Insight

The ACA, the CBO, and the Jobs

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"The reduction in CBO's projections of hours worked represents a decline in the number of full-time-equivalent workers of about 2.0 million in 2017, rising to about 2.5 million in 2024 …"

Congressional Budget Office, The Budget and Economic Outlook: 2014 to 2024

There has been enormous confusion regarding the economics underneath CBO's projection that 2.5 million (equivalent) jobs will disappear by 2024. Some people fill in the blank in this post's title as "The ACA, the CBO, and the Jobs *Killed*." Others argue for "The ACA, the CBO, and the Jobs *People Choose to Leave Voluntarily*."[1] The average reader likely just shrugs at the whole fuss.

Let's review what the CBO numbers say. First, let's focus on 2024 alone. In that year CBO projects that the unemployment rate will be 5.5 percent — the conventional definition of "full employment." In economists lingo this means "labor supply equals labor demand." The fact that the economy is at full employment when the 2.5 million equivalent jobs are gone means two things:

- If there are 2.5 million fewer (equivalent) people working, but the unemployment rate is unchanged, then the number of those participating in the labor force has dropped by 2.5 million (equivalents). No way around it. If the labor force was unchanged and there were 2.5 million more out of work, the unemployment rate would rise.
- If there are 2.5 million fewer jobs *supplied*, then there must also be 2.5 million fewer jobs *demanded*, as supply equals demand.

But why would small firms, entrepreneurs, and big corporations combine to give up on 2.5 million hiring opportunities and the products and services they produce? Mechanically, those employers would have to pay higher wages; high enough to lure the 2.5 million out of their homes to work despite their access to ObamaCare-subsidized insurance. Unfortunately, at those higher wage rates the employers run losses. It doesn't make economic sense to try to fill the positions, and the jobs are lost.

There are lots of ways to raise wages and eliminate jobs. A higher payroll or other labor tax on employers would do the trick. An onerous workplace regulation that made employees more costly would be equivalent to the tax. Or a direct, economy-wide increase in the minimum wage to, say, $25 an hour would satisfy the objective.

In each of those cases, many would be comfortable saying that the policy "killed" jobs. In the case of the ACA, the channel of influence is more indirect, but the economic impact is exactly the same: The ACA will reduce the number of jobs in our economy.[2]