HEALTH INSURANCE AND JOB CREATION BY ENTREPRENEURS (SUMMARY)

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HEALTH INSURANCE AND JOB CREATION BY ENTREPRENEURS

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Principal Topic

In recent times, the issue of job creation by small firms has generated a lot of debate. Studies by several authors show that the rates of gross job creation (and destruction) are highest among small firms. Surprisingly, despite all the attention devoted to the “job creation” attributes of small businesses, there has been an insignificant amount of research on the hiring decisions of entrepreneurs. Why do the bulk of small businesses employ less than 9 people, and why are more than 50% of small businesses sole-proprietorships with no employees?

This paper highlights the impact of health insurance regulation as a factor affecting expansion of small firms. Health insurance is regulated at the state level by the use of state mandated health benefits. These regulations mandate minimum levels of certain benefits as part of policies offered, e.g. Chiropractic services, mental illnesses etc. The cost effect varies due to differences in state laws.

For this study, we use data from the Survey of Income and Program Participation (SIPP) dataset for the period 1993-95, available from the Census. The measure of job creation reported in SIPP is a grouped variable. Thus the business owner is asked whether the number of employees was 0, between 1 to 2, between 3 to 5 or 6 and more. Estimation of the model is by Maximum Likelihood, using Ordered Probit (with random effects).

We estimated the impact of mandates using the sum of all the mandates in a state, as well as a cost-weighted measure of the most expensive mandates, such as alcohol, mental health and drug abuse. Results suggest that the larger the number of mandates in a state, the lower the probability of firm expansion. Being male, married, college educated and owning a house increases the chances of employing more workers. High business income is associated with more hiring. Controlling separately for the effect of having health insurance coverage, the coefficient estimates suggest that having own insurance significantly increases the probability of moving from a sole trader to a small business employer firm. A weighted average of costs of mandated benefits also enters significantly negatively in the regression. Thus analyzing the impact of health insurance costs in the context of job creation gives us interesting insights into the problems and adversities faced by small firms, as they try to survive and grow.

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