Summary of Baicker & Chandra: The Labor Market Effects of Rising Health Insurance Premiums

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What is the broad research question?

The authors seek to understand how rising health insurance premiums affect labor market outcomes, particularly employment, the distribution on full-time and part-time work, and wages.

What is the specific research question?

How do increases in health insurance premiums influence the labor market via employer and worker channels? The study is on employer provided health care, and seeks to understand how workers respond to rising premiums. They use variation in costs of medical malpractice insurance to instrument for premiums, since premiums can be effected through endogenous channels like ability (higher ability –> better firm –> better insurance –> higher premium). Further, they segment into different sectors to understand how the elasticity changes with different characteristics.

Why would a policy maker care?

A policy maker should care about this for obvious reasons. Primarily, the relevance is in discussion around employer mandates to cover workers, if eligible. Beyond this, there are programs like providing tax credits for purchasing health insurance outside of an employer which this paper would help to explain some of that potential effect through the elasticity analysis.

Why would an economist care?

An economist should care about this from an IO and health perspective, analyzing labor reactions to rising health insurance premiums and the WTP (via wages) of consumers is massively relevant and thus matters. Further, this paper implements a clever instrument and shows its robustness well, giving something of a tutorial of IV by contrasting with a model exhibiting OVB.

What do we learn about economics?

As stated above, we learn a lot about instrumentation and omitted variable bias through their specification process. In terms of results, we find that worker bear the full cost of EHI premium raises, thus seeing decreased wages. They also present findings on labor transitions for workers with different elasticities. Most relevant, those who least value insurance will self select from full-time to part-time work in an effort to maintain wages.

How does the empirical strategy provide an answer?

Their IV is clever. Malpractice insurance is a major driver of premiums raising, and does not effect perceived value of insurance by workers.

Identification threats and overcoming:

One threat mentioned is larger effects contributing than individual level, i.e. state level effects. I could not come up with another. Frankly, I think it is a very clever instrument. They found an instrument which can remove within-state bias, and thus allows for meaningful within-state analysis of the effect of premiums raising which is separate from the malpractice costs. Now, if they wanted a national-level analysis, this would not work as there are too many heterogenous factors across states for the instrument to meaningfully explain much of the effect.