

Long-Term Empirical Trends Related to the Grand Bargain

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Pre-Workers' Compensation

- Common Law States
 - Full Compensation when Employer Negligent if
 - Fellow Servant not cause accident
 - Worker negligence did not contribute
 - Worker had not assumed risk
- Actual court process costly
 - 90 % or more settlements
 - doctrines as threat points loosely guiding
 - About 50 % fatal accidents compensated
 - Year's income for those compensated
 - Many nonfatal accidents no compensation

Grand Bargain

- Replace Negligence Liability with Strict Liability for all workplace accidents
 - Payments up to 2/3s of weekly wage for up to 5-6 years for fatal and long term disability
 - Often limited to lower % by weekly maximums
 - More streamlined administration
 - Much higher share of accidents compensated
 - Actual average compensation higher

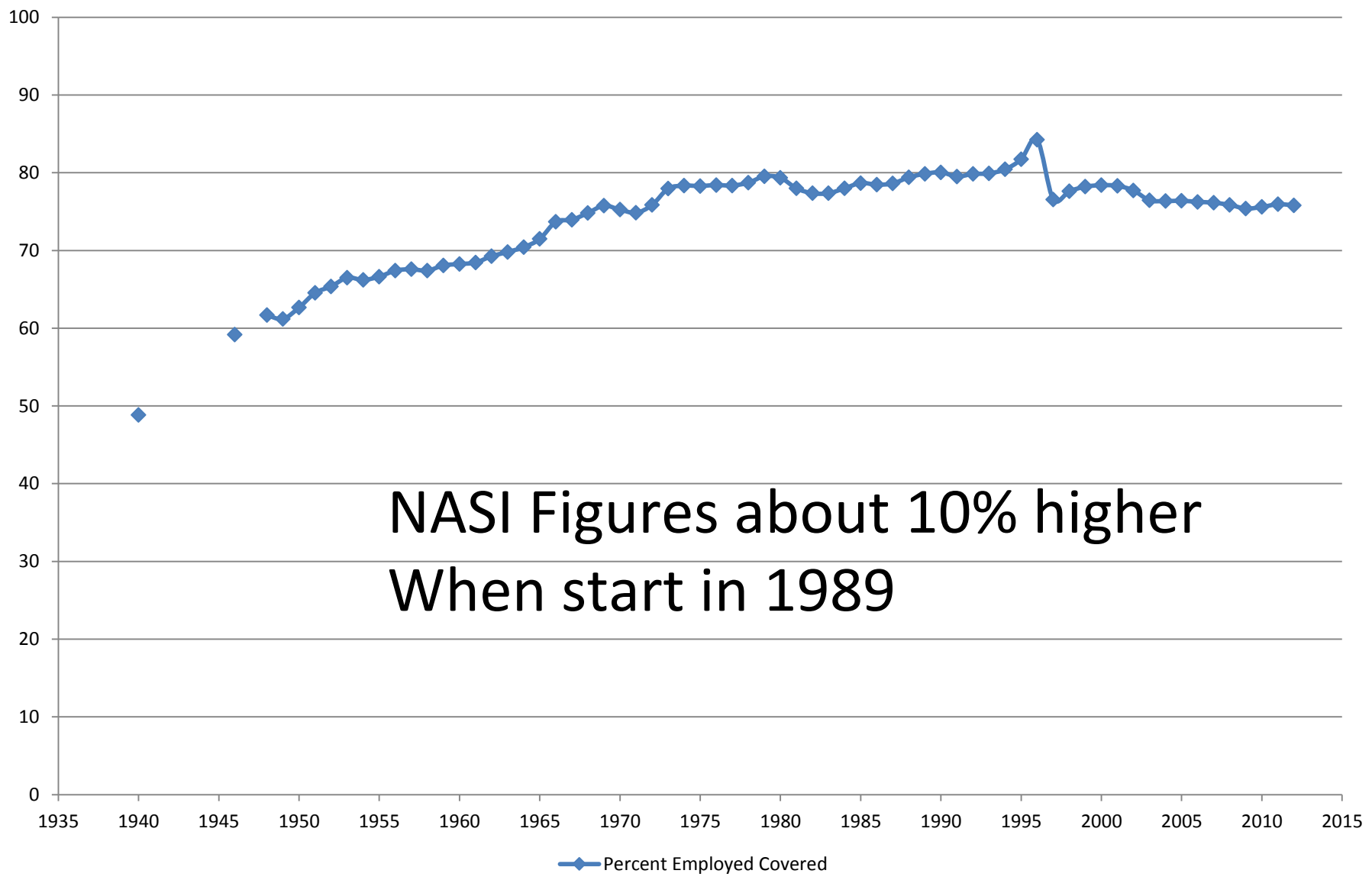
Most people in interest groups gained

- Employers
 - reduced uncertainty of jackpot verdicts
 - Nonunion passed costs to workers through lower wages
- Workers
 - Higher post-accident payments
 - Even if fully pay for benefits through lower wages, insurance better than precautionary savings
- Insurers
 - Sell more insurance, unless state fund established
 - Coverage of all workers in workplace reduces adverse selection (attracting higher than expected risk)
 - Benefits of 2/3 or less of wage controls moral hazard (more protection leads to less safe actions)

Long-Term Trends

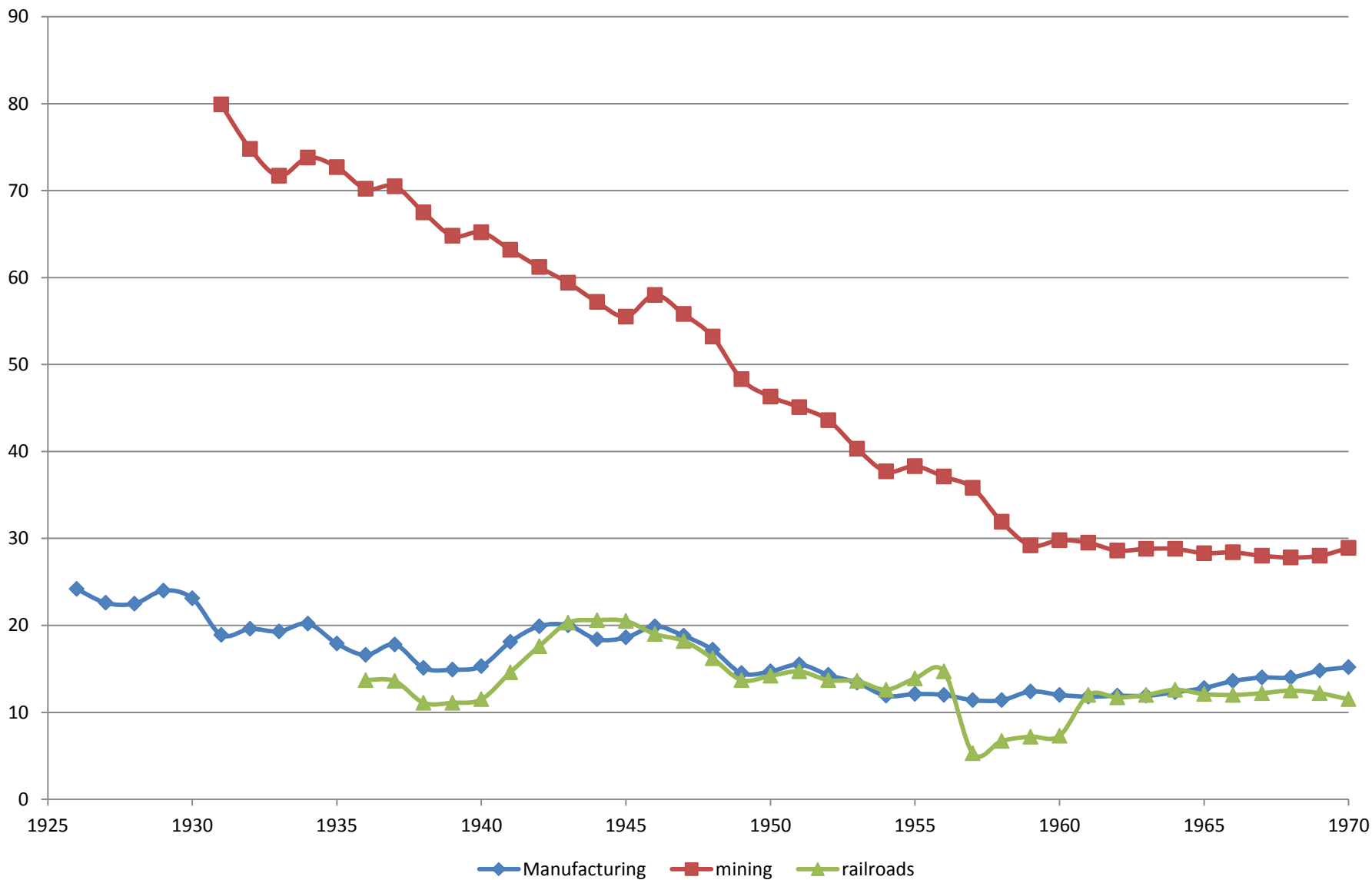
- Good
 - Expansion of workers covered
 - Reduction in accident risk within industry and shifts to less dangerous industries
 - More coverage occupational disease
 - Maximums tied to state weekly wage after 1970s BIG CHANGE
- Bad and Ugly
 - Higher medical costs, not necessarily more treatment
 - Gaming system on both sides (fraud and moral hazard)
 - Admin costs of system rise
 - It seems like the problems are arising in shortfalls in the administration of the law,
 - Access, determining extent of injury, measuring claimants weekly wage

Percent of BLS Employment Covered by Workers' Compensation, 1940-2012, Interpolated with NASI after 1996

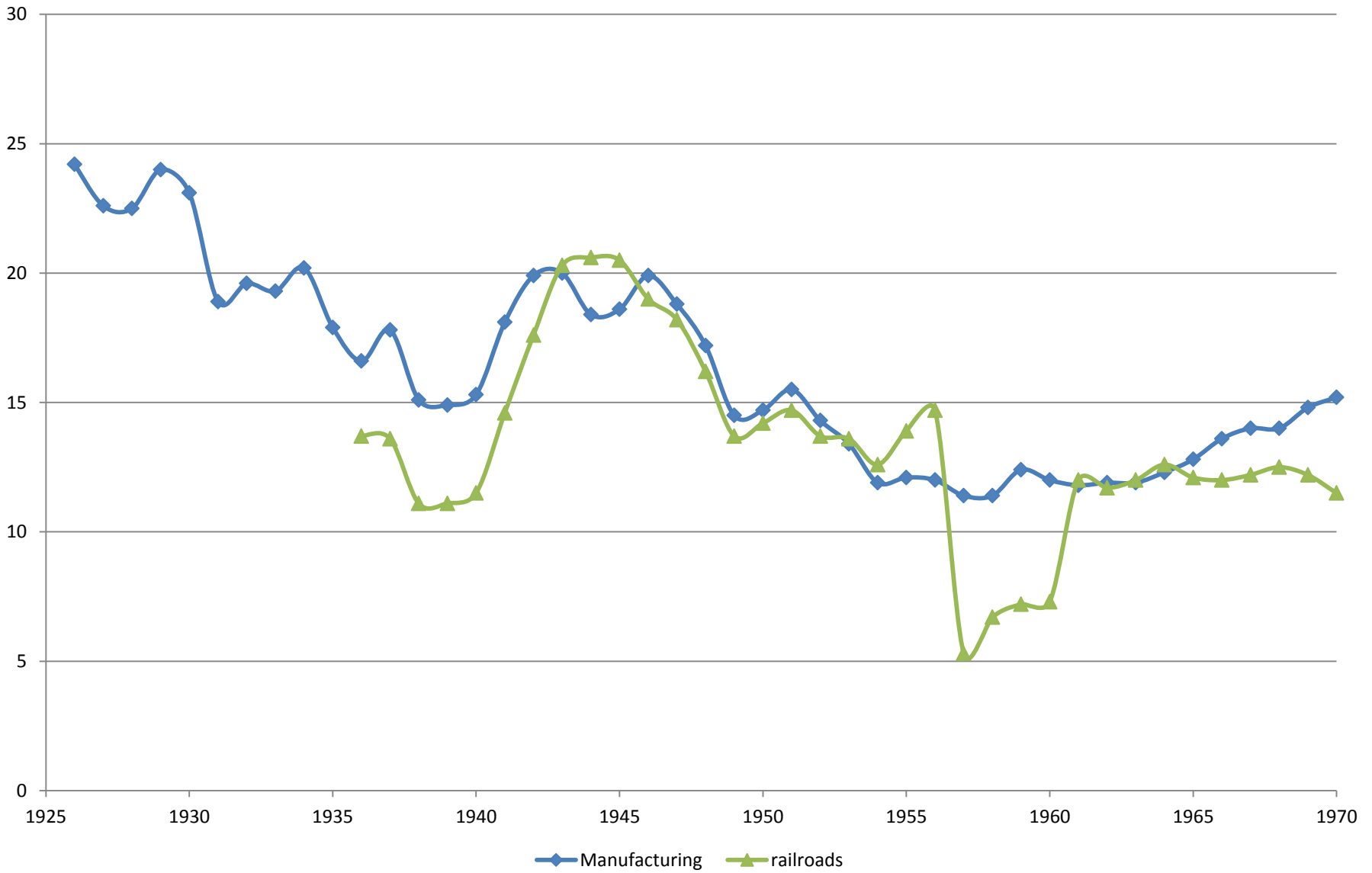


NASI Figures about 10% higher
When start in 1989

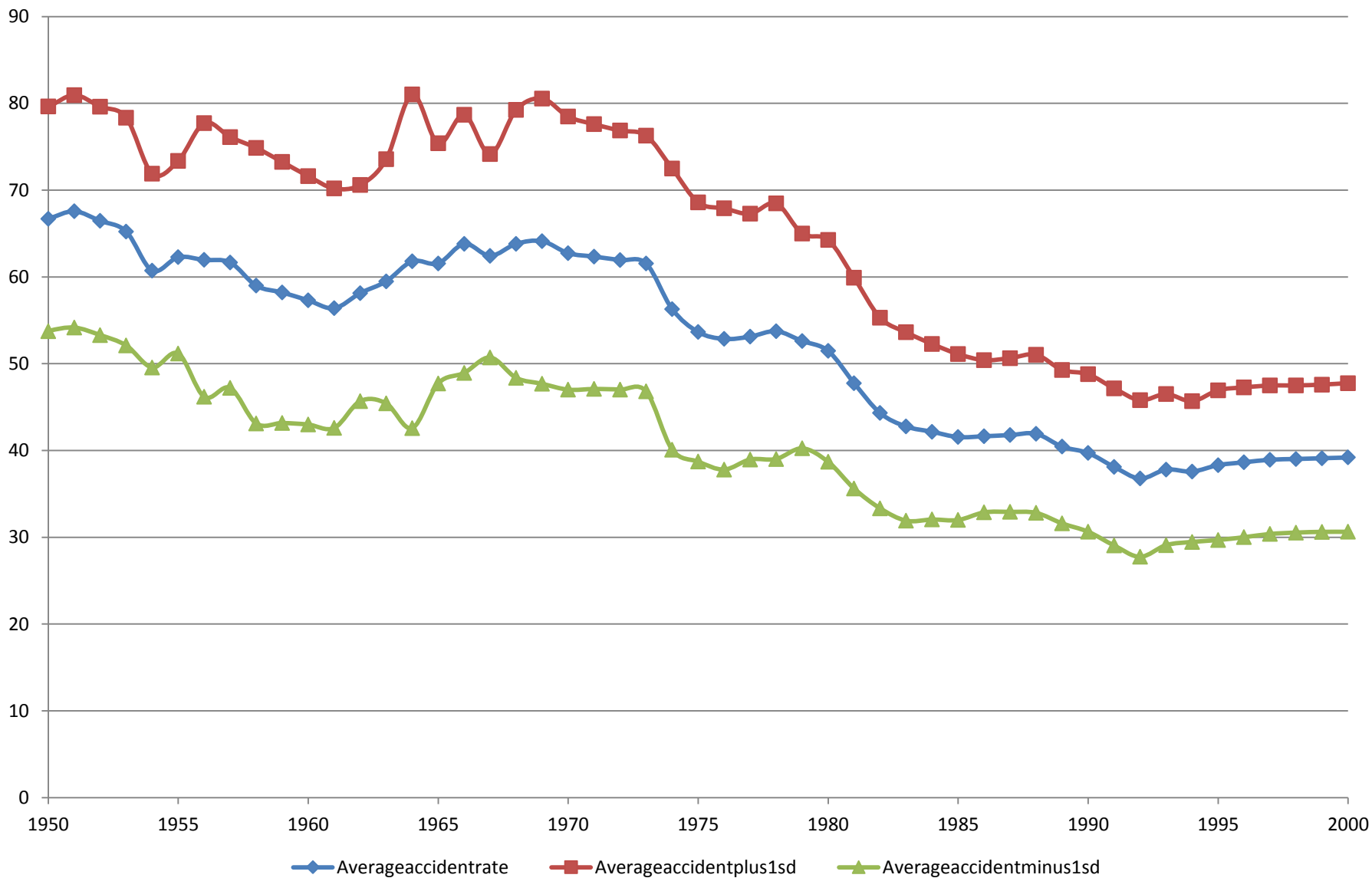
Injury Rates per Million Man Hours in Manufacturing, Mining, and Railroads Before 1971



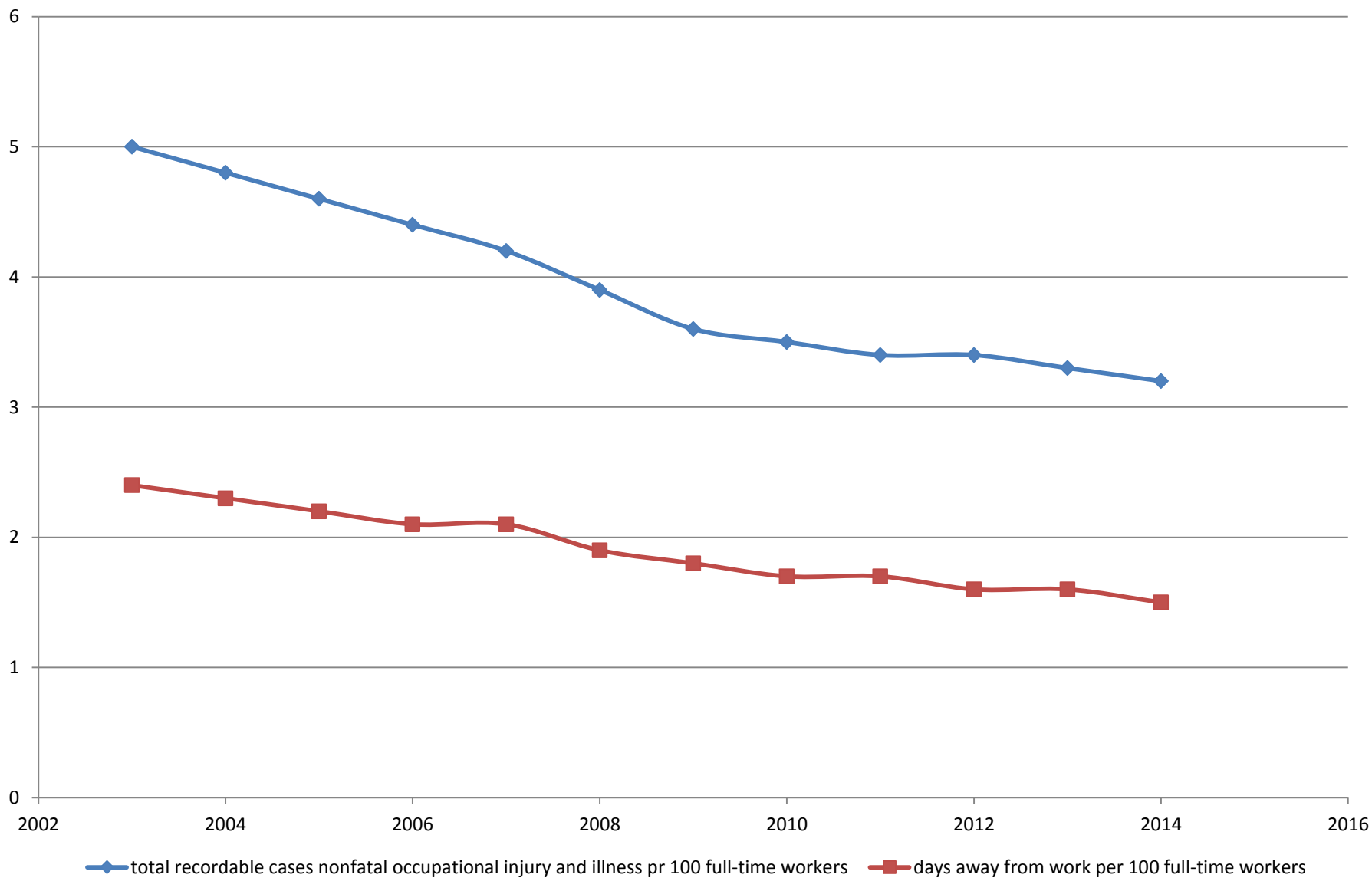
Injury Rates per Million Man Hours in Manufacturing, and Railroads Before 1971



Average Accident Rate for the States in Each Year with One Std. Deviation Bounds, 1950-2000



BLS Cases of Nonfatal Occupational Injury and illness and Days Away from Work per 100 full-time workers, 2003-2014

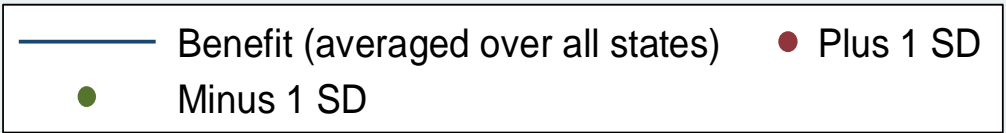
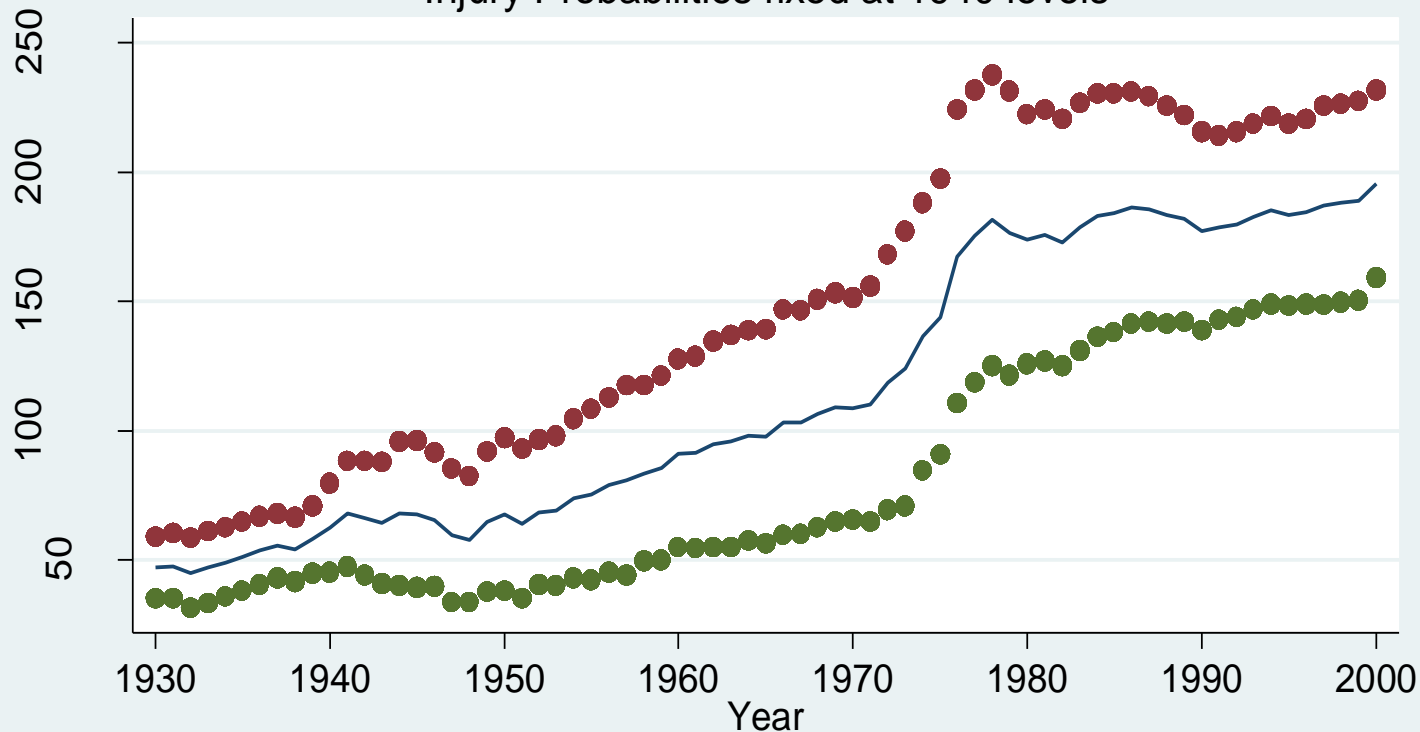


Factors Influencing Nonmedical Statutory Benefits

- Sam Allen Calculated Expected Benefit
- Prob Acc * Official Benefit Payment (may differ from actual)
 - 4 types of accidents
- Use National weekly wage as basis each year
 - Only moves due to statutory differences across states
- Probability Two ways
 - Fixed at 1940 accidents
 - Allow accident rates to vary over time

Real Expected Workers' Compensation Benefits

Injury Probabilities fixed at 1940 levels



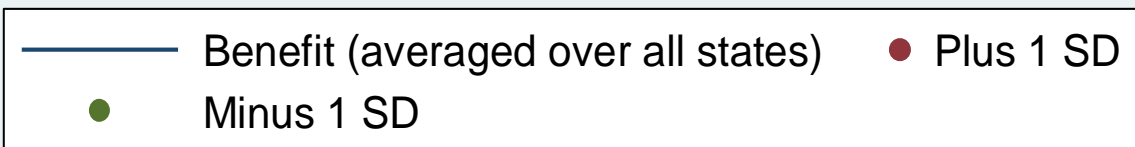
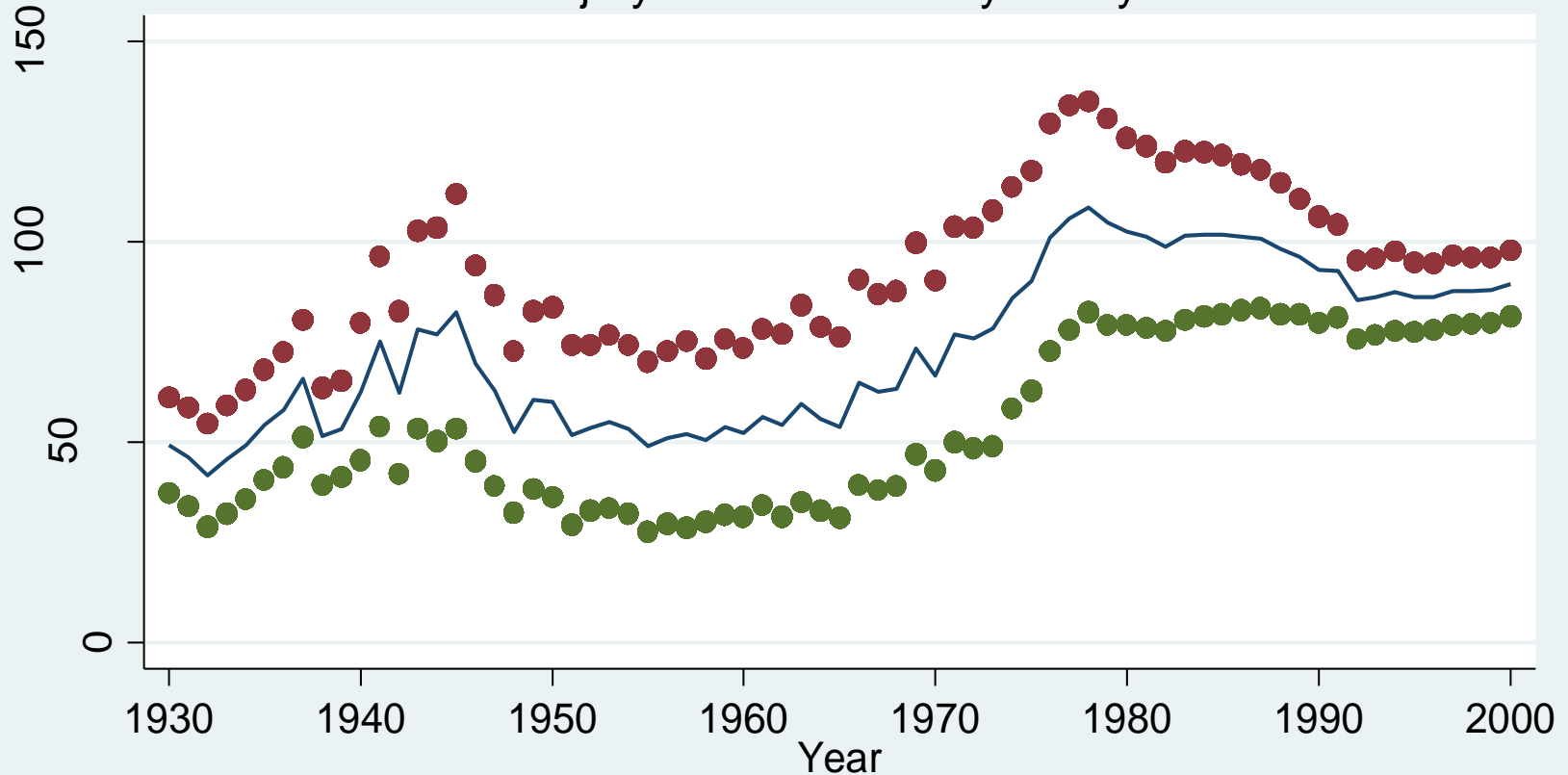
[Values in real 2000 US dollars]

Source: Appendix

These are Nonmedical and based on statutes

Real Expected Workers' Compensation Benefits

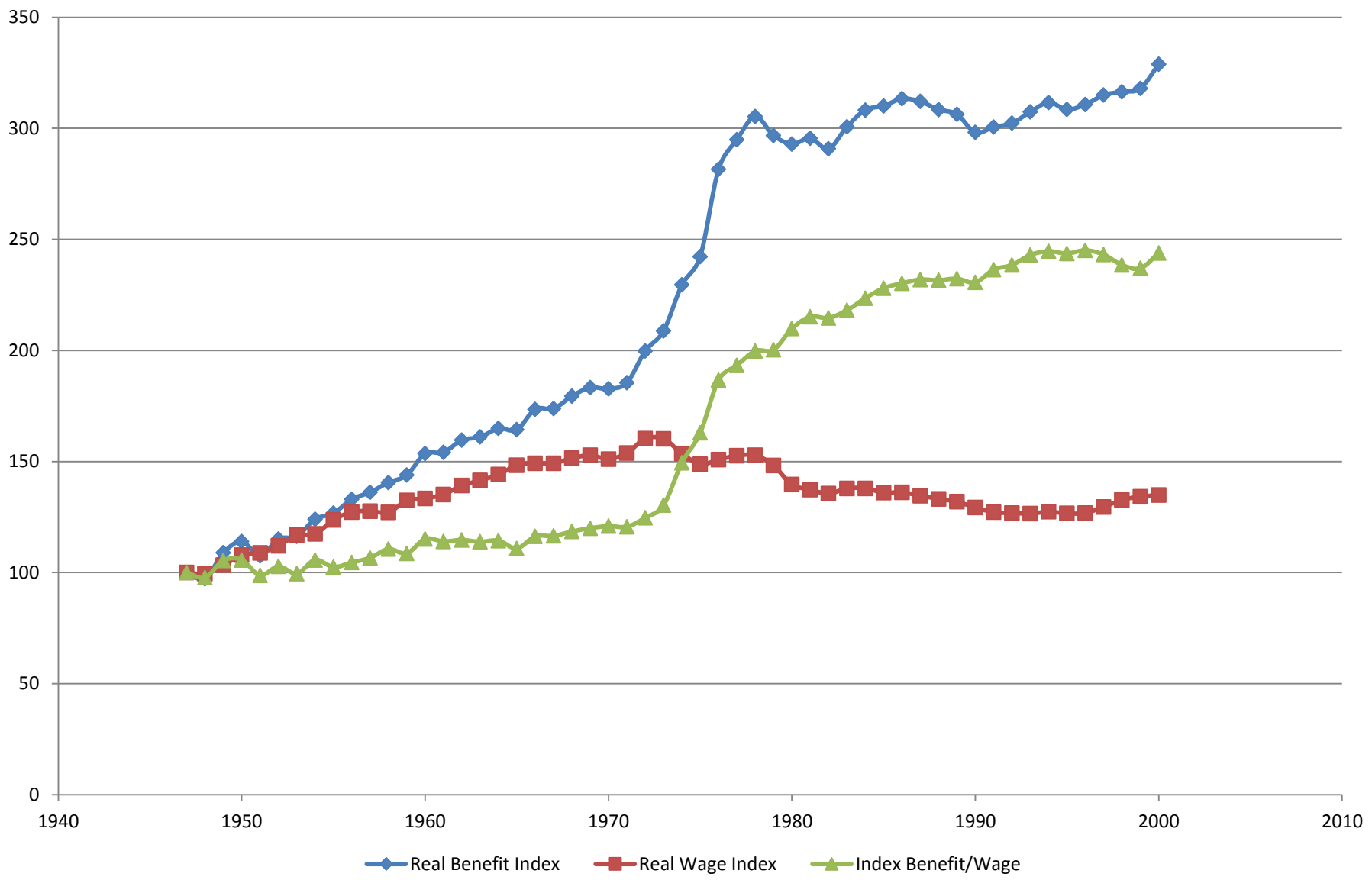
Injury Probabilities vary Yearly



[Values in real 2000 US dollars]

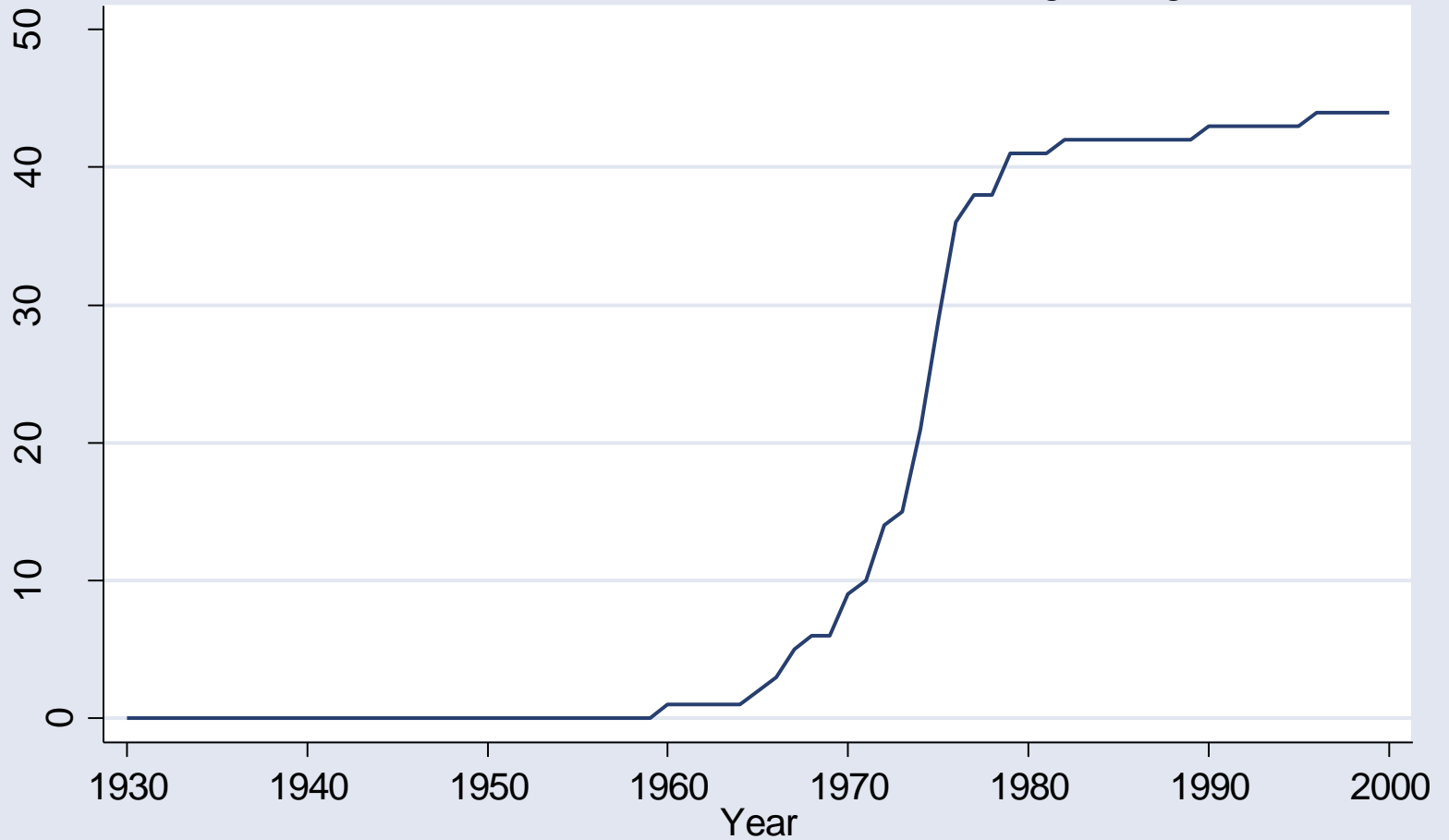
Source: Appendix

**Indexes Real Wage, Expected WC Wage Replacement, Ratio (1947=100),
1947-2000, Based on National Wages, no change in accident rate**



Indexed Weekly Maximum Benefits: 1930-2000

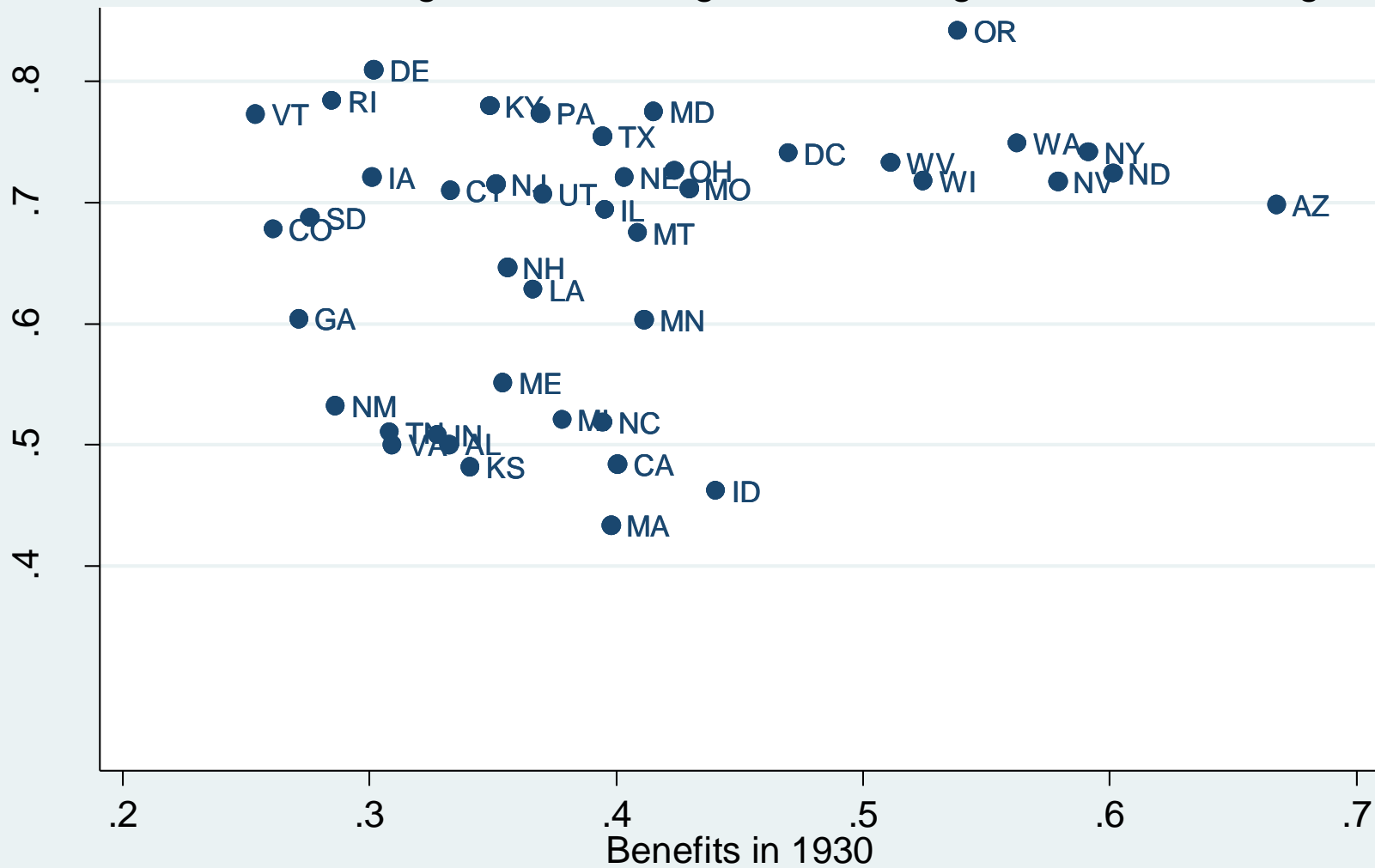
Flexible Maximums based on State Average Wages



Source: US Chamber of Commerce & State Session Laws

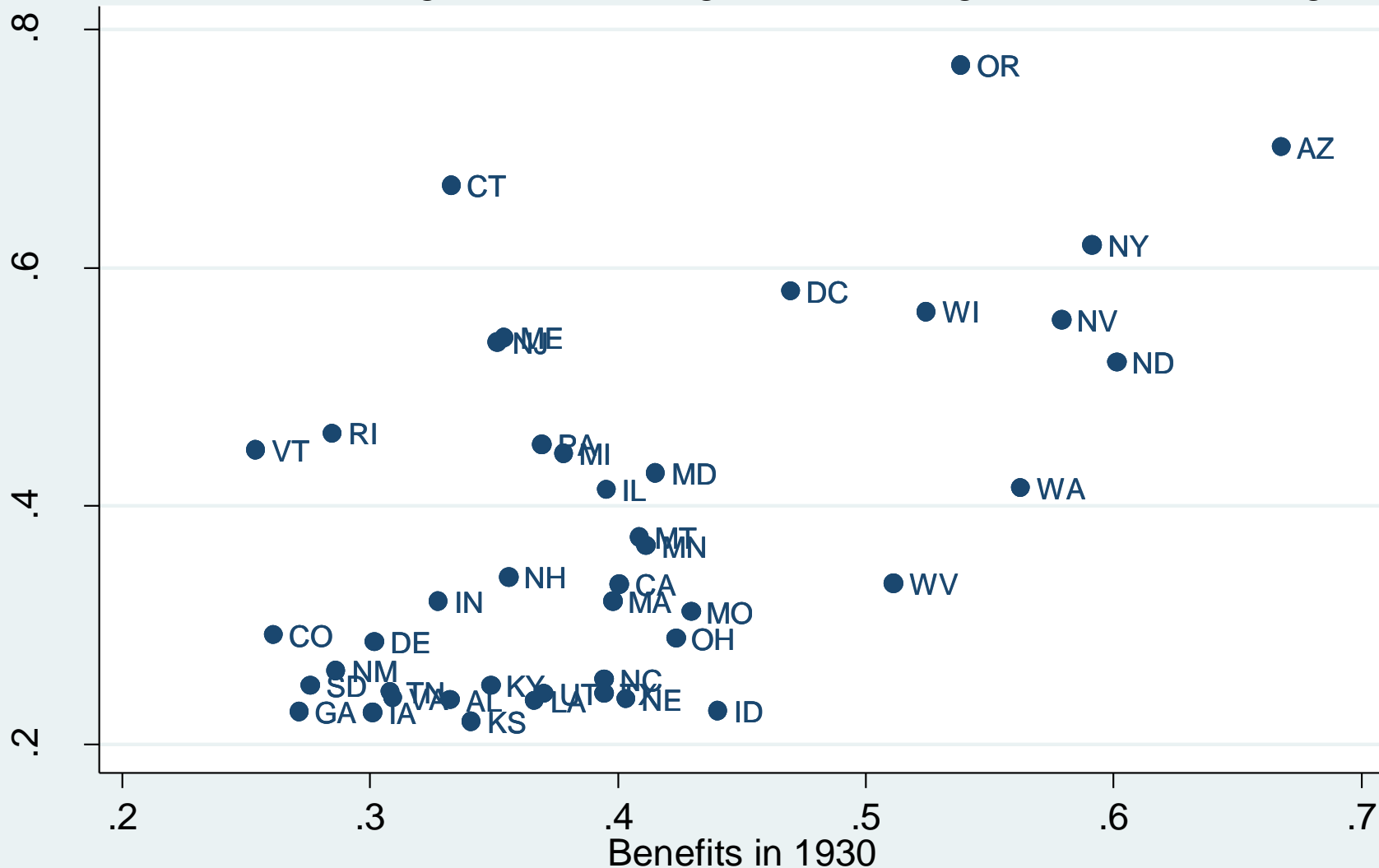
Relative Expected Benefits

As a Percentage of the Average Annual Wage in Manufacturing



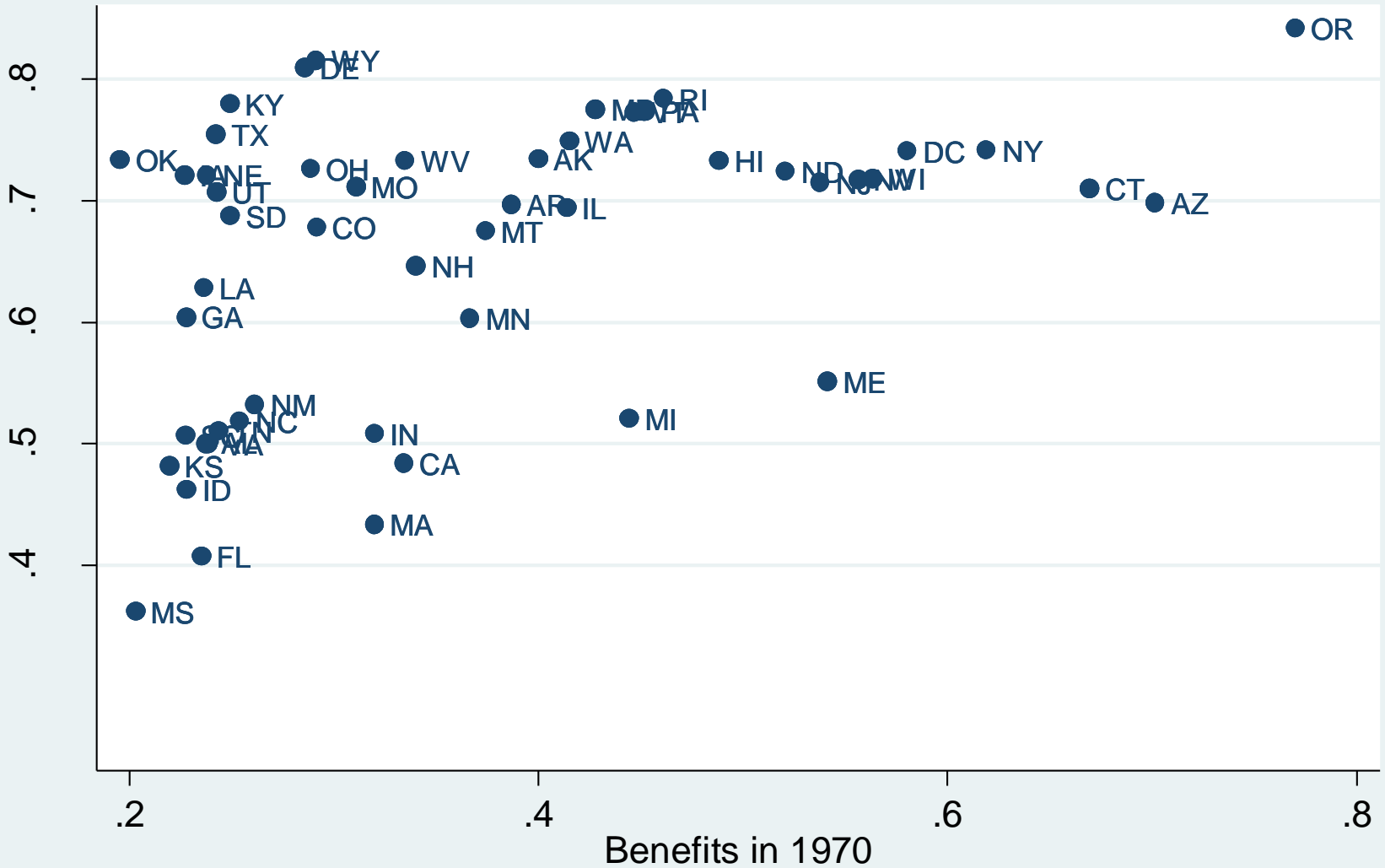
Relative Expected Benefits

As a Percentage of the Average Annual Wage in Manufacturing



Relative Expected Benefits

As a Percentage of the Average Annual Wage in Manufacturing



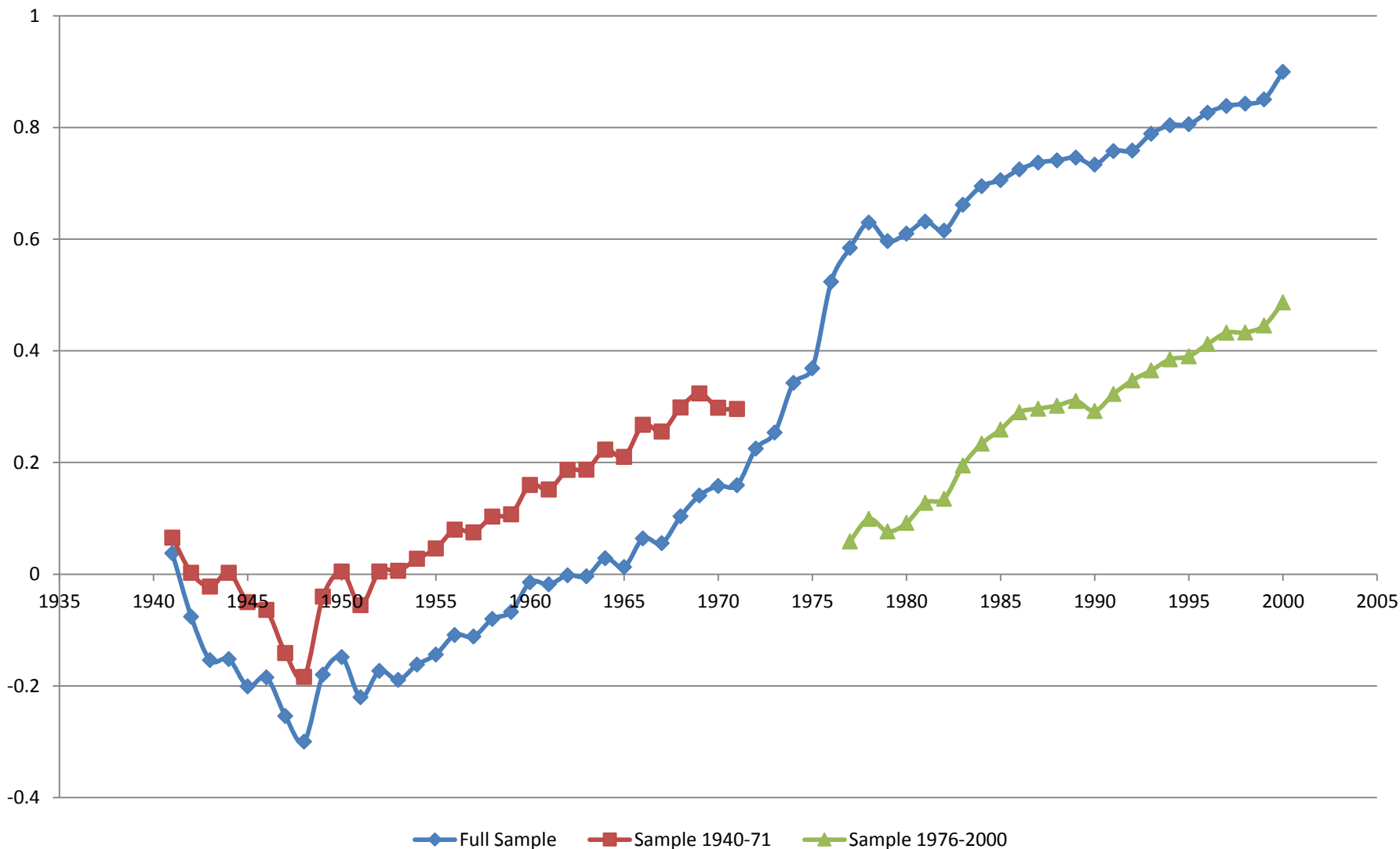
Factors Influencing Expected Real Statutory Benefits (1940 Acc. Rates)

- State Panel 1940-2000
- Identifying effects by changes across time within states, controlling for national shocks each year
- Relationships Change Markedly After 1972 Report with Transition to Indexing

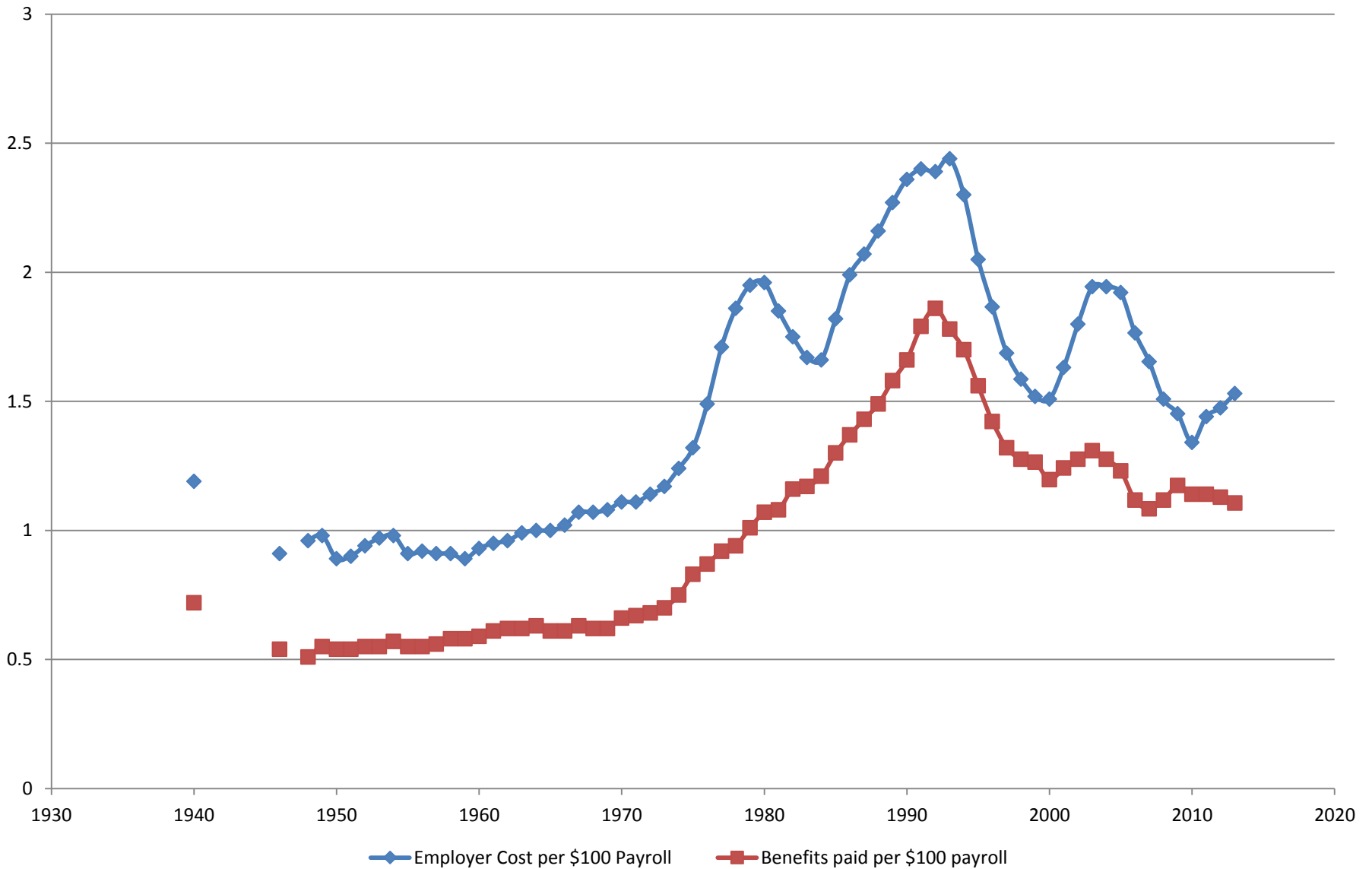
Pre-1972 vs. Post-1975

- Expected Statutory Benefits are
- Higher by 0.22% pre and 0.27% post with 1 % rise in **average weekly wage** in state
- Lower by 12.4 % pre and higher by 2.2 % post in elective states
- Not affected by Democratic governors pre but are 4 % higher with nonSouth democrats and -6 % lower with Southern Democrats
- Union has little effect in either sub-period (does have 0.8 % for 1% effect in whole sample)
- 43% higher in state fund states in pre but -5% lower in state fund state post

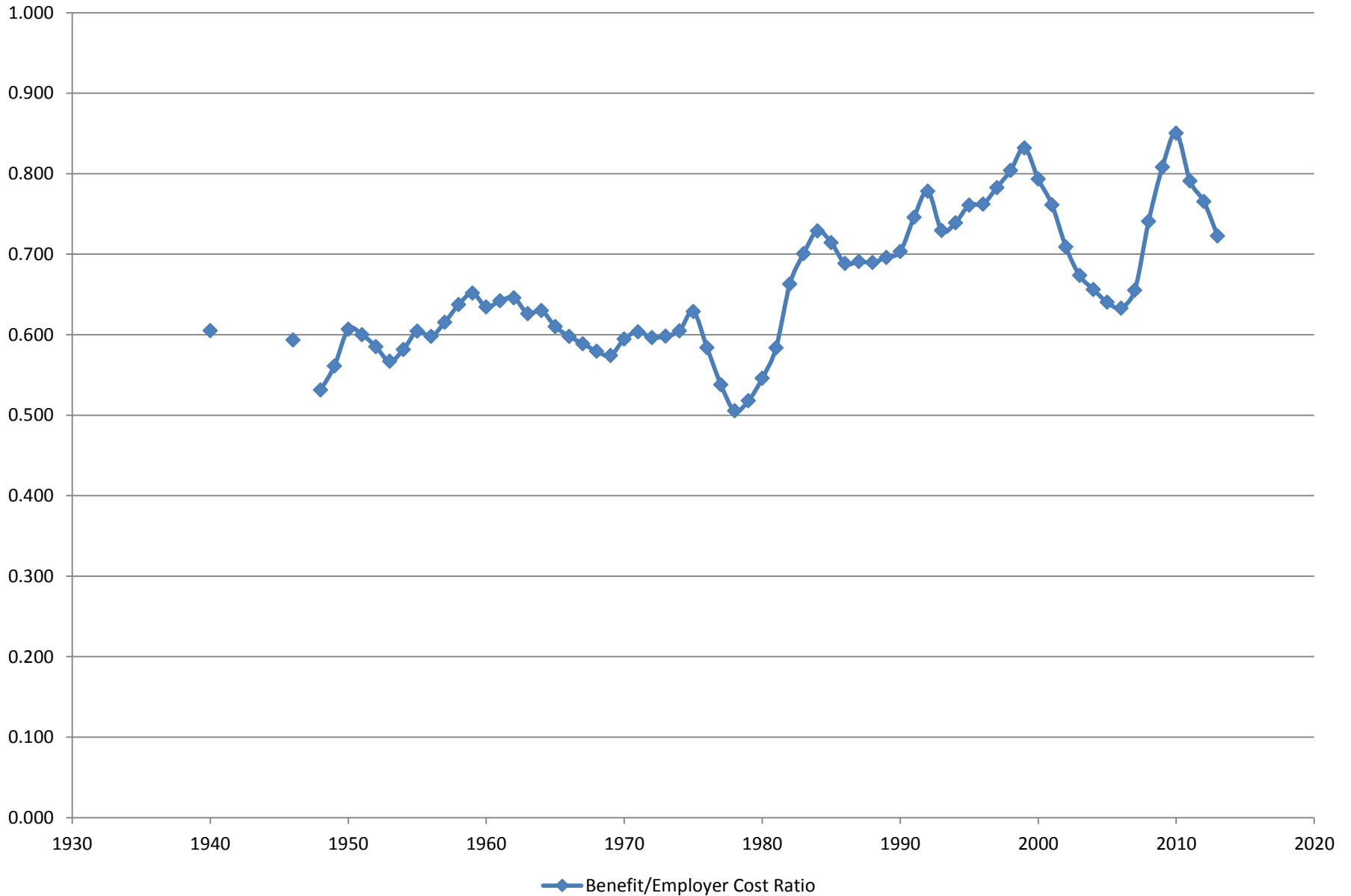
Average Change in Real Expected Statutory Benefits within States Related to National Annual Shocks After Controlling for Major Correlates, Fixed Effects from Different Samples



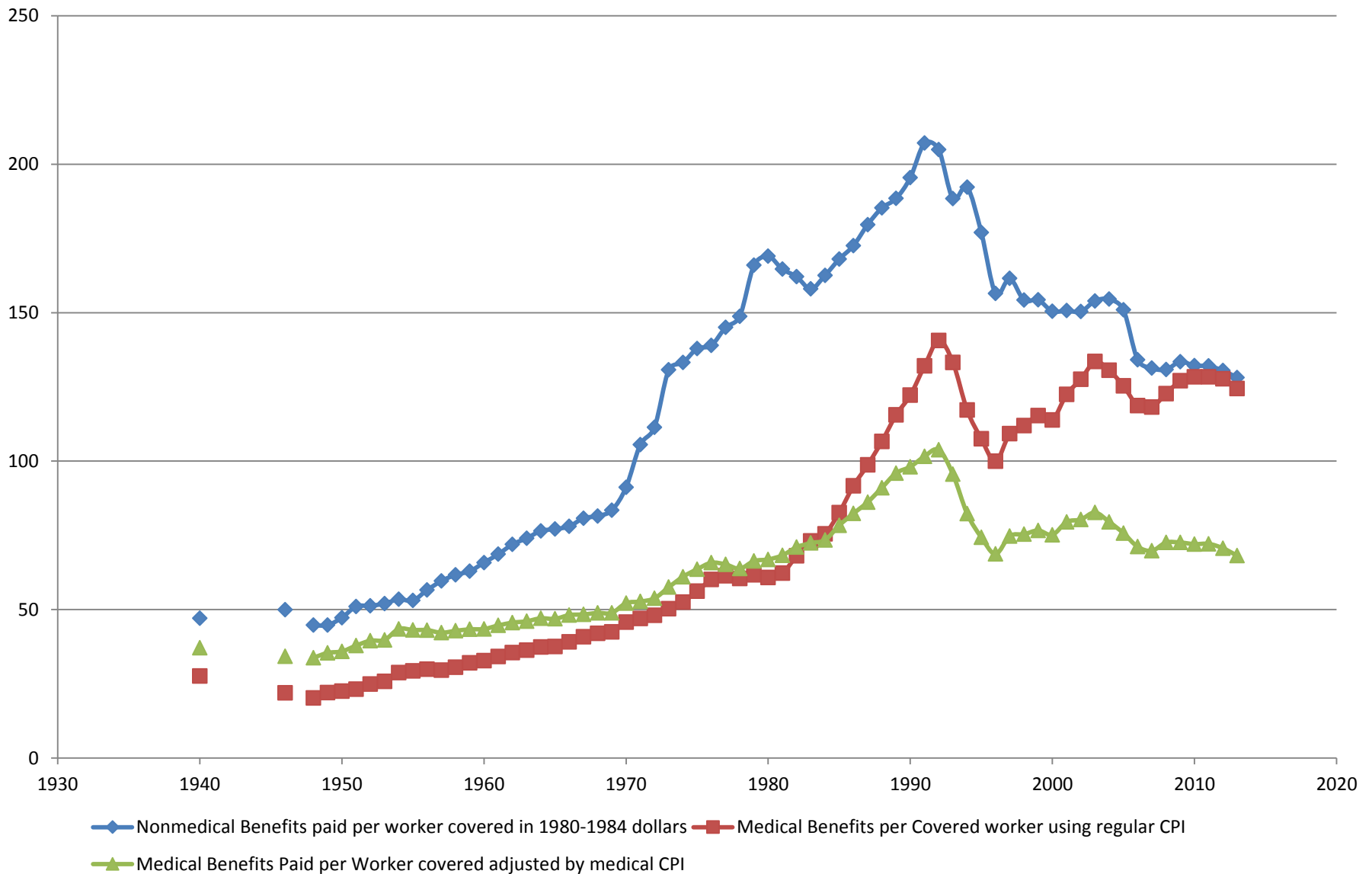
Actual Employer Cost and Benefits Paid per \$100 of Covered Payroll, 1939-2012



Benefit/Employer Cost Ratio, 1940-2012



Nonmedical and Medical Benefits per Covered Worker, Adjusted for Inflation with CPI and Medical CPI, 1939-2012



Does WC Improve Safety

- Depends Heavily on the Incentives provided by Insurers.
- In Theory will work if employer can change industry groups.
- Within industry groups, insurer premiums adjust to
 - Experience rating
 - Inspection rating

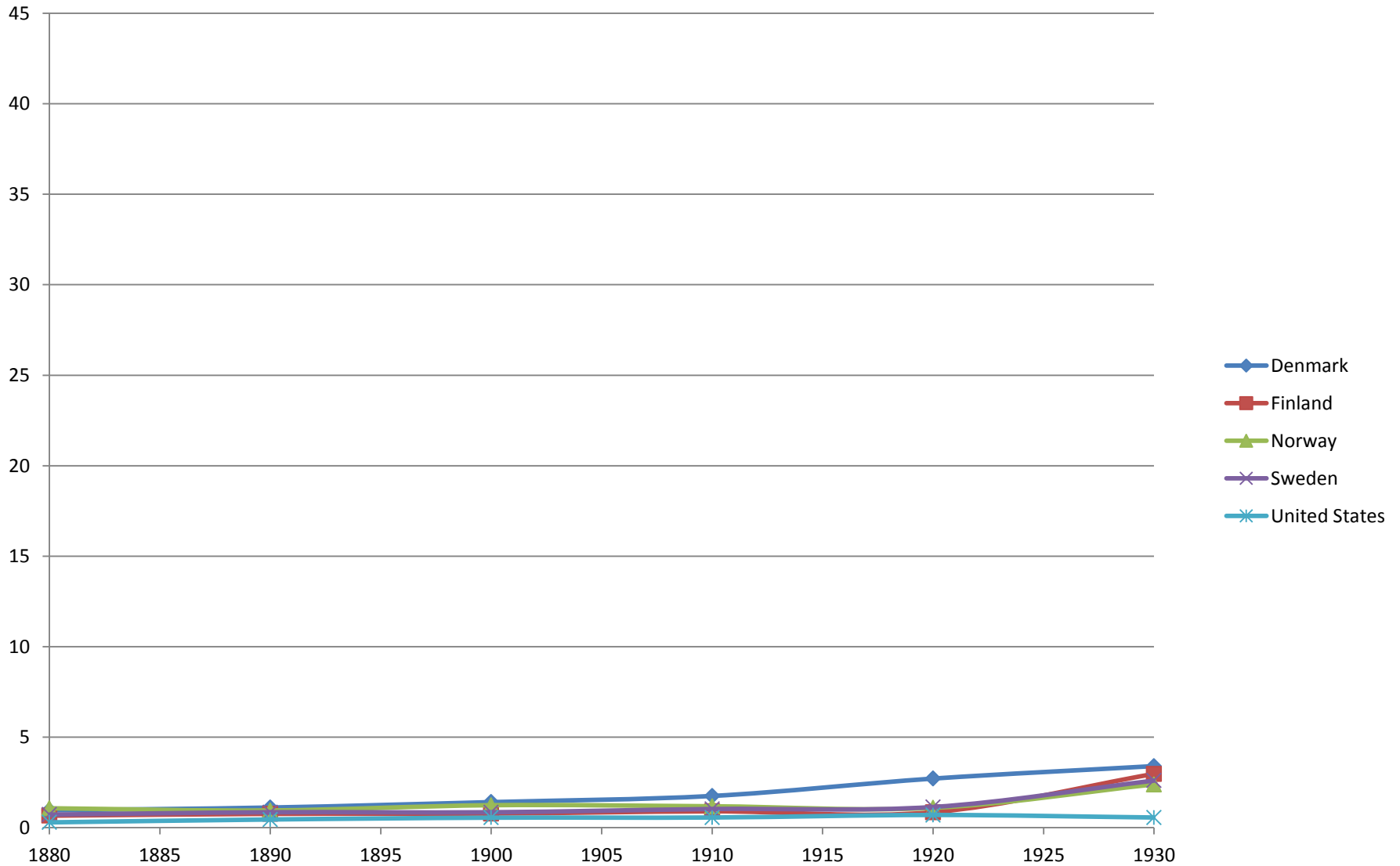
Experience Rating

- Example: Horse Racing Trainers in CA
- Range of Premiums based on experience rating was \$35 per \$100 on payroll to \$70 per \$100 on payroll
- We did find that wages are lower in areas with higher WC benefits.
 - If wages respond, it seems likely that safety would respond as well.

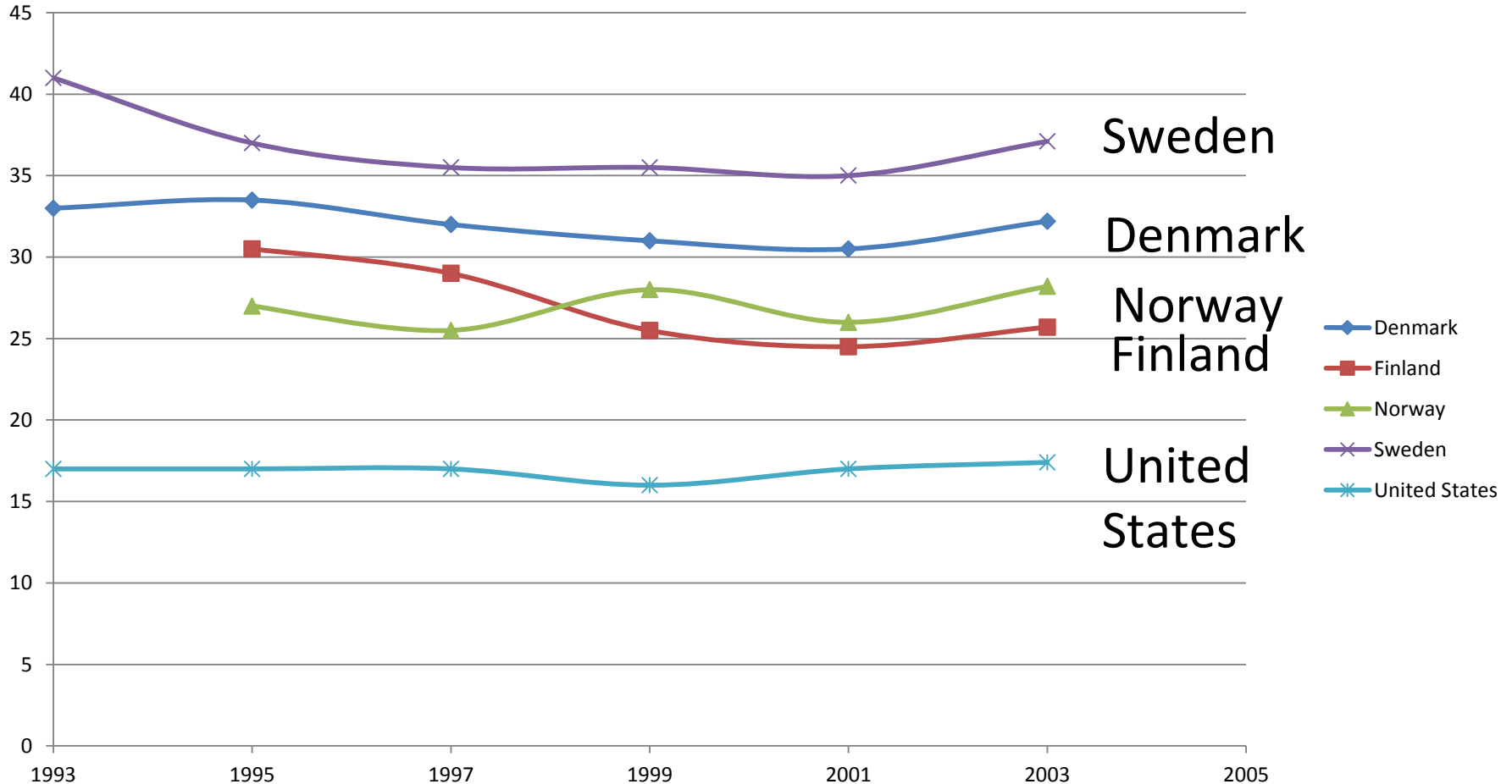
Social Insurance Expenditures in U.S. and Nordic Countries

- Relative Size of Social Insurance Expenditures in Differences in the U.S. is larger than people think
- Why?
 - Differences in taxation of benefits
 - Differences in mandate
 - % of GDP versus PPP Dollars.
 - Private versus Public

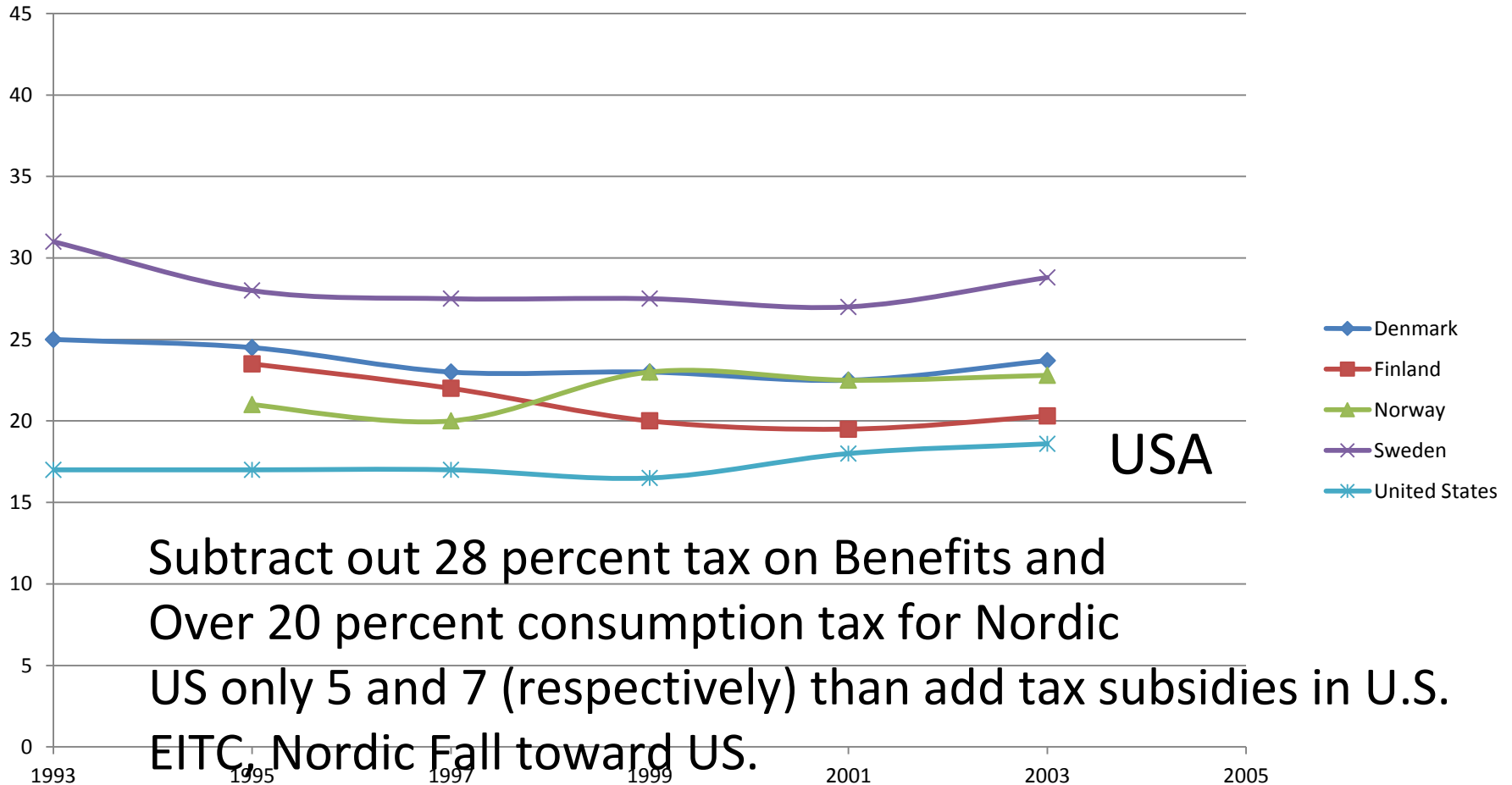
Government Social Spending as Share of National Product, 1880-1930



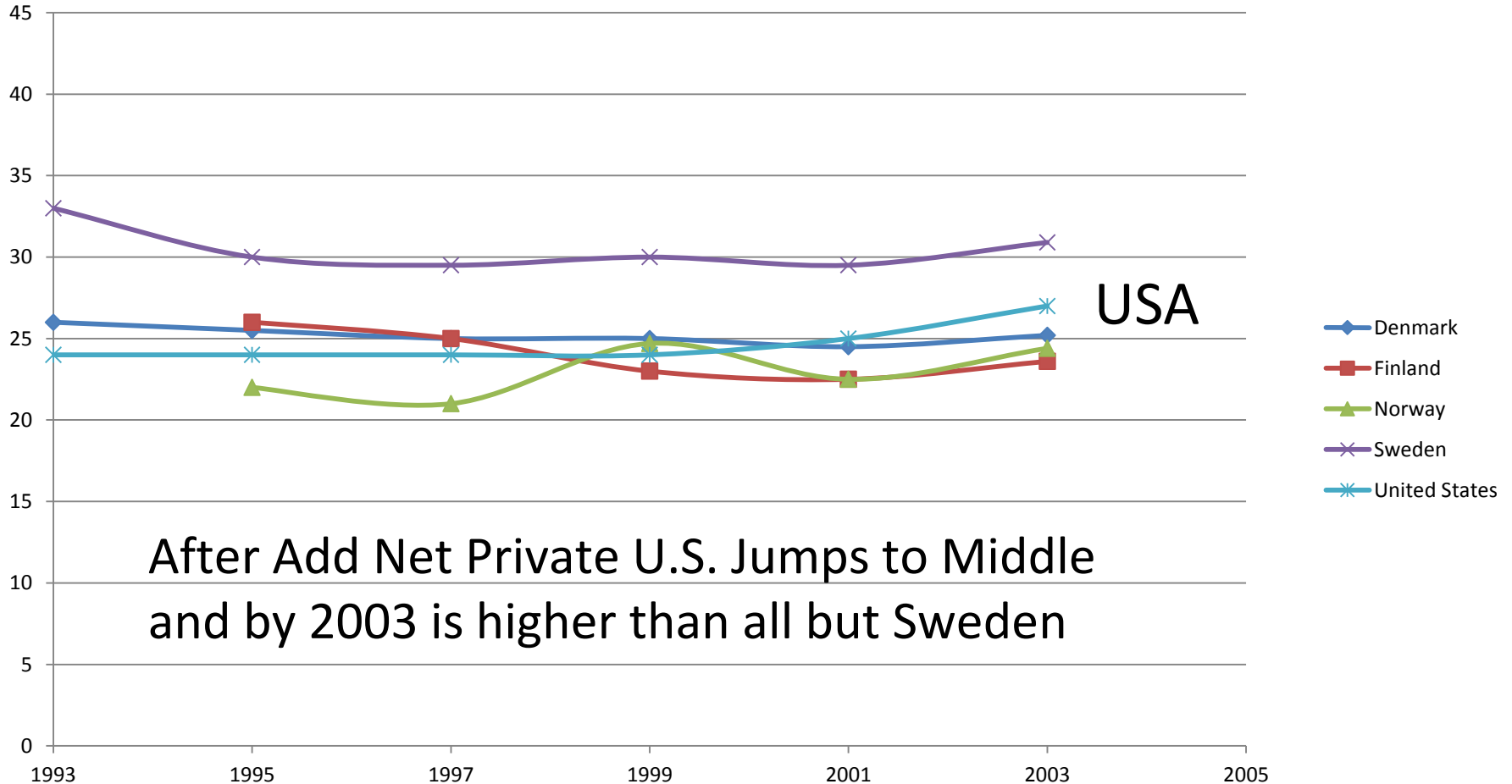
Gross Public Social Welfare Spending as a Percent Relative to GDP, 1993-2003



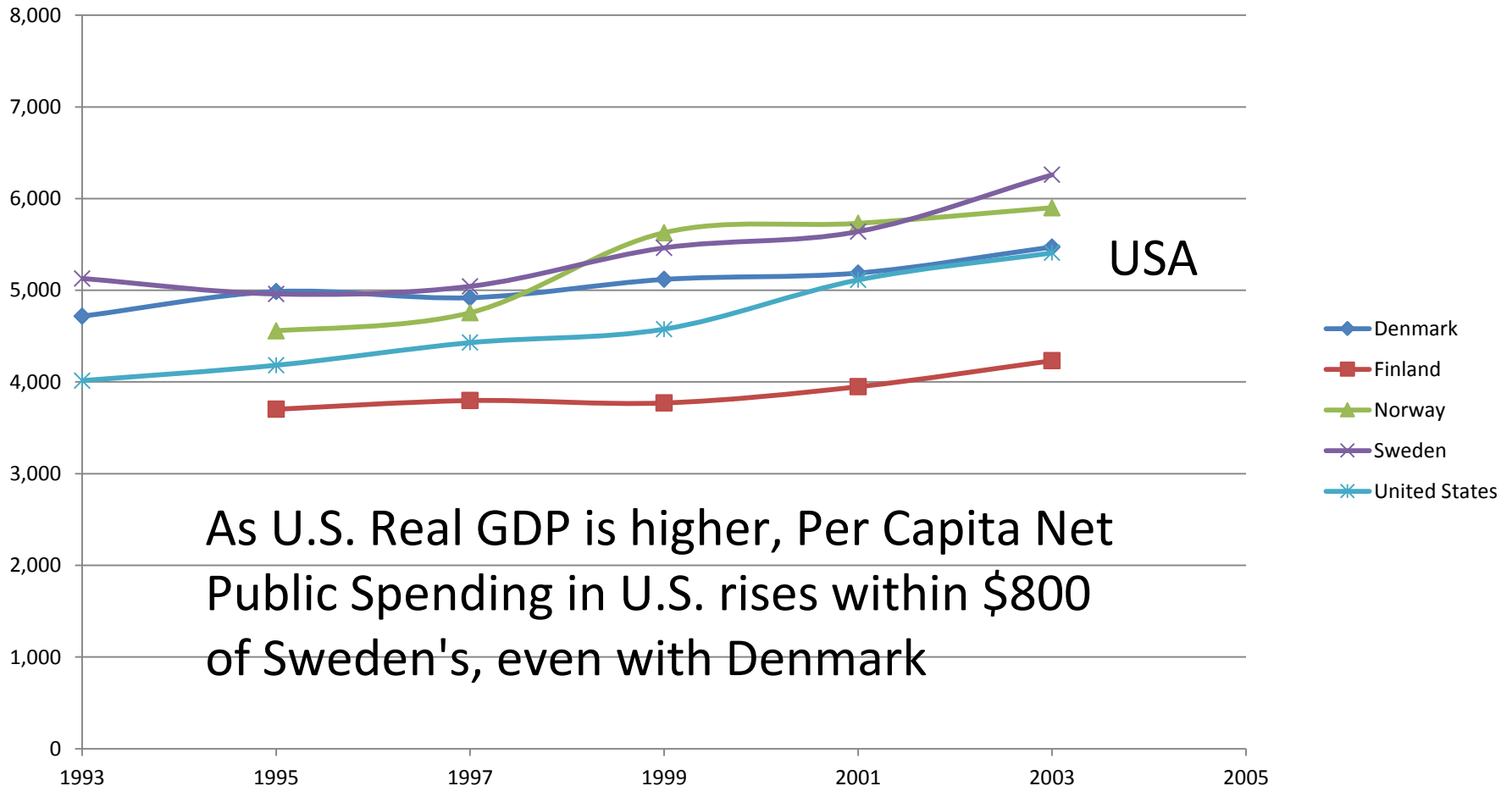
Net Public Social Welfare Spending as Percentage Relative to GDP, 1993-2003



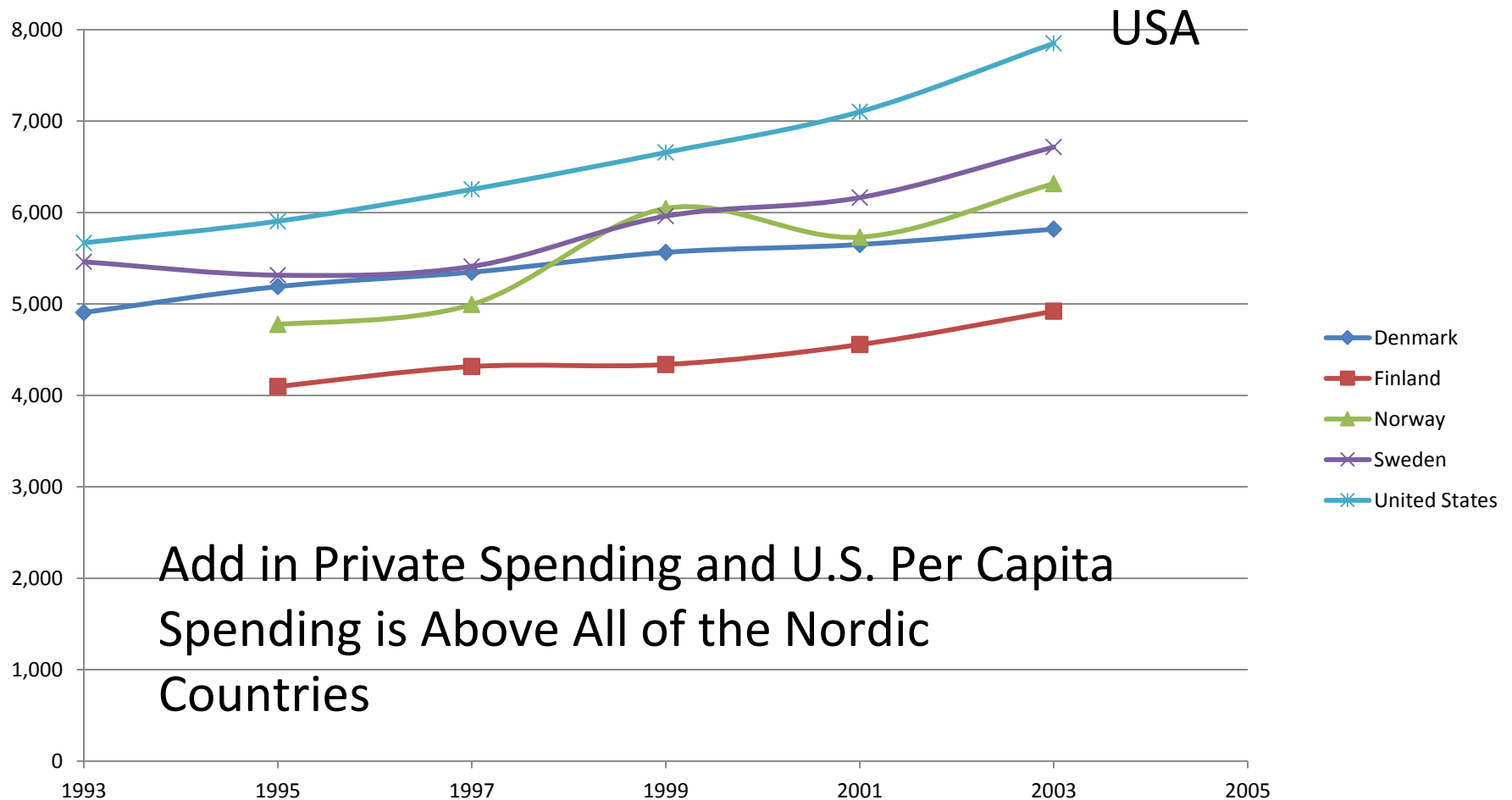
Net Public and Private Social Welfare Spending as Percent Relative to GDP, 1993-2003



Per Capita NET PUBLIC Social Welfare Spending in 1990 GK Dollars Purchasing Power Parity, 1993-2003



Net PUBLIC AND PRIVATE Social Welfares Spending Per Capita in 1990 KG Dollars Purchasing Power Parity, 1993-2003



Widely Varying Safety Net

- Based on Luxembourg Studies comparisons of post tax and transfer incomes, U.S. like rest down to 10th percentile.
- We stink at helping the 1-9th percentile

