

Abstract

We investigate the effect of employer-provided health insurance on job mobility rates and economic welfare using a search, matching, and bargaining framework. In our model, health insurance coverage decisions are made in a cooperative manner that recognizes the productivity effects of health insurance as well as its nonpecuniary value to the employee. The resulting equilibrium is one in which not all employment matches are covered by health insurance, wages at jobs providing health insurance are larger (in a stochastic sense) than those at jobs without health insurance, and workers at jobs with health insurance are less likely to leave those jobs, even after conditioning on the wage rate. We show that for inefficient mobility decisions to occur in our framework requires that firms be heterogeneous with respect to their costs of providing health insurance. We estimate the primitive parameters of the model using data from the SIPP 1996 panel and find that the empirical implications of the estimated model are in accord with both the data and anecdotal evidence. Heterogeneity in the distribution of firm costs of health insurance does lead to some inefficient (in the short-run) mobility decisions, but the vast majority of moves from job to job are associated with productivity improvements.

1 Introduction

Health insurance is most often received through one's employer in the United States. According to U.S. Census Bureau statistics, almost 85 percent of Americans with private health insurance obtain their coverage in this manner. This strong connection between employment decisions and health insurance coverage has resulted in a substantial amount of research exploring the possible explanations for and impacts of this linkage. One branch of the literature has investigated the relationship between employer-provided health insurance and job mobility. In spite of a substantial amount of research on the issue, the relationship between health insurance coverage and mobility rates has not as yet been satisfactorily explained. Basing their arguments largely on anecdotal evidence, many proponents of health care reform claim that the present employment-based system causes some workers to remain in jobs they would "rather" leave since they are "locked in" to their source of health insurance. While it is true that individuals with employer-provided health insurance are less likely to change jobs than others (Mitchell, 1982; Cooper and Manheit, 1993), the claim that health insurance is the cause of this result has not been established. Madrian (1994) estimates that health insurance leads to a 25 percent reduction in worker mobility, while Holtz-Eakin (1994) finds no effect, even though they use an identical empirical methodology. Building on their approach, Buchmueller and Valletta (1996) and Anderson (1997) arrive at an estimate of the negative impact of health insurance on worker mobility that is slightly larger (in absolute value) than Madrian's, while Kapur (1998) concludes there is no impact of health insurance on mobility. The most recent and only paper in this literature that attempts to explicitly model worker decisions, Gilleskie and Lutz (2002), finds that employment-based health insurance leads to no reduction in mobility for married males and a relatively small (10 percent) reduction in mobility for single males. Using statewide variation in continuation of coverage mandates, Gruber and Madrian (1994) find that an additional year of coverage significantly increases mobility, which they claim establishes that health insurance does indeed cause reductions in mobility. While this literature has extensively examined how the employment-based health insurance system affects mobility, the more pressing welfare implications have largely been ignored (Gruber and Madrian (1997) and Gruber and Hanratty (1995) are notable exceptions).

If health insurance coverage is strictly a nonpecuniary part of the compensation package offered by an employer, like a corner office or reserved parking space, the theory of compensating differentials would predict a negative relationship between the cost (or provision) of health insurance and wages conditional on the value of the employment match. Somewhat surprisingly (from this perspective), Monheit et al. (1985) estimate a positive relationship between the two. Subsequent research has attempted to exploit potentially exogenous variation from a variety of sources in order to accurately identify the "effect" of health insurance on wages. Gruber (1994) uses statewide variation in mandated maternity benefits, Gruber and Krueger (1990) employ industry and state variation in the cost of worker's compensation insurance, and Eberts and Stone (1985) rely on school district variation in health insurance costs to estimate the manner in which wages are affected. All three conclude that most (more than 80 percent) of the cost of the benefit is reflected in lower wages. In addition, Miller (1995) estimates significant wage decreases for individuals moving from a job without insurance to a job with insurance. Hence, the research that examines to what extent health insurance costs are passed on to employees finds that a majority of the costs are borne by employees in the form of lower wages.

These results from the two branches of the literature seem inconsistent on the face of it. If individuals are bearing the cost of the health insurance being provided to them by their employer, why are they apparently less likely to leave these jobs? In addition, the absence of a conceptual framework that is consistent with many of the empirical findings on "job lock" and the indirect

