

Medicaid as an Engine of Economic Growth and Jobs

Testimony of
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When testifying before legislative committees, Health Care for All generally focuses on the unmet health needs of the uninsured, on the vital role health care plays in assuring a satisfactory quality of life, and on costs to our health care system of inadequate coverage. Today, however, we want to add another dimension to our call for reversing the unconscionable cuts made to Medicaid in the past year and for expanding Medicaid eligibility to more Massachusetts residents without any other source of health coverage.

This is the dimension of jobs and economic growth. Expanding Medicaid is one of the surest methods available to increase our economic pie. In our testimony today, I will lay out the general case for Medicaid's role in promoting jobs and economic growth, and then present a specific recommendation that would directly impact the ability of our economy to expand.

Health Care Occupies A Central Role in the Massachusetts Economy

In addition to providing the health care services that our job force needs to remain healthy and productive, our health care industry is a source of employment and wages for many in the Commonwealth. In fact, health services is the most important employment sector in our economy. According to DET, health services accounted for over 440,000 jobs in 2002, with a total wage of \$16.6 billion. This chart demonstrates the central role health care plays in the Massachusetts economy:

Description	Average Monthly Employment	Total Wages
Health Care and Social Assistance	440,850	\$16,613,981,096
Retail Trade	357,584	\$9,007,677,933
Manufacturing	347,430	\$19,191,274,479
Educational Services	300,618	\$12,164,367,298
Accommodation and Food Services	241,642	\$3,937,994,335
Professional and Technical Services	230,770	\$16,810,483,058

Durable Goods Manufacturing	229,268	\$13,907,518,722
Finance and Insurance	182,187	\$15,533,081,727
Administrative and Waste Services	157,991	\$4,874,708,496
Construction	152,822	\$7,854,378,643
Public Administration	136,749	\$6,340,538,549
Wholesale Trade	135,559	\$8,279,726,493
Non-Durable Goods Manufacturing	118,162	\$5,283,755,757
Other Services, Ex. Public Admin	116,564	\$2,926,678,625
Transportation and Warehousing	107,453	\$4,368,364,956
Information	106,185	\$6,800,738,122
Management of Companies and Enterprises	72,109	\$4,614,692,437
Arts, Entertainment, and Recreation	49,273	\$1,366,611,178
Real Estate and Rental and Leasing	44,215	\$1,964,104,821
Utilities	14,249	\$1,015,341,918
Agriculture, Forestry, Fishing & Hunting	6,575	\$220,380,680
Mining	1,502	\$71,995,368
Total, All Industries	3,202,327	\$143,957,120,211

Source: Division of Employment and Training ES-202 data, 2002

Health care employment is distributed throughout the state. Health care is the leading employment sector in Berkshire, Hampden, Suffolk, and Worcester County, and the second most important employment sector in Barnstable, Bristol, Dukes, Essex, Hampshire, Norfolk, and Plymouth counties.

Much of the wages paid to employees and the purchases of non-health goods and services by the health care industry are spent in our local economy, adding to the economic value of the health care spending. This ripple effect is called the “economic multiplier effect,” as the funds trigger successive rounds of earnings and purchases as they continue to circulate through the economy. This creates the income and jobs that underlies our prosperity.

Because of Federal Matching Funds and the Multiplier Effect, Medicaid Can Play a Critical Role in Promoting Economic Development

Economists are generally skeptical of most economic development programs. Subsidies paid to one business sector must be paid for by taxes assessed on state taxpayers. The increased expenditures by the recipient of the subsidy are matched by decreased spending by the source of the subsidy. These reallocations from one segment to another generally balance each other out, so little net economic growth results.

The only way out of this dilemma is to structure state spending so as to bring in new outside resources that would not otherwise be available to the state.

Medicaid spending meets this criterion. Because every dollar we spend on Medicaid is matched by at least another dollar of federal money, Medicaid spending has a unique positive net impact on our economy. The federal matching funds would not be available without the Medicaid spending, so the federal Medicaid reimbursements truly represent “found money” – revenue that

enters our economy from the outside and is spent and re-spent in our local economy, providing jobs and economic growth.

Economist Ronald Clinch of the University of Baltimore adopted the Department of Commerce's econometric input-output model, which is adjusted for each state's individual industrial structure, trading patterns, wage and personal income data. Using the model, he determined the Massachusetts-specific economic impact of Medicaid spending in the Commonwealth, taking into account both the direct effects and the indirect multiplier effect.¹

He found that in 2001, every dollar in Medicaid spending in Massachusetts produced \$2.21 in increased business activity. Our total state Medicaid allocation in 2001 (\$3.43 billion) resulted in \$7.6 billion in goods and services added to the Massachusetts economy. Medicaid spending created 70,697 new jobs, and these jobs paid an aggregate of \$2,713,000 in wages to Massachusetts residents.

This same analysis can be used to estimate the lost economic opportunity that stems from cuts to Medicaid. Updating the analysis for 2003, Clinch determined that every \$1 million cut in Medicaid spending in Massachusetts results in \$2.190 million in lost business activity. This translates into 19.14 lost jobs, representing \$780,000 in lost wages.

Last year, we cut approximately \$500 million from MassHealth, our Medicaid program. As a result, the state lost over \$250 million in federal revenue. More importantly, this analysis shows that the cut resulted in the evaporation of over \$1 billion in business activity and increased the unemployment rolls by almost 10,000 more people. Restoring these cuts now would provide an even greater economic boost than usual, because Congress has given us an increase in our matching rate, to 53%.

As these Committees and the General Court consider economic development measures, we urge you to regard Medicaid spending as an engine of economic growth. In making the hard decisions about resource allocation, you must take into account the contribution Medicaid can make towards improving overall economic well-being.

Expanding the Insurance Partnership Program Would Bring in New Federal Revenue and Support Businesses Seeking to Expand Employment

The Insurance Partnership (IP) program is a unique MassHealth program intended to aid small businesses struggling to provide health coverage. Under the program, a small business offering health insurance benefits to its employees gets assistance from the state to make the premiums more affordable. Low-income employees also get assistance, so they can pay their share of the premiums. The federal government reimburses the Commonwealth for half of the cost of the employee subsidy, and half the cost of the employer subsidy if the business had not been offering health coverage.

The program has not been as successful as its sponsors hoped, and today the program assists only about 13,000 people, out of a universe of about 70,000 potentially eligible. About 5,000

¹ Kathleen Stoll, *Medicaid: Good Medicine for State Economies*, Families USA (Jan. 2003).

businesses participate. Soon DMA will be imposing an enrollment cap on adults in the program, further restricting participation.

The employer subsidy level was set in 1994, and has not been increased since then. In addition, employees must be below 200% of the poverty level to qualify. This eligibility cutoff excludes many workers who cannot afford health insurance. A particular problem affects human services direct care workers, who provide care to our elderly, sick and disabled. These workers are generally ineligible for the Insurance Partnership, because their firms are too big. Yet the Commonwealth has a special responsibility to them, because the state sets the reimbursement rates that determine their wage levels. We may be able to get a waiver to expand coverage to human service direct care workers. The Division of Health Care Finance and Policy has been reviewing this issue and they can assist the Committees in developing policy alternatives in this area.

We urge the committees to review the Insurance Partnership program as one way of several ways of expanding our Medicaid reimbursements to promote economic growth and opportunity. Health Care for All is eager to assist the Senate in developing sensible plans that maximize our opportunity to grow our economy, expand our employment base, and provide health security to all the residents of Massachusetts.