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Reinsuring Health: Why More Middle-Class People Are Uninsured and What Government Can Do

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could be attributed to finding a job with a growing firm, getting more education, or securing a union job. Newman then chronicles the many different pathways to success by highlighting the real life experiences of the workers who embraced the ethos of hard work, opportunity, and the American Dream and who apparently were rewarded for doing so. The “low riders,” on the other hand, were bogged down by low education and personal problems, and often ended up being chronically unemployed or underemployed. They also relied on welfare and their live-in partners, or on their families, for financial or emotional support. For them, the metaphor of the “chute” seems inappropriate. These low-wage workers were never able to climb high enough on the occupational ladder to reach a “chute” that could bring them downward mobility. Newman herself suggests that many “low-riders” were “bumping along the bottom” or were “down and out,” and this is “the group that welfare-reform skeptics were worried about, and with good reason” (p. 116).

There is a lot to like about this volume. It continues the unfinished story that first began with *No Shame in My Game*. It provides a largely sympathetic view of inner-city minority workers, who share most of the aspirations but few of the opportunities of their white, middle-class counterparts. *Chutes and Ladders* also paints a picture of resilience, perseverance, and optimism among poor minorities, despite the very real economic barriers they face. Indeed, Newman shows that most low-wage workers hold realistic and achievable aspirations or goals about work. Racism and discrimination are acknowledged as a fact of life, but one that is usually repressed or at least “set aside” in order to maintain a positive outlook. Newman also acknowledges the strong role of family and social networks in mobility processes. And she calls for the usual policy prescriptions, such as improving educational opportunities (for example, through Pell Grants), expanding the Earned Income Tax Credit (especially at the state level), ensuring health care for everyone (but especially for poor children), and providing affordable child care.

The main limitation of the book is obvious: much of the analysis is based on a sample of only 40 mostly black and Hispanic workers drawn nonrandomly from a Harlem neighborhood. Is the generally optimistic story Newman tells generalizable to the food-service industry or to other low-wage workers nationally? And are the results describing upward mobility during the expansionary period of the mid- to late 1990s still applicable in the current period of slower job growth? To her credit, Newman addresses these

questions with supplementary national analyses of low-wage workers from the *Survey of Income and Program Participation*. Newman’s claim that her main qualitative conclusions are “confirmed in the national data set” is comforting, but also arguably eliminates the need for this study. To be sure, the workers’ own words provide useful insights about their harsh experiences in the work force, but those first-hand observations are used mostly in service to Newman’s optimistic quantitative results, which in the end will leave the most lasting impression.

Policy-makers and analysts also may be disappointed in the concluding chapter on specific policy prescriptions (for example, expanded EITC); it is mostly boilerplate and represents a particular political bent. This generic discussion arguably could have been written by any liberal or progressive policy center and without any of the rich qualitative analyses presented in this book. I had hoped for more discussion of family-strengthening provisions of the 1996 welfare reform bill and other state efforts to promote marriage, especially since Newman found that married workers did much better than their single counterparts over the study period. In any event, such discussion is probably moot from Newman’s perspective. The concluding chapter is not especially optimistic that these policies will be enacted anytime soon in light of America’s current anti-tax ethos, the drain on the nation’s resources from the war in Iraq, and growing income inequality. Newman worries instead that the “shredding” of America’s social safety net “will drag [us] back to the bad old days when those born poor stayed that way” (p. 288).

Clearly, the story that began with *No Shame in My Game* remains unfinished in *Chutes and Ladders*. The final chapter—yet unwritten—most probably will be one of intergenerational poverty and inequality. It will be revealed when the adult children of this sample of low-wage workers navigate work and family life themselves, and when they, like their parents, are exposed to the often random job chutes and ladders that either define failure or lead them safely into the middle class.

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Reinsuring Health: Why More Middle-Class People Are Uninsured and What Government Can Do.

By Katherine Swartz. New York: Russell Sage Foundation, 2006. 176 pp. ISBN 0-87154-787-2, \$24.95 (cloth).

A source of perennial concern about the U.S. health insurance system is the large fraction of the population that lacks health insurance. The most recent estimates indicate that roughly one in six non-elderly individuals are uninsured. In spite of decades of policy initiatives aimed at increasing insurance coverage—such as public insurance expansions and guaranteed issue and renewal laws—the nation still finds itself with a large, and growing, population of uninsured individuals. While insurance rates have improved in recent years for children and the very poorest households, they have deteriorated for adults with higher incomes. Indeed, members of the middle class currently face a higher probability of being uninsured than they did a quarter-century ago. These troubling facts provide the backdrop, and motivation, for Kathy Swartz's *Reinsuring Health*.

Reinsuring Health offers a timely and policy-relevant assessment of problems in the market for middle-class insurance coverage, and advocates a potential solution. The premise of the book is that “health insurance is out of reach for an ever-expanding number of people,” especially the middle class (p. 12). Using a range of quantitative and qualitative evidence, Swartz carefully documents this claim and identifies the trends that underlie it. In particular, she attributes the increased incidence of uninsurance among the middle class to shifts in the labor market, including increased reliance on temporary employees and a growing prevalence of jobs in smaller, service-sector firms. For a variety of reasons, including adverse selection and economies of scale, individuals and small employers tend to pay much higher premiums than large employers. In addition, Swartz argues that increased health care costs have led to higher premiums and increased incentives for insurers to employ selection mechanisms to avoid insuring higher-risk individuals.

The middle section of the book highlights existing policies for addressing these issues, such as high-risk pools. These pools provide a mechanism for individuals who have been denied coverage, due to risk factors such as chronic illness, to buy policies. But, as Swartz argues, such policies target individuals based on *ex ante* predictions of costs rather than *ex post* realization of costs and, thus, do not provide any incentive for insurers to decrease their use of selection mechanisms.

The last section is the real heart of the book: a proposal for federal “reinsurance” for private health insurers. Under Swartz's proposal, the

federal government would reimburse insurers for a share of the medical expenses of the very top spenders in the small- and non-group pools. As she explains, this proposal simultaneously mitigates both the affordability and adverse selection problems that are documented in the first section of the book. Since the majority of health care costs are incurred by a very small fraction of patients, her proposal has the effect of transferring a sizeable fraction of the cost—and the risk—of small- and non-group health care to the government. Since this proposal decreases both the expected cost of insuring any given individual and the uncertainty surrounding that expected cost, it would substantially decrease insurance premiums in the small- and non-group markets. Indeed, Swartz anticipates a 20-40% decrease in premiums (p. 11). The decreased premiums would make insurance more affordable for the higher risks and more attractive to the lower risks, drawing them into the market and further lowering premiums. In addition, the fact that reinsurance decreases the risk faced by insurers implies a lower return to insurer selection mechanisms. Thus, this proposal addresses the two key concerns with the small- and non-group insurance markets that are underscored in the first section of the book.

Some of the most interesting material in the book is relegated to the appendix. The appendix describes the role of the federal government in providing reinsurance in, for example, secondary mortgage markets and flood loss insurance markets. In addition, it highlights three examples of the use of reinsurance in health insurance markets. For instance, the “Healthy New York” program provides reinsurance for insurers who participate in a non-group health insurance market for lower-income individuals. This example seems exceedingly relevant both as a blueprint for the types of changes that this book advocates and as an opportunity to evaluate the likely impact of those changes. As such, I was surprised that discussion of this program was largely limited to two paragraphs in the appendix. The text suggests that “Healthy New York” has been successful in providing insurance to individuals at high risk of being uninsured, with government costs that are lower than expected. Thus, it seems like a great potential source for direct empirical evidence in support of Swartz's proposal.

The book's arguments are logical and well supported by the evidence, but they are occasionally too strongly worded. For instance, Swartz writes that if a policy (such as reinsurance) reduces insurers' risks of paying for very high medical bills, “the costs of using selection mechanisms will then exceed their advantages” (p. 85). I agree

with the principle expressed by this statement: reinsurance would certainly decrease the benefit of using selection mechanisms. On the other hand, it is unclear how large the costs of using selection mechanisms are and, to the extent that the insurance companies continue to bear any risk from relatively high spenders (and they do, under her proposal), the benefits from selection will remain above zero. Therefore, the incentives for using selection mechanisms are unlikely to be completely eradicated.

The book is very thorough, careful, and heavily end-noted. With this type of policy change, “the devil is in the details,” as Swartz writes (p. 109). Accordingly, she does not gloss over the details, but lays out the issues that would need to be addressed and anticipates a myriad of potential concerns. For example, to prevent large-scale geographic redistribution as a result of the vast regional differences in health care spending (which appear to be unrelated to population health status or health care quality), she suggests differential reinsurance cut-off parameters in different parts of the country. Similarly, she recommends standardizing benefit packages in order to avoid providing more generous subsidies to those who buy the most generous insurance policies.

Where the book has limitations, it is upfront about them. One such limitation, in my opinion, is the estimates of the government costs associated with implementing the proposal, which I suspect are understated. Swartz estimates that government reinsurance for the small- and non-group insurance markets would cost roughly \$19 billion per year (in 2005 dollars) and would add 15 million uninsured individuals to the insurance rolls. At roughly \$1,300 per newly insured individual, these estimates sound relatively cost-effective. However, this type of reinsurance program would decrease premiums in the small- and non-group markets sufficiently that some larger employers might drop their plans and some employees might switch, either voluntarily or involuntarily, to the small- and non-group markets, raising the costs of the program. Swartz is upfront about the fact that these cost estimates exclude such behavioral responses, and recommends that “a microsimulation model should be used to arrive at a more sophisticated estimate” (p. 119).

Although it is written by an economist, this book is intended for a broader audience. It is not focused on a new theoretical model or novel empirical evidence. Rather, it lays out a carefully reasoned rationale for reinsurance in the small- and non-group health insurance markets, and does so in a non-technical, accessible manner. As the next Presidential election approaches

and the nation’s attention turns to health care policy, this book makes a valuable contribution to the dialogue.

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Poverty and Discrimination. By Kevin Lang. Princeton, N.J.: Princeton University Press, 2007. xiii, 408 pp. ISBN 13-978-0-691-11954-0, \$60.00 (Cloth).

Kevin Lang writes, “the goal of this book is to help you distinguish the good [quantitative] research from the rest” (p. 9). He achieves this goal by discussing accessible statistical studies of important poverty and discrimination issues and commenting on their strengths and limitations. So that readers understand the social and intellectual context of the studies that are presented, much of the book discusses major theories, important empirical evidence, and key policy issues relevant for understanding and reducing poverty and discrimination in the United States. Informing readers about these substantive issues is the second, more obvious purpose of *Poverty and Discrimination*. The close integration of substantive and methodological issues is a novel approach that many instructors will find attractive.

The opening chapter quickly prepares readers for this integrative approach by discussing how research on poverty and discrimination has evolved since the early studies of the negative income tax. It also remarks on the roles of statistical analysis and values in policy analysis. Chapter 2 discusses the measurement of poverty. Chapter 3 is titled “The Evolution of Poverty Policy,” but in it the historical review of federal poverty policy since 1970 gets short shrift. The chapter quickly moves from describing policies to laying out analytic issues such as how the Earned Income Tax Credit may affect labor supply. Chapter 4 describes trends in poverty. It takes readers through a careful accounting exercise that identifies major factors behind the trends and sets the stage for Chapter 5’s discussion of labor market policies. Chapter 6 turns to family structure issues and the broad range of programs aimed at helping disadvantaged infants and toddlers. Chapter 7 briefly considers concentrated poverty, neighborhood effects, programs to help residents of high-poverty areas relocate, and community development. The discussions of education policy and welfare reform in Chapters 8 and 9 are more detailed and probing than the policy discussions in earlier chapters.