Poll for Dems in February 2015 Trashes the State of the Economy

Well, they can't say they didn't know.

The most fundamental context for everything we see here is the pressure of rising costs and stagnant wages. Only 30% nationally and 29% in the battlegrounds rate the national economy as excellent or good, and we saw in the framing poll that to the extent people feel like things are improving, they don't feel like those benefits are tangible in their own lives.

(click for larger image)

The paragraph over there in the right margin is the opening of a (much) longer document in the Wikileaks archive. The email summarizes the results of polling by **Anzalone Liszt Grove Research**. The rest of the email is equally scathing. **Not only do voters hate Obamacare, they also hate the Obama economy.**

For the better part of six years I (and others) have been explaining that **the economy is not in very good shape.** Now we have a vast quantity of empirical evidence supporting our argument. In case Wikileaks gets taken offline, I have captured the email and converted it to a pdf file. Click here to download your very own copy.

Is Obamacare Coverage Worse Than Not Having Insurance?

Is Obamacare coverage worse than not having insurance? That's the argument made by [Devon Herrick at the National Center for Policy Analysis](#) (NCPA). **The article is correct on the facts, but overlooks a few important issues.**

The most important problem is the **failure to distinguish between insurance and prepaid health care. Insurance is purchased to shield against financial catastrophes.** Homeowner's insurance, car insurance, and so on protect income and assets against losses that would put a significant dent in a household's financial situation. And part of any Obamacare policy does just that. (Indeed, it could be argued that with the high annual deductibles under many Obamacare policies, for many people Obamacare is, in fact, pure insurance. But there are other issues with that argument. Keep reading.)

Prepaid health care is the part of an insurance premium that goes toward covering routine medical expenses such as physical exams, vaccinations, most drugs, and so on. Most health insurance premiums include payments for both insurance and prepaid health care. However, the buyer pays a single premium without knowing how much is insurance.

Pure Insurance

A market solution to the health insurance problem is pretty straightforward. **Each household estimates the upper limit on what they can afford to lose. They then buy a pure insurance policy with that amount as the deductible.** Ideally this would be a per-event deductible rather than an annual limit. But separating health care events can be tricky. If you fall and break your hip, then break your arm because you're not very good on crutches, is that one event or two? Nevertheless, having made the estimate (most likely assuming an annual deductible), you can then shop around for insurance.

One issue in insurance markets is **taxation**. This remains an issue today. If you have employer provided health insurance, the premiums are a deductible expense for your employer. The every-changing tax laws make it difficult to say anything about the deductibility of premiums paid by individuals. But there was at least an attempt to smooth out this inequity.

Luckily, there's a solution to this that has already been tried: **health savings accounts (HSAs).** I had one of these for about five years. Deposits are made to the account by your employer and are paid out of before-tax income. In other words, **these deposits are effectively tax-deductible.** There is typically a business administering the plan and collecting a small fee. In my case it was $1 per month. Plan members submit receipts to the administrator and are reimbursed for out-of-pocket expenses. While this does not solve the problem of whether the insurance premiums are tax-deductible, HSAs at least offer a measure of equity.

How much should you deposit into your HSA? A simple answer is the amount of your annual deductible. But this depends on your degree of risk aversion and marginal tax rate. If you're only slightly risk-averse, you may choose to deposit less than the annual deductible, keep the income to spend, and assume the risk created by the difference between the annual deductible and your HSA balance.

The experiment with HSAs in the U.S. had inconclusive results. One problem was the **legally-mandated cap on annual contributions.** If memory serves, the limit was **$5,000 per year.** Many people – those with significant assets and risk aversion – would have preferred catastrophic coverage and a larger HSA balance. An example would be an insurance policy with a $20,000 annual deductible and a $20,000 cap on the HSA.

But the mere existence of any cap on the HSA balance implies government control. Why not just let buyers make their choices and keep the government out of this decision entirely?

When You've Got Nothing, You've Got Nothing to Lose

One point made in the NCPA article is that **people with no assets and little income would almost certainly be better off not buying Obamacare, even with the subsidies available to them.** Here's what the article says:

> *Earlier this year a report from the University of Pennsylvania (gated but discussion here) found all but the most heavily subsidized Obamacare enrollees would generally be better off financially if they forgo coverage and pay for their own medical care out of pocket. The group whose incomes fall between 1.38 and 1.75 times the poverty level will spend about three times the amount on premiums for a Silver plan as their out of pocket health care spending had they remained uninsured. For those earning more than 250 percent of poverty, most will be worse off financially compared to having remained uninsured. By design Obamacare is a bad deal for most people! Basically, except for the unlucky few who experience catastrophic health complaints, the vast majority of Obamacare enrollees would be better off uninsured.*
>
> *From an efficiency standpoint, paying for routine medical bills out of pocket costs less than paying bills through an insurer who is, in turn, funds medical claims from premiums. In the process of trying to make medical care cheaper for those with pre-existing conditions, Obamacare has made most enrollees worse off than prior to the Affordable Care Act. Paradoxically, they are even worse off than being uninsured.*

The only problem with the U. Penn analysis is its focus on the average. **The whole point of insurance is to take care of costly, expensive events that are several standard deviations from the mean.** Stating that, "The group whose incomes fall between 1.38 and 1.75 times the poverty level will spend about three times the amount on premiums for a Silver plan as their out of pocket health care spending had they remained uninsured." Ignores risk entirely.

When You've Got Everything, You've Got Nothing to Lose

There's a second group that should not buy an ACA policy: the extremely wealthy. These folks can self-insure. Imagine the type of catastrophic care policy Bill Gates or Larry Ellison might buy: annual deductible of $5 million, HSA annual contributions of $5 million. That HSA will be even more attractive to the wealthy if the contributions are made out of before-tax income.

Asymmetric Information

One problem for insurance markets is **asymmetric information.** The most extreme example is life insurance policies. Most, perhaps all, life insurance policies include a suicide exclusion clause. You cannot buy a life insurance policy then kill yourself, giving your heirs a big payday. When I bought my 20 year decreasing payment policy, suicide was excluded from coverage for the first two years.

Now we have an example of **asymmetric information working in the other direction.** The insurance company knows – or can make a pretty good guess at – how much of your premium is insurance and how much is prepaid health care. That information is very difficult for most policyholders to calculate. In this case the insurer has more and/or better information than the insured.

Conclusion

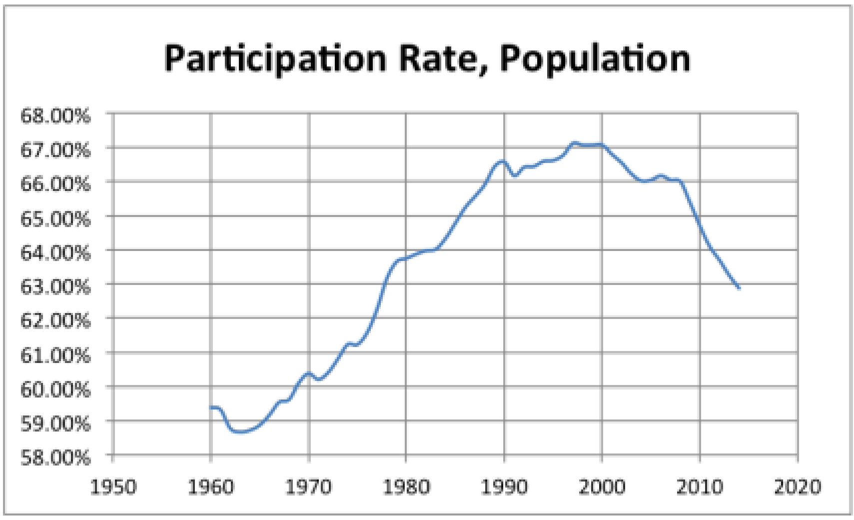
There is a great deal of good, logical economic analysis in the NCPA piece. My purpose here has been to expand on a few points. I also wanted to point out a market alternative to Obamacare.

A Labor Force Participation Rate Update

It's been almost **three years since I published my review of the labor force participation rate (LFPR)** broken down by age group. This is a **labor force participation rate update**. Click here to download my Excel workbook.

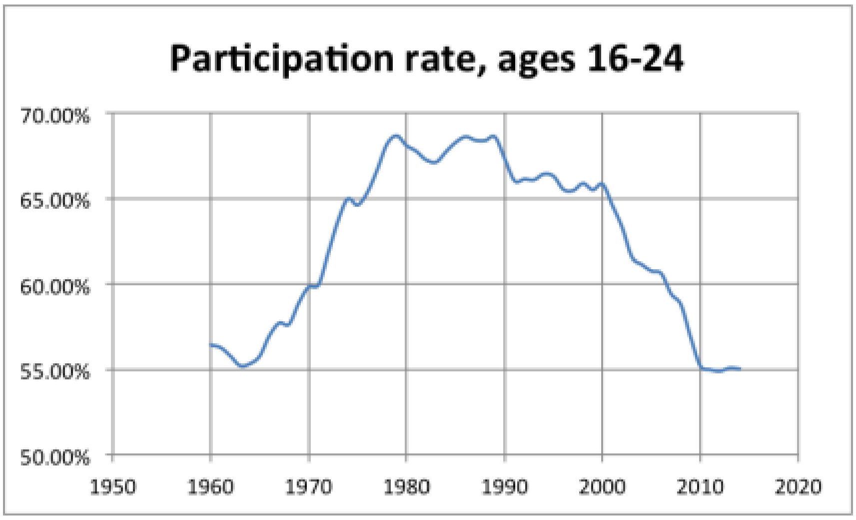
Overall

The LFPR continues its precipitous decline. In 2014 it reached 62.9%, the lowest rate since 1977. That's 37 years, over one full generation. Here's what it looks like:

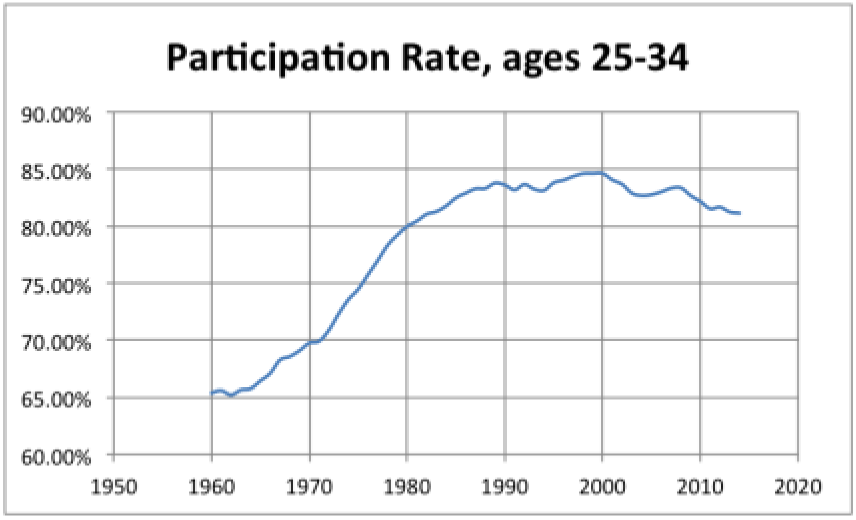


The Youngsters

The 16 – 24 age group at least halted the precipitous decline, leveling out at 55%. However, since 2010 this group has the had **the lowest LFPR since at leat 1960.** The previous low during this period was **1963's rate of 55.21%**.

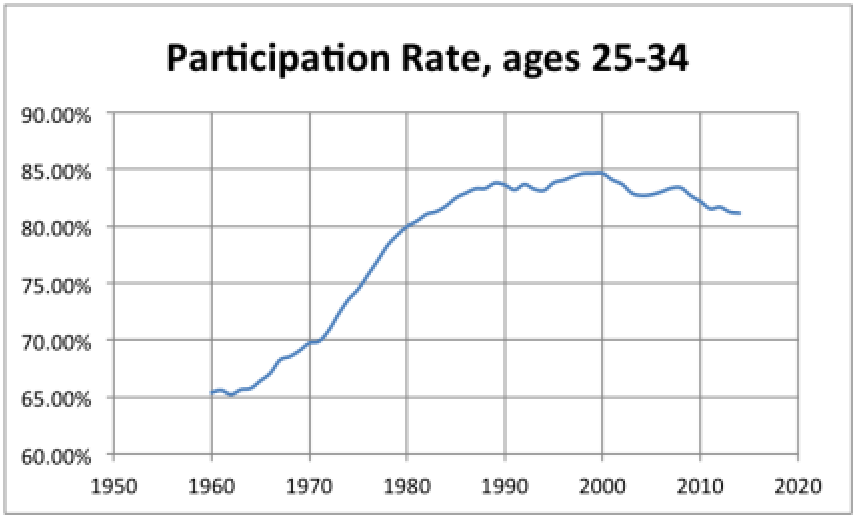


The 25 – 34 group saw a continuing decline in the LFPR, reaching levels not seen since 1982. At least this group continues to have **a high absolute rate, over 80%.**

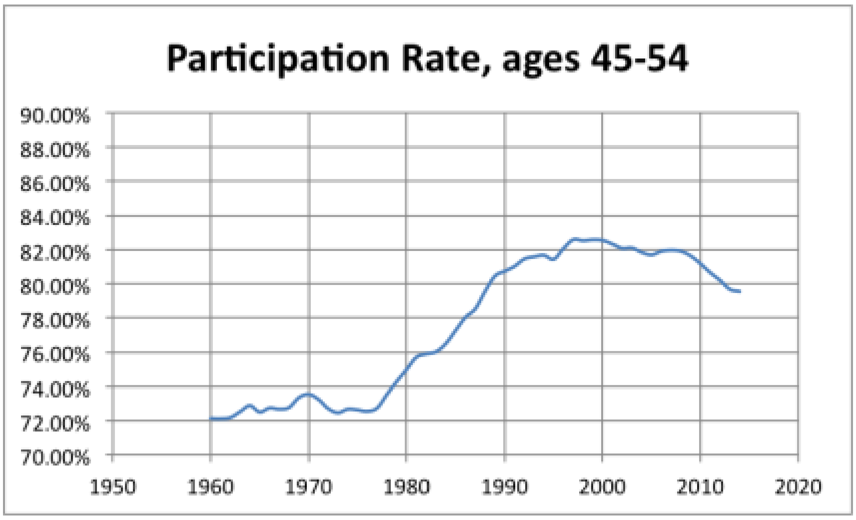


The Middle Aged

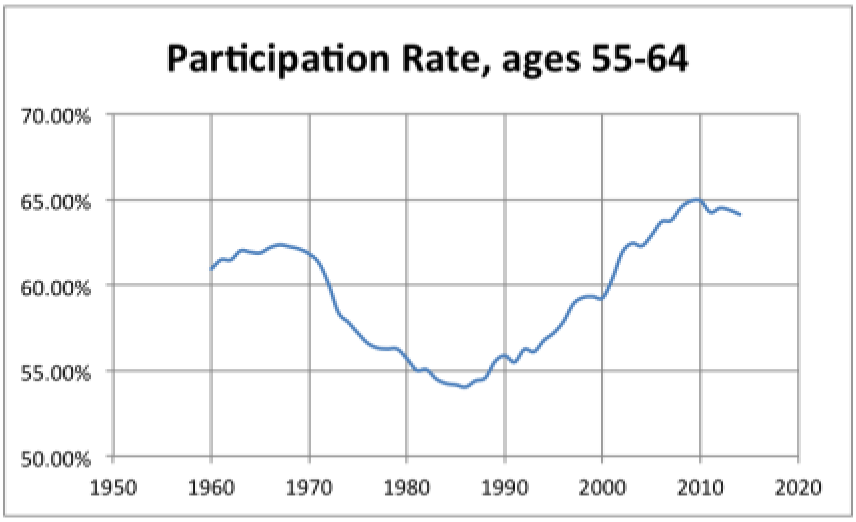
The 35 – 44 ("early middle age") group also stayed above 80%. At 82.18% this is the lowest since 1984.



The 45 – 54 LFPR fell below 80% for the first time since 1988. This is the "prime working age" group. The decline is worrying.



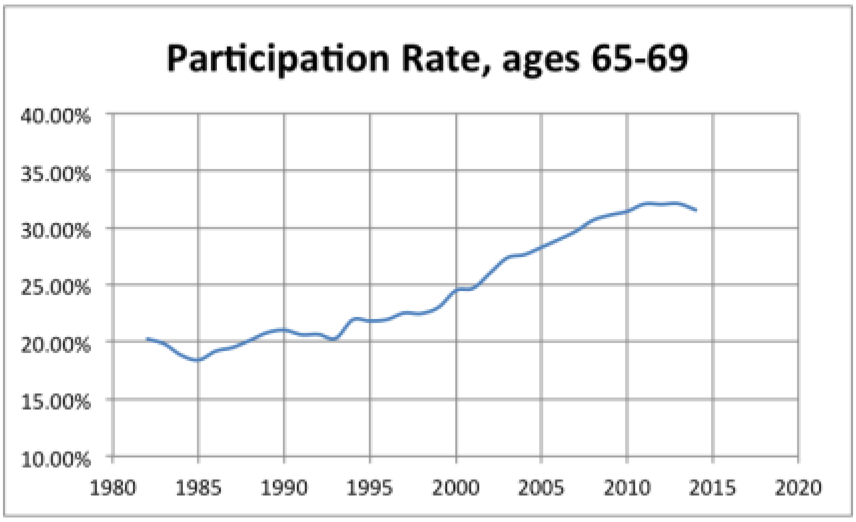
Among the **55 – 64 ("late middle age") the LFPR seems to have stabilized around 64.5%.** This is the first group whose participation has increased during the last seven years.



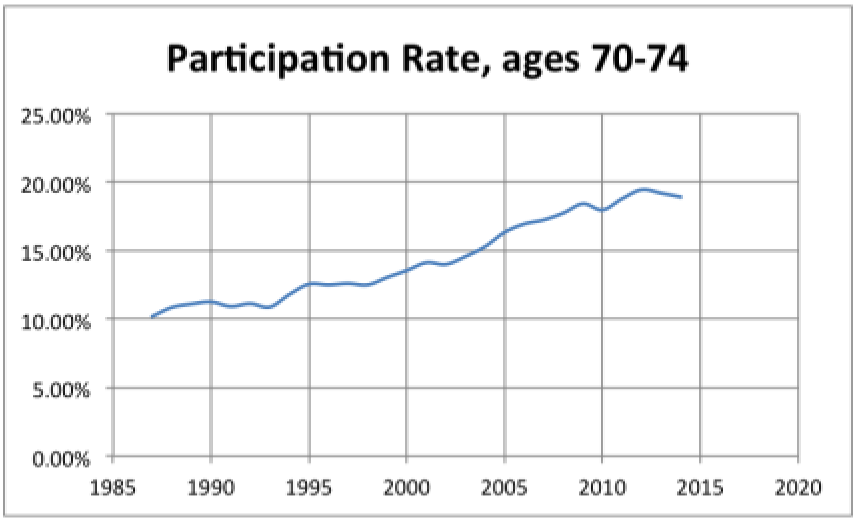
The Formerly Elderly

You might think these folks are old. But they are staying in the labor force. The BLS now has data on narrower age groups: 65 – 69, 70 – 74, as well as 75 and older.

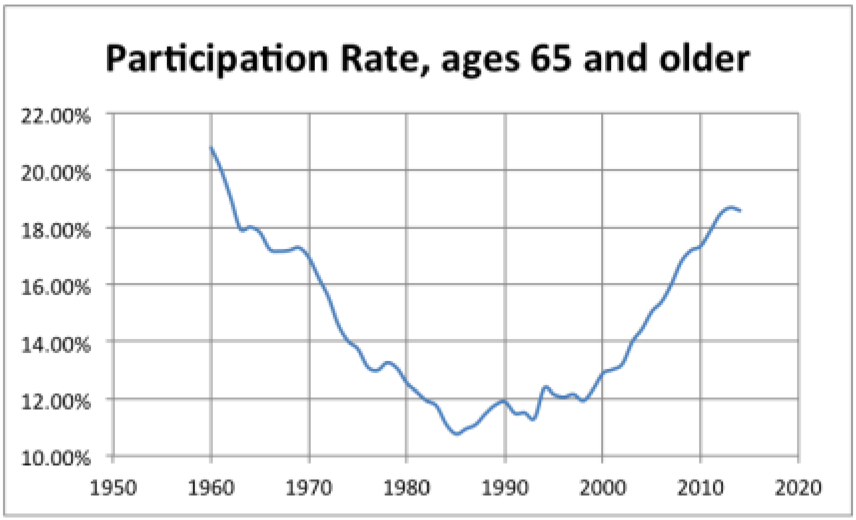
The 65 – 69 group's participation has increased steadily since 1994. The LFPR seems to have stabilized around 31.5%. Nevertheless, this is a significant increase over the 20% rates we saw in the 1980's.



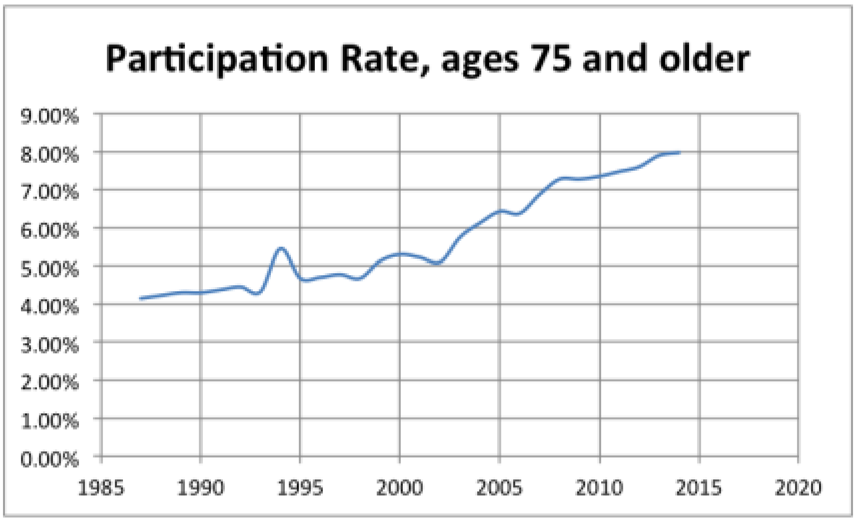
Probably the **most startling result is the 70 – 74 age group whose participation rate has nearly doubled since 1987.** People are working further into what was once regarded as practically mandatory retirement.



Aggregating the formerly elderly, let's first look at **the group aged 65 and older**. **In 1960 their LFPR was 20.82%.** That rate dropped fairly steadily, reaching a **low of 10.77% in 1985. Since then it has increased, approaching the early 1960's** values.



The group aged **75 and older has seen their LFPR double since 1987. However, the value of 7.98% in 2014 is small relative to the other groups.**



Conclusion

I wish I could say there is good news in this report. But the best I can offer is that some trends seem to have leveled off. At this point, however, it's safe to say the U.S. economy has lost a substantial number of young potential workers who will never make up the ground they have lost.

In some of my other research **I'm exploring the possibility that these younger people may actually be working in the "informal sector"** (also called the underground economy or hidden economy). **It's possible that the growth of this sector**

has absorbed some young people, meaning that the reported LFPR's are lower than the actual participation rate. At this point I do not know whether I will be able to tease even a preliminary answer out of the data. However, **there are good reasons to suspect this might be true.**

Consider the Affordable Care Act. This plan fundamentally requires young people to subsidize health insurance for older people. One way to avoid this tax is to not report any income (and therefore not file any tax returns). Working off the books for cash probably looks like a pretty good deal to some of these folks.

One of the fundamental ideas of economics is that **if you make an activity more costly, people will perform less of that activity.** The **explosion of regulations emanating from Washington, D.C. has increased the cost of employment in the formal sector (the parts that produce data that is used to measure GDP and national income). It seems likely that at least a few people have chosen to work outside the formal economy. The real issue, of course, is how many have taken this path.**

Obamacare Includes a Hidden New Death Tax

California, naturally, is one of the states that bought into the Medicaid expansion under Obamacare. In my lovely state the program is called MediCal. It turns out that Obamacare includes a hidden new death tax.

Here's the short version:

1. **Expand Medicaid enrollment. (About 1/3 of California residents are now covered under MediCal.)**
2. **Realize that state law requires asset recovery after a MediCal recipient dies. In many cases this will wipe out any inheritance.**
3. **Scramble to change the law.**

From the [San Jose Mercury-News story:](#)

> ***California is one of 10 states that recover a broad array of costs from recipients of Medicaid, the health program for the poor that is called Medi-Cal in California. The policy applies to recipients 55 and older — and only after they die.***
>
> *The seizure of assets has been going on for years but has suddenly become a heated issue since millions of low-income American adults began enrolling in the expanded Medicaid program created by the Affordable Care Act, commonly known as "Obamacare."*

> …
>
> *One of the Medi-Cal recipients is Campbell resident Anne-Louise Vernon, 59. She contends that California's aggressive cost-recovery program is unjust because people whose higher income levels allow them to get subsidized private health insurance through the new Obamacare health care exchanges don't have to pay back anything.*
>
> *Vernon said she requires constant medical care because of severe nerve damage in her arms and arthritis in her legs —conditions that have prevented her from finding a job. The divorced mother of two said her home is her only real asset.*
>
> *Medi-Cal, she said, has now essentially imposed a "reverse mortgage" on her home in exchange for health insurance.*
>
> *"What is fair about that?" asked Vernon.*

Fair? There is absolutely nothing fair about Obamacare. Pleadings like Ms. Vernon's are, frankly, silly. There's no such thing as a free lunch. I despair of people ever understanding the meaning of that phrase.

And you wonder why this once-golden state is in such a mess. The legislature can't even anticipate obvious problems like this.

"Freeing Workers From the Insurance Trap"

Update an hour later: The People's Cube has some hilarious stuff under the title [Rejoice! You have been liberated by the

Red Army! Here's a sample:

Credit: Oleg Atbashian, creator and editor of ThePeoplesCube.com. Used by permission of Mr. Atbashian.

Update February 6, 2014: There has been much handwringing from ACA supporters. Several even went so far as to say that even though the labor force will lose 2.5 million workers, that doesn't necessarily mean there will be 2.5 million fewer jobs. At this point, I like to bring out my ultra-simple model of the economy: GDP = labor productivity x number of workers. Fewer workers means lower GDP unless something drastic happens with productivity. (Economic theory says fewer workers should raise the marginal productivity of labor.)

Luckily, CBO Director Dr. Douglas Elmendorf testified before the House Finance Committee. Below is a video showing his reply to questions from Rep. Paul Ryan (R-Wisconsin). Dr. Elmendorf confirms that the reduction in labor supply directly leads to the CBO forecast of lower economic growth.

The February 4, 2014 New York Times includes [an editorial that pegs the Orwell newspeak meter]. Headlined "Freeing Workers From the Insurance Trap" the editorial goes on to laud the virtues of not working. A few excerpts:

> *The Congressional Budget Office estimated on Tuesday that the Affordable Care Act will reduce the number of full-time workers by 2.5 million over the next decade. That is mostly a good thing, a liberating result of the law.*

"Liberated" from a job.

> *The report estimated that — thanks to an increase in insurance coverage under the act and the availability of subsidies to help pay the premiums — many workers who felt obliged to stay in a job that provided health benefits would now be able to leave those jobs or choose to work fewer hours than they otherwise would have. In other words, the report is about the choices workers can make when they are no longer tethered to an employer because of health benefits. The cumulative effect on the labor supply is the equivalent of 2.5 million fewer full-time workers by 2024.*

Apparently all those workers losing their jobs are just quitting or choosing to switch to part-time employment.

> *The report clearly stated that health reform would not produce an increase in unemployment (workers unable to find jobs) or underemployment (part-time workers who would prefer to work more hours per week).*

Yet, somehow, the labor force has shrunk dramatically in the last five years, while both the unemployment and underemployment rates have remained very high. I've written about this in numerous articles, including two from early 2010 (click here and here) and my in-depth study of the labor force participation rate.

Huh? (from Tammy Bruce website)

And I have to point out a major error in this piece. The claim that you can quit your job and not worry about healthcare for the first time is misleading at best. You will still need to purchase individual health insurance, either directly from a provider or on one of the exchanges. If you make the latter choice, I don't think it's fair to say there is "no cost" to this option. Heck, both choices have costs, but using an exchange consumes much more time, exposes your personal data to much more risk, and is more intrusive than the private alternative. And, under the old system, you actually could extend your health insurance after you left a job via COBRA.

The Times editorial board has now officially become a propaganda wing of the Obama administration.

Other opinions on the Times editorial:

Peter Ferrara of Forbes

John Luciew in the The Patriot-News (central Pennsylvania)

[Tammy Bruce](https://www.tammybruce.com)

The Times Has Discovered That Costs Matter in Obamacare

Designing Obamacare by Henry Payne (http://townhall.com/political-cartoons/henrypayne/2013/10/18/112967)

Today's New York Times includes a front-page article that left me gasping with a combination of laughter and indignation. Apparently the Times has discovered that costs matter in Obamacare. Here's the headline and the link:

"New Health Law Frustrates Many in Middle Class"

The long article includes this little gem (emphasis added):

"The Chapmans acknowledge that they are better off than many people, but they represent a ***little-understood*** reality of the Affordable Care Act. While the act clearly benefits those at the low end of the income scale – and rich people can continue to afford even the most generous plans – people like the Chapmans are caught in the uncomfortable middle: not poor enough for help, but not rich enough to be indifferent to cost."

Perhaps this was "little-understood" by the geniuses who run the New York Times. But many economists, including me, pointed out that costs and prices would inevitably rise given the mandates and rules included in Obamacare. It would sure have been nice if the Times editors and reporters had paid some attention to us. Instead we were belittled as "Republican fear-mongers." Except it turns out we were right. The very least the Times could do is ask each of these families who they voted for in the last presidential election.

Thanks a lot, mainstream media. I hope you're happy with the disaster you've imposed on a once-great economy.

Fiscal Cliff Update

It's 5:30 pm here in sunny California, which means it's 8:30 in the bowels of Washington, D.C. **The House of Representatives has just adjourned until after Christmas. That will leave one week to solve the fiscal cliff problem. This is your fiscal cliff update.**

There were two spending bills that passed the House. The first basically **repeals much of the sequestration of Defense Department spending** scheduled to go into effect January 1. **The vote was 315-107** with 110 Democrats voting yes. The second bill **reduces spending on a number of programs** including

SNAP (food stamps), ObamaCare, and Dodd-Frank. [The vote on this was 215-209 with no Democrats voting yes and 21 Republicans voting no.]

But the real problem was taxes. Speaker John Boehner had proposed Plan B, extending all current tax cuts except on households earning more than $1 million per year. After what was apparently a fairly raucous session of the House Republican caucus, the Speaker concluded he did not have the votes. The House then adjourned as noted earlier.

Markets Vote With Their Feet: Stampede for the Exits

Markets have not reacted well. As of 5:30 pm California time, futures markets looked like this ([from FinViz.com]):

Stock Market Futures, 5:30 pm Pacific Time, Sept. 20, 2012

The only one of the five indexes that didn't fall off a cliff (sorry) was the Russell 2000. I'm pretty sure markets are saying they don't like this turn of events.

Two Key Bills Passed

HR 4310, the "National Defense Authorization Ace for Fiscal Year 2013" basically repeals the sequestration scheduled to go into effect January 1. There is a good summary on the House web site.

HR 6684, the "Spending Reduction Act of 2012" cuts spending on a number of programs. There is a good, if wordy, summary on the House web site.

Title I deals with Agriculture. The SNAP program will be reduced.

Title II: Energy and Commerce. The bill amends ObamaCare as follows.

1. Not allow the appropriation of funds to HHS to give grants to states to support creating Exchanges;
2. Not allow the appropriation of funds for the Prevention and Public Health Fund. (See the summary cited above for details.)
3. Not allow the appropriation of funds to set up and run the Consumer Operated and Oriented Plan.

Medicad and the State Children's Health Program (CHIP) would be allowed to reduce eligibility levels below Federal standards. Previously authorized increases in Medicaid payments to territories would be repealed. Provisions that would have paid bonuses to states for enrollment and retention programs for children under Medicaid and CHIP.

Title III is Financial Services. Dodd-Frank would be amended to repeal authority for the orderly liquidation fund and judicial procedures that accompany it. Prohibits the

Secretary of the Treasury from making payments under the Home Affordable Modification Program and other initiatives. The required annual payment from the Fed to the Consumer Financial Protection Bureau would be eliminated (effectively eliminating that bureau).

There is a lot more, but I can’t stand reading it. Not because of what the summary says but because the language is impenetrable bureaucrat-ese.

Conclusion

I sure am happy we bailed out of a lot of our mutual fund holdings three years ago. Unless people in Washington, D.C. come to their senses, this will be a terrific train wreck.