States' Medicaid Cuts Hurt the Economy

by Art Ticknor

Cuts in spending on Medicaid programs, carried out by 49 states since July 2002 in panic over growing budget shortfalls, are not just an attack on the health of the poorest Americans. They would also significantly reduce jobs, wages, and business activity, and hasten the ongoing breakdown of the U.S. economy, according to a new study.

Medicaid currently helps cover medical costs for about 47 million poor and elderly people—one in six Americans—at a cost to state and local governments of about $121 billion a year. Before the current budget crisis, under the austerity policy of health maintenance organizations, hospitals let both elderly and young victims of certain chronic conditions die, whose continued sustenance on life support was not being paid for. Now, under budget meltdowns described as the "worst fiscal crisis since World War II," this practice of unacknowledged euthanasia in our hospitals will increase, and routine medical treatment of all kinds will be restricted or eliminated.

Many states have begun to cut basic services for adults, including dental care, eyeglasses, hearing aids, and physical therapy. New Jersey is curtailing coverage for the poor by sharply reducing the maximum income allowed for eligibility. Connecticut Governor John Rowland proposed eliminating coverage for parents in three-person households with incomes of $15,020 to $22,350. California Gov. Gray Davis is proposing cuts that will eliminate nearly 500,000 low-income parents from Medicaid. A new survey of the 50 states, issued on Jan. 13 by the Kaiser Commission on Medicaid and the Uninsured, finds that 49 states and the District of Columbia have cut Medicaid spending since July 2002; moreover, 32 states are making their *second* round of cutbacks since July. Specifically, 37 states are reducing or freezing payments to doctors or hospitals, 25 are cutting Medicaid benefits, 27 are restricting or reducing eligibility, and 17 are increasing the co-payments charged to beneficiaries.

Medicaid Creates Jobs

The January 2003 report, by Families USA—"Medicaid: Good Medicine for State Economies"—shows that states lose an average of 37 jobs, $3.4 million in business activity, and $1.2 million in employee wages, for every million dollars cut from the Medicaid program. The reason, according to the study, is that the Federal government matches every dollar that a state invests in Medicaid, at a rate ranging from $1.00 to $3.28. These new dollars circulate through different sectors of the economy, in successive rounds of consumer spending, creating new jobs and increasing the output of goods and services.

This Federal spending, estimated at $159 billion in 2003, supports health-care expenditures that would otherwise not occur, or would need to be taken from other sources of state spending. When a state increases or decreases spending on Medicaid, Federal matching dollars are gained, or lost.

California Governor Davis' proposed Medicaid cutback of $1.3 billion, for example, would result in a loss of 27,994 jobs, $1.2 billion in wages, and $3.2 billion in economic activity. Southern and western states lose the most with each million-dollar reduction in Medicaid spending, the study said. Job losses are highest in: Mississippi (72 jobs lost per million-dollar cut), New Mexico, Arkansas, Montana, Oklahoma, Utah, West Virginia, Idaho, Louisiana, and Alabama. Business activity falls the most in: Mississippi ($6.25 million), New Mexico, Arkansas, Utah, West Virginia, Oklahoma, Alabama, Montana, Louisiana, and South Carolina.

On the other hand, money invested by the 50 states in the Medicaid program in 2001, the report stated, generated over 2.9 million jobs, with wages in excess of $100 billion, and created $279 billion in new business activity—an almost three-fold return on the $98 billion investment.

The Families USA analysis, although useful in acknowledging that spending cuts damage the economy, relies on the mistaken assumptions of a decadent consumer society, as opposed to a healthy producer economy. An economy is really measured in physical, not financial terms.

Medicaid is the second-largest item, and the fastest-growing component, in most state budgets, comprising 20% of state expenditures, with a 10% annual growth rate. The increase in medical costs is the result of the collapse of production of wealth in the United States. Medical care cannot be imported, like cars, clothes, or kitchen utensils. Therefore, it must be paid for at the actual cost of reproducing the labor of doctors, nurses, and hospital personnel. These health-care workers, in turn, provide medical services to people who produce physical wealth, such as farmers and manufacturing workers. Improvements in the health-care system, therefore, increase the productive powers of labor. But few elected officials, or others involved, address this underlying problem. Seventy-five Senators voted last year to increase the Federal contribution to Medicaid; and legislation introduced in early January would provide $10 billion to help states with Medicaid costs. But the Bush Administration has opposed any Federal increase.

The only solution, as outlined by Democratic Presidential pre-candidate Lyndon LaRouche, were to repeal the HMO legislation of 1973, and to return to the approach of the Hill-Burton legislation which built up the nation's hospital care since the 1950s.