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The Fallacy of Health Care Reform as Economic Stimulus

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After spending decades trying to reduce health care costs, some commentators and policymakers now argue that health care costs should be increased to stimulate the economy.[1]

At the crux of the argument are the notions that increasing spending on health care will create jobs that can be filled by those losing jobs in other areas of the economy—and that implementing long-proposed reforms (such as an increased emphasis on primary care and large-scale deployment of health IT) will reduce health care costs.

These two arguments are fundamentally at odds with each other. Advocates claim simultaneously that (a) it would stimulate economic growth to spend more money on these reforms, and (b) these reforms would reduce total health care costs—that is, result in spending less money. Perhaps one could make an intelligent argument for either proposition, but it is not possible to make both of those claims and be consistent.

Two Sides of the Same Coin. The entire proposal rests on the assumption that one can get a "free lunch" by looking at only one side of the ledger—by counting the benefits of reform but ignoring the costs. Health care jobs are clearly a benefit to workers who would otherwise have worse jobs or no jobs at all, but as long as employees need to be paid, one person's job is also another's cost. Artificially increasing the number of health care jobs also artificially (and wastefully) increases health care costs. On the other hand, reducing total health care spending means there is someone who would otherwise be paid who is either no longer being paid or being paid less—and that person is losing a job or taking a pay cut. Spending money on health care might create jobs in the health care industry but only at the cost of jobs destroyed elsewhere in the economy. In other words, health care reform might reduce health care costs, or it might create new health care jobs, but it cannot do both simultaneously.

Any money the government spends on health care (or anything else) has to come from *somewhere*—either higher taxes, more borrowing, or inflation—and that means less is available to the economy for private spending. Government spending cannot cause prosperity; it can only reallocate resources from one person or activity to another. Prosperity—economic expansion—can be achieved only by increasing total production, not simply moving it around. For this to occur, entrepreneurial individuals and companies have to find it worthwhile to engage in productive activity and investment. The only way government can induce sustainable economic expansion is to reduce the taxes and regulations that inhibit productive activity.

In the long run, wasteful spending will not stimulate the overall economy or improve health care; it

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will only divert resources that would be better used elsewhere. Health care reforms are beneficial only if they result in today's health care at lower costs, improved health care at the same or tolerably higher costs, or some combination of the two.

Increasing Spending While Cutting Spending? Health care expenditures are taking up an ever-larger share of GDP, rising from 13.7 percent in 1993 to 16.0 percent in 2006 and forecasted to grow to almost 20 percent by 2017.[2] Proponents of reform have long argued that this trend is sucking the lifeblood out of our economy, and bound to cause or deepen a recession. And yet, now some of those same experts are arguing that, in order to get the economy out of a recession, health care spending must be increased. In essence, it is as if they are saying, "Our economy is threatened because heath care spending is too high, so to solve the problem we need to make it higher."

For example, MIT economist Jonathan Gruber says that "health care reform can be an engine of job growth," and he cites two main categories of job opportunities. First, he argues that longstanding proposals for reform of primary care would create new jobs for nurse practitioners and physician assistants, which would save money because primary care is cheaper than specialty care. Second, he cites President-elect Barack Obama's proposal to spend $50 billion on health information technology, which would create jobs in the IT sector and save money through more efficient record-keeping.[3]

However, in order for heath care reform to be "an engine of job growth," health care spending must go up, not down. After all, the main reason people like jobs is that they come with paychecks. The goal of reducing health care costs directly contradicts the "logic" of stimulus spending. The idea of stimulus through primary care reform is a contradiction: Spending will be reduced, as higher-paying specialty care jobs are replaced by lower-paying primary care jobs. Furthermore, these jobs—in serious professions requiring real expertise and years of training—would do little to improve the short-term job prospects of people laid off from other industries.

The idea that increased health IT spending will result in a permanent increase in jobs in the IT sector is a red herring. If health IT will reduce health care costs in the long run, then those new jobs in the technology sector will be more than offset by money saved—that is, jobs "lost"—in other sectors. There will be less need for file clerks and office staff and perhaps even nurses.[4] To argue that health IT is both a good stimulus and a way to reduce health care costs is in effect arguing that it is good because it creates (technology) jobs but also good because it destroys even more (health care) jobs.

Medicaid Reform as Stimulus Spending? Some advocate Medicaid expansion as part of a stimulus package. Medicaid is a complex program in need of reform to provide better health care for the poor at a lower cost, but there is no reason to believe that Medicaid expansion would be a source of stimulus

1. Jonathan Gruber, "Medicine for the Job Market," *The New York Times*, December 4, 2008, at *http://www.nytimes.com/2008/12/04/opinion/04gruber.html?_r=2&ref=opinion* (January 15, 2009); Uwe Reinhardt, "Economist: Health Care Key to Stimulus," *All Things Considered*, National Public Radio, December 11, 2008, at *http://www.npr.org/templates/story/story.php?storyId=98150829* (January 15, 2009); Dean Baker, "President Obama's Path to Greatness: Health Care as Stimulus," *Huffington Post*, November 5, 2008, at *http://www.huffingtonpost.com/dean-baker/president-obamas-path-to_b_141254.html* (January 13, 2009); Ceci Connolly, "Obama, Lawmakers Expanding Health Measures in Stimulus Plan," *The Washington Post*, December 12, 2008, at *http://www.washingtonpost.com/wp-dyn/content/article/2008/12/12/AR2008121200003.html?hpid=topnews* (January 15, 2009).
2. Sean Keehan *et al*., "Health Spending Projections Through 2017: The Baby-Boom Generation Is Coming to Medicare," *Health Affairs*, Vol. 27, No. 2 (March/April 2008), w145–w155.
3. Jonathan Gruber, "Medicine for the Job Market."
4. It is generally agreed that there is a nursing shortage. However, if health IT enables nurses to spend less time on recordkeeping and more time on direct patient care, a given number of nurses will be able to take care of more patients. This will reduce the overall demand for nurses. Whether demand will be reduced by enough to eliminate the shortage remains to be seen.

for the overall economy. The argument that it would comes in two forms.

First, some claim that expanding Medicaid eligibility would cause previously uninsured families to spend more on consumer goods, since they would not have to save for unexpected medical expenses. Gruber and Yelowitz find that previously uninsured households that become eligible for Medicaid do indeed spend more.[5] But this does not mean that *total* consumer spending increases—the money used to fund Medicaid expansion has to come from somewhere; in particular, whoever paid the taxes to fund the expansion had to reduce their own spending. Furthermore, the recessionary effects of taxation mean that the decrease in spending by other taxpayers is greater than the increase in spending by new Medicaid recipients.

Second, others argue that increasing federal funding for Medicaid and SCHIP would free up state money for public works ("roads and bridges"). In fact, it would do no such thing. These are matching fund programs: The states run the programs, and the federal government provides subsidies proportional to the funding provided by the states themselves. If the federal government gave states money to enroll more people in these programs, that would require states to spend *less* money on public works projects to meet the matching requirements. In fact, under existing law, states could already increase the amount of federal money they receive for Medicaid by choosing to spend more on their own. But they do not, because that would require cutting spending on other programs—for example, public works projects.[6]

No Free Lunch. All of these arguments still neglect the bigger picture: Any money the federal government spends on health care reform, health IT, Medicaid, roads and bridges, or anything else has to come from *somewhere*. And that "somewhere" is either increased taxes, more borrowing, or inflation of the currency, any combination of which would cancel out any "stimulus" effect of the new spending. Spending money on health care or "roads and bridges" might create jobs in the health care or construction industries, but that is only at the cost of jobs destroyed somewhere else. This is what economists mean when they say, "There is no such thing as a free lunch."

Prosperity cannot be achieved by simply moving resources around from one sector of the economy to another. Rather, it can be achieved only by increasing production, which can be induced not by spending but by reducing the taxes and regulations that inhibit productive activity.

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5. Jonathan Gruber and Aaron Yelowitz, "Public Health Insurance and Private Savings," *Journal of Political Economy*, Vol. 107, No. 6 (December 1999), pp. 1249–1274.
6. One response to this concern is that Congress could change the Medicaid program to allow more federal spending without requiring an increase—and perhaps even allowing a decrease—in state spending, thus allowing states to spend less on Medicaid and more on "roads and bridges." However, from a fiscal standpoint, this is no different from Congress spending money on public works directly. It is unclear what benefit, if any, could accrue by using Medicaid as an intermediary to increase transportation spending.