



Healthy Stimulus

Temporary Support for State Health Programs Should Be Part of the Economic Stimulus Program

By Jeanne Lambrew

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The House of Representatives and President Bush last week struck a deal on policies to stem the economic slowdown. This week, the Senate takes up the challenge. It should include support for states—specifically by increasing the federal share of Medicaid, the nation’s health coverage safety net, either across the board or targeted to states with high and increasing unemployment.

This increase would be provided to states that keep the program open to those in need. This proactive Medicaid policy would help preserve health coverage, jobs, and state financial stability—all of which are key to a quick economic recovery. What’s more, it is specifically designed to reach those states and their citizens most directly affected by the immediate economic consequences of a recession. Here’s why this policy works and how it would work.

Recessions Affect Health Spending, Especially in States

- **Unemployment is growing.** In December 2007, unemployment was 5.0 percent, up from 4.7 percent in November. One survey found that job growth from December 2006 to 2007 was 0.18 percent, down from 2.2 percent in the previous year. One analyst predicts that a recession has already hit six states representing nearly one-third of the U.S. economy, including California and Florida. Michigan, already in recession, has an unemployment rate of 7.6 percent.
- **When unemployment goes up, so does the number of uninsured.** Roughly two-thirds of Americans who become uninsured have lost employer-sponsored health insurance.[1] Loss of jobs as well as rising costs contribute to this erosion of coverage. Analysts suggest that a one percentage-point increase in unemployment results in 1.2 million to 1.5 million more uninsured. Our nation provides unemployment insurance but not unemployment *health* insurance.
- **Higher uninsurance strains the health-care sector.** An increase in the number of uninsured will strain the health care system, limiting health care jobs and worsening unemployment. More uninsured could also increase the so-called “hidden tax,” or the cost of uncompensated care that raises premiums for workers with health insurance. Given wage stagnation, this increased cost could cause people and companies offering health insurance to drop it.
- **Medicaid is “counter-cyclical,” which means it is able to expand when need rises.** As more people lose jobs and income, more people qualify for Medicaid. Between 2000 and 2003, Medicaid picked up the slack from the decline in employer coverage. While employer coverage among low-income adults dropped to 27.4 percent in 2003 from 31.9 in 2000, Medicaid coverage expanded to 19.9 percent from 18.9 over the same period—preventing 1 million more adults from becoming uninsured.

- **State budget deficits place health care safety net at risk.** Medicaid coverage is critical but costly. The National Governors Association last week reported that 18 states anticipate budget shortfalls in the coming fiscal year that total \$14 billion—a serious loss since all are required to have a balanced budget.[2] The upshot: When families most need safety net programs such as Medicaid, states may have no choice but to cut this program due to budget stress.

Raising Federal Medicaid Matching Rates Is Economic Stimulus

- **Medicaid is the largest source and the best conduit of federal funds to states.** Maintaining state spending is key to preventing a deep recession. Medicaid not only supplies the greatest amount of federal funding to states, but sustains state spending since it is a matching program. The federal matching rate in Medicaid can also be adjusted quickly: an increase can occur immediately, and can be turned off when the need subsides.
- **Supporting Medicaid prevents cuts and local economic disruption.** Historically, states have scaled back on Medicaid programs during budget crises. Yet doing so has broader economic “multiplier” effects. One review found that increasing federal Medicaid funding protects health care jobs and local economies.
- **A time-limited Medicaid funding increase has been tried and has worked.** In 2003, a strongly bipartisan majority in Congress enacted—and President Bush signed—an economic stimulus package that increased the federal Medicaid matching rate by 2.95 percentage points for 15 months. States receiving this fiscal relief were required to maintain their Medicaid eligibility levels while the fiscal relief was in effect. A review of the policy found that states used the funds to avert or limit proposed Medicaid cuts, avoid provider payment cuts, reverse previously implemented Medicaid cuts, and stabilize state budgets overall during the economic downturn.[3] The nation’s governors, across the partisan spectrum, supported this policy, then and now. In short, the policy worked.

Endnotes

[1] Sherry A. Glied. (2001). “Challenges and Options for Increasing the Number of Americans with Health Insurance.” *Inquiry* 38 (2): 90-105.

[2] National Governors Association. (January 23, 2008). Letter to Congressional Leadership in support of a Medicaid matching rate increase among other policies.

[3] Victoria Wachino, Molly O’Malley, and Robin Rudowitz. (2005). “Financing Health Coverage: The Fiscal Relief Experience.” Washington, DC: Kaiser Commission on Medicaid and the Uninsured.

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