Putting America Back to Work

A State-by-State Analysis of Health Reform's Impact
on Short-term Job Creation and Long-Term Economic Growth

by Larry McNeely
U.S. Public Interest Research Group

Discussion and Analysis

As the national health reform debate begins in earnest, some pundits have suggested that America cannot afford to invest in health reform. The resounding response from political and thought leaders has been that America can't afford not to.

The current, unsustainable rise in health care costs imposes economic burdens on families, businesses, and state budgets – burdens that will soon become completely unbearable. U.S. PIRG's January 2009 report, *Health Care in Crisis,* predicts that without health reform family insurance policies will cost, on average, $24,691 a year in 2016.[i] These findings are consistent with similar reports from AARP,[ii] the Urban Institute,[iii] and the New America Foundation,[iv] among others.

Yet when considering landmark legislation, the American people and their representatives in Congress ought to hear more. They ought to hear how legislation could benefit them, and, especially in these times of economic distress, they need to understand how it will affect their economic future.

The White House Council of Economic Advisor's recent report, *The Economic Case for Health Reform* offers the beginning of an answer. This report concluded that a reduction in the growth of health spending of 1.5 percentage points could allow a .24% drop in unemployment consistent with no inflation for each year it occurred.[v] A .25 drop in national unemployment means 500,000 jobs a year.[vi] The report also concluded that a less costly, more efficient health system will allow our economy, to grow more rapidly, yielding an 8% increase in the Gross Domestic Product (GDP) by 2030.[vii]

National economic reports, however, mean little to Americans who are worried about their job or small business or concerned about whether their kids will ever have a chance at a decent job. U.S. PIRG's analysis, presented below, should help address those worries directly. In the chart below, we adapt the Council of Economic Advisors findings to estimate the state by state impact that health reform could have on job creation over five years and longer term economic activity for every state in the nation, and the District of Columbia.

States	Job Creation Potential without Inflation	Projected Increase in 2030 Gross State Product
Alabama	28,725	$ 20,012,475
Alaska	5,885	$ 5,373,443
Arizona	27,735	$ 29,817,617
Arkansas	15,280	$ 11,511,796
California	205,715	$ 218,835,053
Colorado	30,990	$ 28,525,586
Connecticut	27,545	$ 26,104,477
Delaware	6,900	$ 7,256,568
District of Columbia	5,900	$ 11,324,461
Florida	113,660	$ 88,660,420
Georgia	49,585	$ 47,860,179
Hawaii	8,520	$ 7,427,246
Idaho	7,965	$ 6,173,961
Illinois	8,670	$ 73,578,399
Indiana	42,905	$ 29,746,521
Iowa	21,020	$ 15,574,137
Kansas	20,005	$ 14,159,349
Kentucky	27,715	$ 18,610,844
Louisiana	24,445	$ 26,089,992
Maine	10,095	$ 5,806,896
Maryland	40,685	$ 32,431,734
Massachusetts	52,330	$ 42,429,643
Michigan	63,430	$ 46,105,002
Minnesota	38,810	$ 30,776,259
Mississippi	15,500	$ 10,687,982
Missouri	37,375	$ 27,698,271
Montana	6,325	$ 4,134,523
Nebraska	13,085	$ 9,667,659
Nevada	14,830	$ 15,355,298
New Hampshire	9,440	$ 6,921,369
New Jersey	63,625	$ 56,186,439
New Mexico	9,785	$ 9,195,097
New York	123,245	$ 133,140,968
North Carolina	54,145	$ 48,215,295
North Dakota	5,055	$ 3,346,558
Ohio	81,495	$ 56,286,021
Oklahoma	21,255	$ 16,817,040
Oregon	23,190	$ 19,098,373
Pennsylvania	87,150	$ 64,107,852
Rhode Island	7,775	$ 5,661,084
South Carolina	26,190	$ 18,447,408
South Dakota	5,570	$ 4,096,018
Tennessee	37,825	$ 29,436,309
Texas	132,245	$ 137,841,358
Utah	13,635	$ 12,753,493
Vermont	4,750	$ 2,962,473
Virginia	50,940	$ 46,225,828
Washington	42,400	$ 37,571,974
West Virginia	10,120	$ 6,966,030
Wisconsin	42,670	$ 28,039,023
Wyoming	3,650	$ 3,803,910

Sources and Methodology

Economic Impact

The Council of Economic Advisors estimates that a 1.5% yearly reduction in health spending could yield a national GDP number 8% larger than otherwise projected in the year 2030.

In a 2003 study, Goldman Sachs estimated that the 2030 U.S. Gross Domestic Product would be $20.8 trillion.[viii] Thus, the 8% increase projected by CEA results in a 2030 GDP that is $1.66 trillion higher. We allocate the $20.8 trillion between the states proportionate to their 2007 share of total GDP, as provided by the Bureau of Economic Analysis. This yields a projected 2030 GDP for each state. The economic benefit of health reform listed in the chart above is equal to 8 % of that projected state GDP.

Jobs Impact:

CEA estimates that health reform will allow a .24 drop in the unemployment rate nationally per year without inflationary impact each year. They state that a .25% of the labor force is approximately equal to 500,000 jobs.[ix]

The primary engine behind this potential drop in the unemployment rate is the reduced cost of employees to businesses. Thus, we allocate the 500,000 jobs to the states according to their share of national non-public health expenditures, a close proxy for actual health expenditures by businesses.

Using Center for Medicaid and Medicare Services data for personal health expenditures by state from 2004[x], we subtract Medicare and Medicaid expenditures from total personal health expenditures for the nation as a whole and each state. This operation yields a number for *non-CMS personal health expenditures* nationally and state by state.

We then multiply each state's percentage of the national *non CMS personal health expenditures* by 500,000 to arrive at an estimated yearly potential impact on each state. We then multiply that number by five to arrive at a number for jobs that could be added without inflationary impact over the next five years.

Limitations of our Study:

In reaching our estimates, we assume that each state achieves the cumulative 1.5% cost reduction called for by the Obama administration, where it seems likely that the degree of savings from health reform will vary somewhat from state to state.

Also, in determining state by state employment impacts, we use CMS' most recent state by state data, which are from 2004.

[i] U.S. PIRG Education Fund, *Health Care in Crisis: How Special Interests Could Double Your Health Care Costs and What to Do About It*, January 28, 2009.

[ii] AARP, *The Cost of Doing Nothing*, November 2008, downloaded from http://assets.aarp.org/rgcenter/health/m7_nothing.pdf.

[iii] The Urban Institute. *The Cost of Failure*, May29, 2009, downloaded from http://www.rwjf.org/files/research/costoffailure20090529.pdf

[iv] The New America Foundation, *The Cost of Doing Nothing: Why Failing to Fix Our Health System is Greater than the Cost of Reform*, November 2009, downloaded from http://www.newamerica.net/files/NAFCostofDoingNothing.pdf.

[v] White House Council of Economic Advisors, *The Economic Case for Health Reform*, June 2, 2009, downloaded from http://www.whitehouse.gov/assets/documents/CEA_Health_Care_Report.pdf.

[vi] Ibid.

[vii] Ibid.

[viii] Wilson, Dominic and Roopa Purushothaman, Dreaming with BRICs: The Path to 2050, October 1, 2003, Goldman Sachs, downloaded from http://www.scribd.com/doc/11647001/Goldman-Sachs-BRIC-NEP-2008.

[ix] White House Council of Economic Advisors, *The Economic Case for Health Reform*, June 2, 2009, downloaded from http://www.whitehouse.gov/assets/documents/CEA_Health_Care_Report.pdf.

[x] Center for Medicare and Medicaid Services, "United States Personal Health Care Expenditures" as downloaded from http://www.cms.hhs.gov/NationalHealthExpendData/downloads/res-states.pdf.