators from these left-leaning states have been quiet or inconsistent on Medicare expansion.)

Stanford researchers estimate that 5,000 community hospitals would lose more than $151 billion under a Medicare for All plan; that would translate into the loss of 860,000 to 1.5 million jobs. A Navigant study found that a typical midsize, nonprofit hospital system would have a net revenue loss of 22%.

Robert Pollin, an economist at the Political Economy Research Institute of the University of Massachusetts-Amherst, is frustrated not just by the doomsday predictions but also by how proponents of Medicare for All tend to gloss over the jobs issue.

"Every proponent of Medicare for All -- including myself -- has to recognize that the biggest source of cost-saving is layoffs," he said. He has calculated that Medicare for All would result in job losses (mostly among administrators) "somewhere in the range of 2 million" -- about half on the insurers' side and half employed in hospitals and doctors' offices to argue with the former. Supporters of Medicare for All, he said, have to think about a "just transition" and "what it might look like."

Of course, if more people get health insurance under an expanded Medicare, there will be a greater need for some workers -- like nurse practitioners and physician assistants. And there is a large unmet labor need in caring for an aging population. The latter are mostly low-wage jobs, however, and neither compensates for the losses.

Pollin suggests that a transition to Medicare for All should be accompanied by a plan to give those made redundant up to three years of salary and help in retraining for another profession.

Despite the short-term suffering caused by any fundamental shift in our health care delivery system, reform would ultimately redirect resources in ways that are good for the economy, many experts say.

“I’m sympathetic to the impact that changes will have on specific markets and employment -- we can measure that,” Schulman said. “What we can’t quantify is the effect that high health care costs have had on non-health care industries.”

The expense of paying for employees’ health care has depressed wages and entrepreneurship, he said. He described a textile manufacturer that moved more than 1,000 jobs out of the country because it couldn’t afford to pay for insurance for its workers. Such decisions have become common in recent years.

“Yes, these are painful transitions,” said Baicker, who is now the dean of the University of Chicago’s Harris School of Public Policy. “But the answer is not to freeze the sectors where we are for all time. When agriculture improved and became more productive, no one said everyone had to stay farmers.”