

Medicaid: An Important Part of an Economic Stimulus Package

With the economy declining, one of the first actions Congress and the President are likely to take in 2008 is to develop an economic stimulus package. While there are many ways to stimulate the economy, one of the most important and effective ways is to temporarily increase the federal matching rate for Medicaid, otherwise known as the Federal Medical Assistance Percentage (FMAP). If the federal government pays a larger share of Medicaid costs through a temporary increase in the FMAP, states can sustain their programs—rather than cutting them when families most need help—while simultaneously facilitating national economic recovery.

Temporarily increasing the FMAP is an *effective way to stimulate the economy.*

- For every dollar a state spends on Medicaid, the federal government already contributes a matching amount of money that the state would not otherwise get. This matching percentage (the FMAP) varies by state, with the lowest-income states receiving the largest matching rates.
- This injection of new federal dollars into state economies has a measurable effect on states' business activity, wages, and jobs. The new dollars pass from one person to another in successive rounds of spending, generating additional business activity, jobs, and wages that would not otherwise be produced. Economists call this the "multiplier effect." Increasing federal Medicaid spending amplifies this effect.
- Increasing the FMAP by a certain percentage is a *temporary* tool that can easily be applied for a finite amount of time to shore up state economies—while simultaneously supporting families who have been hardest hit by the economic downturn. Once the economy stabilizes, the FMAP can easily be returned to its normal levels.

Temporarily increasing the FMAP is a *proven strategy for stimulating the economy.*

- During the last significant economic downturn in 2003, Congress included an FMAP increase in its economic stimulus package. For 15 months, every state's FMAP was increased by 2.95 percentage points, and states accepting the increased match were not permitted to reduce Medicaid eligibility. This infusion of additional federal funding was a vital source of economic support at that time, and can be again in 2008.
- The increase in federal dollars in states generates business activity, jobs, and wages that states would not otherwise see. A 2004 Families USA report estimated the positive economic impact that a 2.95 percentage point increase in the FMAP would have on state economies in 2005. For example, each \$1 million investment in Medicaid at the state level, together with a 2.95 percentage point increase in the FMAP, would generate an average of \$3.854 million in business activity (see the attached table).

Temporarily increasing the FMAP provides *immediate relief to state and local economies.*

- Medicaid was designed to be a countercyclical program; enrollment (and hence, spending) increases when the economy declines. This requires states and localities to put up additional funding at a time when they have decreased revenue and strained budgets.
- An increased FMAP gives *immediate* relief to states and localities—who are saddled with increasing Medicaid costs—and allows them to continue the program *without cutting eligibility or services.*
- Without help from the federal government, states would be forced to reduce spending (often by cutting Medicaid). This further aggravates an economic downturn. Increasing the FMAP allows state Medicaid programs to sustain their spending on health care goods and services, which buffers the economy.

Temporarily increasing the FMAP provides *immediate relief to families.*

- With unemployment up, the number of people who are eligible for Medicaid also rises, burdening already tight state and local budgets.
- Increasing the FMAP shores up the safety net for these vulnerable families. People who are able to get the health services they need are more likely to be able to continue working and contribute to the economy as it recovers. Healthy people are productive people!

If Medicaid eligibility levels and enrollment policies stay the same, Medicaid can provide an economic cushion so that families do not have to reduce their spending on health care goods and services. This softens the impact of an economic downturn from both a macroeconomic and a household perspective. When the federal government pays a larger share of Medicaid expenditures through a temporary increase in the FMAP, states and localities can sustain their programs and maintain the health care safety net when families most need help while simultaneously facilitating national economic recovery.

Table 1. Economic Gains* for Each \$1 Million Invested in State Medicaid Spending, FY2005 (if fiscal relief is extended)

State	Business Activity Gained per \$1 Million Investment with Extended Fiscal Relief	Jobs Gained per \$1 Million Investment with Extended Fiscal Relief	Wages Gained per \$1 Million Investment ¹ with Extended Fiscal Relief
Alabama	\$5,634,000	57.20	\$2,092,000
Alaska	\$2,820,000	25.03	\$1,048,000
Arizona	\$4,864,000	47.55	\$1,852,000
Arkansas	\$6,410,000	71.78	\$2,367,000
California	\$2,549,000	20.26	\$934,000
Colorado	\$2,508,000	23.79	\$945,000
Connecticut	\$2,342,000	18.67	\$874,000
Delaware	\$2,146,000	16.70	\$704,000
Florida	\$3,414,000	35.19	\$1,311,000
Georgia	\$3,877,000	34.96	\$1,410,000
Hawaii	\$3,172,000	29.34	\$1,209,000
Idaho	\$5,070,000	58.48	\$1,955,000
Illinois	\$2,665,000	22.57	\$936,000
Indiana	\$3,906,000	39.00	\$1,413,000
Iowa	\$3,952,000	45.10	\$1,467,000
Kansas	\$3,553,000	37.28	\$1,244,000
Kentucky	\$5,298,000	53.46	\$1,885,000
Louisiana	\$5,555,000	58.96	\$2,040,000
Maine	\$4,261,000	48.48	\$1,628,000
Maryland	\$2,489,000	22.05	\$883,000
Massachusetts	\$2,417,000	19.07	\$863,000
Michigan	\$2,922,000	28.38	\$1,099,000
Minnesota	\$2,443,000	23.91	\$926,000
Mississippi	\$7,386,000	79.78	\$2,737,000
Missouri	\$3,879,000	34.58	\$1,263,000
Montana	\$5,741,000	69.53	\$2,180,000
Nebraska	\$3,291,000	36.04	\$1,208,000
Nevada	\$2,687,000	23.93	\$1,051,000
New Hampshire	\$2,238,000	20.01	\$790,000
New Jersey	\$2,527,000	18.93	\$879,000
New Mexico	\$6,717,000	73.97	\$2,539,000
New York	\$2,282,000	17.62	\$796,000
North Carolina	\$4,247,000	41.71	\$1,553,000
North Dakota	\$4,485,000	51.55	\$1,633,000
Ohio	\$3,582,000	36.04	\$1,299,000
Oklahoma	\$5,714,000	66.10	\$2,096,000
Oregon	\$3,527,000	33.94	\$1,300,000
Pennsylvania	\$3,145,000	28.14	\$1,103,000
Rhode Island	\$2,752,000	26.12	\$971,000
South Carolina	\$5,401,000	54.30	\$1,976,000
South Dakota	\$4,092,000	48.37	\$1,562,000
Tennessee	\$4,443,000	39.41	\$1,584,000
Texas	\$4,108,000	37.38	\$1,493,000
Utah	\$6,313,000	67.18	\$2,338,000
Vermont	\$3,260,000	35.60	\$1,212,000
Virginia	\$2,423,000	22.29	\$860,000
Washington	\$2,330,000	20.83	\$867,000
West Virginia	\$5,964,000	61.84	\$2,081,000
Wisconsin	\$3,133,000	33.69	\$1,209,000
Wyoming	\$2,771,000	31.93	\$1,073,000
Average of 50 States	\$3,854,100	38.96	\$1,414,760

*Gains were calculated by employing economic impact multipliers that incorporate both the federal matching multiplier and the RIMS II economic output multiplier. The RIMS II model does not provide multiplier information for the territories, but a similar multiplier effect resulting in increases in business activity, jobs, and wages would be observed in the territories with increases in each territory's Medicaid spending.

1 "Business Activity Gained" predicts the total change in economic activity, measured in the value of goods and services produced per \$1 million change in state Medicaid spending.

Source: *Medicaid: Good Medicine for State Economies, 2004 Update* (Washington: Families USA, May 2004).