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Chairman Pallone, Ranking Member Deal, and distinguished Members of the Subcommittee, I thank you for the opportunity to testify on the topic of economic stimulus and health care. I am speaking today in my role as Senior Fellow for Economic Policy at the Center for American Progress Action Fund. Previously, I served in the Clinton Administration as Deputy Director and then Director of the National Economic Council and National Economic Advisor. The ideas I am expressing here are solely my own and do not necessarily reflect those of any institutions or people whom I work with or advise.

My testimony today focuses on six main points:

1) **A demand crisis.** Today we must understand that in addition to a financial and capital market crisis, we face a demand crisis in the real economy both in the United States and globally.

2) **A Powell doctrine for the stimulus package.** The breadth and potential depth of that demand crisis require us to undertake a bolder "Powell Doctrine" on stimulus in which $300 - $400 billion—or at least 2 percent of GDP—should be the starting point with an understanding that more could be needed and that we will need to call for a coordinated global stimulus.

3) **High bang for the buck for long duration.** The depth of the potential demand crisis requires us to enact a stimulus with a higher percentage of high-bang-for-the-buck elements than in the previous stimulus. While much of it should be fast-acting, it also should be capable of adding demand for a 12-18 month duration.

4) **Aim for more win/wins on stimulus and long-term priorities**. We should be looking for win/wins: places where investments can both have a strong stimulative impact and be an important down payment on major long-term priorities. We should be looking for sweet spots that can both jumpstart jobs and jumpstart the future.

5) **Triple benefit of addressing health care**. Health care initiatives can be a triple-benefit in this context. First, increases in the Federal match for Medicaid can be one of the quickest and most effective means to stimulate the economy. Second, an expansion of SCHIP can be a win/win in that it can provide stimulus while moving us forward on the path to universal coverage. Third, an upfront investment in health information technology can also provide stimulus and be a down payment on the goal of reducing long-term health care costs.

6) **A grand bargain on fiscal discipline**. While Congress and the new administration should seek to marry long term fiscal discipline with short-term stimulus, the wrong way

to do this is by simply doing less on crucial national priorities like universal health care, climate change and education. A far better way to proceed is through a "grand bargain on fiscal discipline," in which we move forward on major provisions yet do so in the context of addressing long term entitlements like Social Security and lowering health care costs.

I. **<u>The demand crisis in the United States is deepening</u>**. From 2001-2007 sound consumer spending was driven less by wage and income gains of low and middle income families and more by people extracting wealth from their rising home values. Wages and household incomes have actually been very flat. Real average hourly wages actually declined by 19 cents from the end of the recession in December 2001 to October 2008. Real weekly wages are down $14.90 over that same period. (Real hourly wages were $18.22 an hour in October 2008 and $18.41 in December 2001; real weekly wages were $627.80 in December 2001 and $612.90 in October 2008) Median working-age household incomes have declined $2,010 from 2000-2007, after increasing $7,748 from 1993-2000.

- **Rising home prices—not wages—fueled spending earlier this decade**. Despite such disappointing wage performance, annual consumer spending growth averaged a solid 2.94 percent between 2001 and 2007 due in part to increased household debt, but most likely to the "wealth effect" of rising home prices, which grew a whopping 71.5 percent from December 2001 to their peak in July 2006. What was striking during this period was the degree to which Americans seemed to use their homes as ATMs—not simply spending a few cents more on the dollar because they felt wealthier, but participating in an explosion of mortgage equity withdrawal. Indeed, according to former Federal Reserve Chairman Alan Greenspan and Fed economist Jim Kennedy, mortgage equity withdrawal grew 800 percent, from 1 percent of GDP in 1995 to 8 percent of GDP by the fourth quarter of 2005. Even "active mortgage equity withdrawal"—the amount of home-equity extraction and cash-out refinancing that excludes equity reinvested in a new home—grew from $37 billion annualized in 1995 to $532 billion at the end of 2005, a 14-fold increase.

- **The crisis will dramatically hurt consumer spending:** The degree that consumer spending appeared to be based on exceptional rising home prices suggests that even if we had not faced the historic capital market crisis, there was a significant danger that a moderation or fall in home prices could have a severe impact on consumer spending as people realized they have overestimated their wealth or realized they had spent equity that they did not in fact possess. This danger to consumer spending and economic demand was only multiplied by the financial crisis and its severe impact on equities and pension wealth. Unfortunately, as we entered October tens of millions of American families were hit with the realization that both their home wealth and their pension savings had taken a major reduction. The Case-Shiller home price index is down 16 percent from a year ago, and Goldman Sachs expects prices to decline to a total of 30 percent below year-ago levels before hitting bottom.[1] Eighteen percent of Americans are now in negative equity—with homes valued less than their outstanding mortgage debt—and another 5 percent are within five percentage points of negative equity. Some believe the percentage could go over 30 percent. As a result, net mortgage equity withdrawal fell to only $9.5 billion, or 0.3 percent of disposable personal income, in the second quarter of 2008, a decline of 96 percent from its 2004 high. Even those who held diversified wealth have seen declines. Christian Weller of the Center for American Progress found that $4.5 trillion in real household wealth was destroyed from September 2007 to June 2008.[2] Jack VanDerhei of the Employee Benefits Research Initiative has projected workers nearing retirement could replace 13.4 percentage points less of their pre-retirement income when they retire thanks to the financial crisis.[3]

- **As we look out into 2009, we face a significant demand crisis**. The signs of a demand crisis and a downward economic spiral are already present. The U.S. economy has lost 1.2 million jobs since January and unemployment stands at 6.5 percent, a 14-year high. If the same percentage of the workforce was actively seeking work as was the case in 2001, the unemployment rate would be 7.4 percent. Retail sales declined by one percent from September 2007 to September 2008, the first year-over-year decline since 2002, and only the third decline since 1991. Absent a significant stimulus, Moody's predicts that retail sales will not turn positive until the second quarter of 2009.[4] Business spending is just as problematic; Business fixed investment increased 4.9 percent in 2007, but Goldman Sachs projects it will increase only 2.9 percent in 2008 before declining 7.6 percent in 2009. Perhaps even worse than these signs of a temporary recession is the lack of indication as to where increased demand would likely come from. For tens of millions of families who are observing a weakening labor market and dual hits to their home wealth and pension savings, there is only one conversation going on around these millions of kitchen tables: What are we going to cut back?

- **If the broad U.S. middle class is taking understandable measures to restore their personal balance sheets, where exactly is a surge in economic demand likely to come from in 2009?** For those who have previously speculated that the spark to U.S. growth would be a combination of a falling dollar, cheaper exports and strong demand for American products in Europe and elsewhere, those hopes have been dashed. American manufacturing exports are anemic. The Institute for Supply Management's New Export Orders index fell 11 points in October to 41, the lowest level in decades. Without exports to prop up manufacturing, the headline ISM index fell from

[1] "GS Skinny: Home Prices." Goldman Sachs, 10/28/08
[2] Christian Weller, Testimony to House Education and Labor Committee, 10/7/08, http://www.americanprogressaction.org/issues/2008/better_retirement_plans.html
[3] Jack VanDerhei, Testimony to House Education and Labor Committee, 10/7/08, http://www.ebri.org/pdf/publications/testimony/t156.pdf
[4] "Retail Sales Tumble; No Rebound in Sight." Moody's Economy.com, 10/15/08

50.2 in June to 38.9 in October, well below the threshold of 50 that indicates a contraction in the manufacturing sector. Those who hoped there would be a decoupling as the U.S. economy went down have seen the opposite. The International Monetary Fund, which defines 3 percent real annual growth as the global recession threshold, now projects FY2009 growth at 3.03 percent—barely above that mark. Its outlook for European economies shows only 0.55 percent growth in 2009. Even the Chinese economy is projected to possibly see its GDP growth drop from over 10 percent this year to as little as 6 percent in FY2009.[5]

II. **A "Powell Doctrine" on stimulus**. This demand crisis compels us to consider a stimulus that is fundamentally different than the two previous calls for stimulus in 2001-02 and 2008. In both of those earlier cases, the medicine that appeared appropriate was a quick injection of fiscal stimulus for a few months to provide a shot in the arm in the economy to increase confidence and help moderate a downward spiral. The previous stimulus packages were in the range of \$150-\$165 billion, or 1 percent of GDP. They were targeted to be spent out over a single year, with a larger effect in the quarters in which they were released and had a heavy focus on tax relief. We face at this moment a more severe and more potentially long-lasting crisis. In the United States and globally, demand is unlikely to come solely from the private sector without a potentially long and painful period of retrenchment.

This certainly creates painful decisions for policymakers who care about fiscal responsibility. Some estimate the deficit for FY 2009 at \$750 billion to even \$1 trillion even without a stimulus. Nevertheless, this is a situation where the risks of being careful, slow and moderate are far greater than the risks of moving boldly even at the expense of a higher short term deficit. I see three key design elements for this stimulus:

- **\$300 - \$400 billion as the minimum**. The risks to the U.S. and global economy require a "Powell Doctrine" approach in which we seek to bring overwhelming stimulus force to combat a serious global recession. For the United States, the minimum that should be initially sought is \$300 - \$400 billion or at least 2 percent of GDP— this should be the minimum amount with the understanding that more may be necessary.[6]

- **Temporary deficit effect but longer duration**. As with previous stimulus efforts, to have an immediate demand effect without ballooning long-term deficits (thus hurting long-term growth), it is important that the stimulus be fast acting and temporary. Yet, in this case it is also important that the injection in demand will be maintained for a 12-18 month period to provide confidence for employers to halt further cutbacks and layoffs. Without that

[5] Wall Street Journal, 10/11/08; http://online.wsj.com/article/SB122634761261114745.html?mod=testMod

[6] Goldman Sachs Weekly U.S. Analyst, 10/24/08

confidence, it could fuel a deepening downward spiral in the labor market and overall economic growth.

- **Globally C=coordinated.** By leading with a strong stimulus package, the United States will increase its leverage to call upon other major global economies also to provide significant stimulus. Newspaper accounts already report that China is implementing a stimulus of more than a half a trillion dollars and industrialized nations are considering aggressive action of their own. An understanding in the global economy is that $1 - $2 trillion of simultaneous government injected demand would boost confidence.

III. **Importance of stimulus that has a strong demand and multiplier effect**. I have previously supported and will continue to support well-fashioned tax cuts as part of economic stimulus, particularly tax cuts that go to low- and middle-income families most likely to spend them quickly. These pro-growth and progressive kinds of tax cuts help families to improve their balance sheets, increase their personal savings and boost spending. Yet it is also known that there are other forms of stimulus that can hit the economy quicker and have a higher payoff than such broadly-based tax relief. In the prior 2008 stimulus package, the tax cut portion was about 70 percent. In a $300 - $400 billion package, there could still be sizable tax cuts while the majority of the stimulus could be of the most high-impact forms of direct government investments. For example, a $75-$100 billion package of tax rebates would still allow up to two-thirds of the package to be the highest-multiplier elements that can impact demand within a 12-18 month target window.

- **Higher mix of most effective stimulus elements.** While my purpose here today is not to spell out the exact details of the best stimulus package, there is significant evidence that certain policies will have a greater effect per dollar spent. Generally, Dimitri Papadimitriou, Greg Hannsgen and Gennaro Zezza of the Levy Institute find that well-designed government spending has an impact of 130 percent on GDP.[7] The Congressional Budget Office cites extending unemployment insurance benefits and food stamps as the most effective type of stimulus—sure-fire measures that are fast-acting and have a high bang for the buck. Mark Zandi of Moody's Economy.com published an oft-cited analysis suggesting that federal aid to states, infrastructure spending, food stamps, and extending unemployment benefits all have multiplier effects of greater than 130 percent.

IV. **Looking for win/win stimulus**. Due to the magnitude of an effective stimulus in our current economic environment, there is a greater imperative to search for stimulus proposals that are win/wins—policies that are both effective stimulus

[7] Dimitri B. Papadimitriou, Greg Hannsgen and Gennaro Zezza. "Fiscal Stimulus: Is More Needed?" Levy Institute, 5/22/08; http://www.eurointelligence.com/article.581+M5309b28e442.0.html

measures and yet can also be down payments on our long term priorities. Finding this “sweet spot” is challenging but is often doable.

One of the challenges in finding the sweet spot is that some important down payments on long-term priorities may start and have a high-payout during the period of stimulus yet go on beyond it. One way to deal with this dilemma is to waive pay fors in the first year or two to ensure a strong stimulus effect, yet have provisions or an understanding that long-term extension requires off-setting savings.

- **Green jobs and a down payment on a green infrastructure**: There has been enormous and appropriate enthusiasm and interest in a “green recovery”—the degree to which an investment in green jobs can be a strong immediate stimulus and yet still jump-start long-term energy and climate change goals. The challenge here is finding the right mix. A focus only on projects that can be started and completed within an 18 month window can produce a strong stimulus, but could be a less effective down payment than measures that might require a much longer investment. This may be a case where it would make sense to push for a down payment on crucial long-term green infrastructure investments under a framework where the first 18 months is done as pure stimulus, but where there will be off-setting savings to pay for the permanent or long-term extension of the investments. Bracken Hendricks and Benjamin Goldstein of CAPAF have a number of suggestions that could potentially achieve the win/win for green stimulus. For instance, they suggest that tripling the Energy Efficiency and Conservation Block Grant program—a $6 billion investment for one year—could provide down payments to communities for long term retrofit projects through a proven funding stream, an investment that the U.S. Conference of Mayors estimates could be fully spent within a year. Another win/win would be accelerating investment in Smart Grid technology, which has the potential to coordinate energy production and delivery in a way that lowers costs and reduces carbon emissions. The Energy Independence and Security Act of 2007 already authorized smart grid investments; CAPAF believes that at least 1.3 billion in smart grid matching funds, research and demonstration projects could be funded immediately, with a broader investment to follow.[8][9]

- **School modernization**. Especially in urban and poor areas, modernizing schools and making them energy efficient is not only a way to move our long term priorities of saving on energy costs and improving our children’s health, but it is also good stimulus. Schools have long lists of deferred maintenance

[8] Bracken Hendricks and Benjamin Goldstein. “A Strategy for Green Recovery.” Center for American Progress Action Fund, November 10, 2008; http://www.americanprogressaction.org/issues/2008/pdf/green_recovery_memo.pdf

[9] Robert Pollin, et al. “Green Recovery: A Program to Create Good Jobs and Start Building a Low-Carbon Economy.” Center for American Progress and UMASS-Amherst Political Economy Research Institute, September 2008.

projects—from brick repairs to window replacements—ready for approval; the Los Angeles Unified School District alone has a backlog of $5 billion in deferred repairs, according to the Economic Policy Institute. EPI's President Larry Mishel testified that the New York City school system completely spent $1 billion in only twelve months to modernize buildings in 2005 and could easily do the same today given the maintenance needs outstanding.[10] EPI suggests an investment of $20 billion to eliminate some of the long-term backlog, but also because it predicts that doing so would increase demand for materials by $6 billion and would generate 250,000 skilled jobs.[11] The Center for American Progress Action Fund has pointed out that there are already $7.25 billion in authorized but unfunded school modernization grant programs that could jumpstart the school modernization investment as soon as Congress chooses to appropriate the funds.[12] School modernization could thus be a job-creating stimulus that props up the ailing construction sector in the short term and also enhances our long-term goal of providing safe, clean and efficient schools for our kids.

- **Programs for disadvantaged youth**. One of our most pressing long-term goals is to help poor and disadvantaged youth to succeed in school, and to help those who have left to return to the classroom. But the infrastructure for programs such as Youth build, a Green Job Corps and summer enrichment scholarships already exists and has the capacity to deploy increases in funding quickly. Youth build, for instance, has an immediate $40 million shortfall this year that could be plugged and put toward developing a program in green construction, a down payment on the long term goal of creating green jobs.[13] Investments in successful youth empowerment and after school programs could be good stimulus, help with educational goals and help maintain strong nonprofit organizations whose giving is likely to be impacted by the economic downturn.

- **Infrastructure.** While our major infrastructure goals need to be part of the long term budget, there should be strong openness to make those projects that can be fast tracked part of the stimulus. Projects such as preventative maintenance, repairs and homeland security upgrades may be quick acting. Other projects may already be in the pipeline and can be accelerated. Where things go far beyond the period of stimulus they need to be part of a long term bill that includes offsets.

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[10] Lawrence Mishel, testimony to the Joint Economic Committee, 1/16/2008; http://www.epi.org/webfeatures/viewpoints/testimony-mishel-20080116.pdf

[11] "$20 billion in Federal investment in school infrastructure would provide major boost to education, economy." Economic Policy Institute, April 29, 2008.

[12] Bracken Hendricks and Benjamin Goldstein. "A Strategy for Green Recovery." Center for American Progress Action Fund, November 10, 2008; http://www.americanprogressaction.org/issues/2008/pdf/green_recovery_memo.pdf

[13] John Podesta, Laura Tyson and Sarah Rosen Wartell. "A Practical and Progressive Economic Stimulus and Recovery Plan." Center for American Progress Action Fund, 1/17/08.

V. **<u>The triple importance of health care in the current economic crisis:</u>** In recognition of the jurisdiction of this committee, I would like to focus the rest of my remarks on why health care is a win / win for stimulus and our long term priorities. I advocate a three-pronged approach: Increased FMAP payments to states, a jumpstart on the implementation of health information technology and putting a down payment on the expansion of the State Children's Health Insurance Program (SCHIP).

- **Increasing FMAP payments is critical.** Today, states are faced with an increasingly bad set of options on how to deal with rising demands for health care in a struggling economy. As the labor market weakens, more people lose their jobs and their health insurance, putting a greater strain on Medicaid. In 2002, MIT economist Jonathan Gruber found that every percentage point rise in the unemployment rate increases the rolls of the uninsured by 1.2 million people. The Kaiser Family Foundation and Urban Institute determined that the same percentage point increase in unemployment increases Medicaid and SCHIP demand by one million, but also causes state General Fund revenue to underperform expectations by 3-4 percent as payroll and income taxes decline. The inevitable problem, then, is that at the very time states should be spending more on Medicaid to cover these newly uninsured, they are feeling fiscal pressure instead to cut back their funding and eligibility criteria.

  Without additional federal assistance on Medicaid, states in this situation will be forced to make painful choices that will have a contractionary effect on their economies—at the exact time that stimulus is desperately needed. If states try to maintain their current Medicaid eligibility standards and take on what can add up to hundreds of thousands of additional recipients, their fiscal situation deteriorates further, causing states to pull back in other areas such as education and infrastructure or even to raise taxes. In surveying 14 state-level reports on Medicaid, the Kaiser Family Foundation concluded unequivocally that "reductions in state and federal Medicaid will lead to declines in economic activity at the state level."[14]And just as bad, if states seek to cut back on Medicaid eligibility, millions of the most hard-pressed and vulnerable Americans will be denied health care. This outcome is morally unacceptable and moves us backwards– not forward—in our nation's efforts to reach universal access to health care.

  The data coming out of the states in the current crisis shows this Medicaid squeeze scenario is only getting worse. In October, the unemployment rate jumped four tenths of a percent to 6.5 percent, a 14-year high. This news, combined with the plunging home prices I mentioned above contributed to the fact that 37 states faced FY2009 budget gaps totaling $72 billion. According

[14] "The role of Medicaid in state economies: A look at the research." Kaiser Family Foundation, April 2004. http://www.kff.org/medicaid/upload/The-Role-of-Medicaid-in-State-Economies-A-Look-at-the-Research-Policy-Brief.pdf

to Iris Lav of the Center for Budget and Policy Priorities (CBPP), "judging from the rate at which revenue is deteriorating and the history of prior recessions, the 2010 gaps are likely to be in the $100 billion range." CBPP notes that 17 states have cut or are considering cuts to low income child and family health care programs and at least 15 states are cutting care for the elderly and those with disabilities. These numbers are likely to grow over the coming months.[15]

The main fiscal mechanism the federal government has to address this health coverage vs. economic contraction dilemma is to increase the match it provides the states for the Medicaid program as a fiscal stimulus. That match rate is known as the Federal Medical Assistance Percentage (FMAP). States with lower per-capita income have a higher federal match rate than wealthier states. Temporarily increasing the FMAP becomes a powerful stimulus policy for three reasons:

1) It targets workers who have been hardest hit by an economic downturn, preventing a recession from leading to loss of health care and further devastation of families. Medicaid rolls swelled from 35.7 million in December 2001 to 41.8 million in December 2004, an increase of 17 percent. Rolls would have increased upwards of 20 percent had 1 million people not been dropped from eligibility by state Medicare plans before the 2003 FMAP stimulus.[16]

2) FMAP allows states to expand Medicaid enrollment without requiring other contractionary policies and has one of the highest multiplier effects of any form of economic stimulus. A 2004 study by Families U.S.A found that a 2.95 percent increase in the FMAP rate would bring a return of $3.85 million in business activity for every $1 million in Medicaid investment, a multiplier of 385 percent.[17]

3) FMAP is among the quickest acting stimulus possible. As Gruber found, Medicaid demand is highly responsive to the unemployment rate, so economic downturns show up very quickly in the form of Medicaid applications. Medicaid spending is calculated on a monthly basis so, in terms of logistics, a stimulus program could get up and running very quickly.

In light of the demand crisis our economy is likely to face in 2009 and even into 2010, the projections of rising unemployment and the need for bold, fast-acting

[15] Elizabeth McNichol and Iris Lav. "State Budget Troubles Worsen." Center on Budget and Policy Priorities, 10/24/08.
[16] Iris Lav, testimony to House Budget Committee, 10/20/08. Data from Kaiser Family Foundation State Health Facts
[17] "Medicaid: An important part of a stimulus package." Families U.S.A, 1/28/08; http://www.familiesusa.org/assets/pdfs/medicaid-coalition-stuff/families-fmap-economic-stimulus-jan-28_1.pdf

and high bang-for-the buck stimulus, there is a compelling case for a major one-time increase in FMAP to stimulate the economy, prevent backward movement on our long-term goal of universal coverage and to prevent unnecessary suffering by hard-working families. In this light, the $10 billion FMAP increase seen in 2003 appears to be highly inadequate. I believe—depending on the size of additional state fiscal relief—that an FMAP increase in the range of $35-50 billion will be required over the next 12-18 months. Indeed, Lav testified that $30 - $35 billion in increased FMAP payments—along with a ban on states reducing Medicaid eligibility—is needed to prevent an additional 4 million Americans from becoming uninsured. Perhaps we should analyze how FMAP could, in the future, be structured to serve more as an automatic stabilizer, but for now we need a strong FMAP increase to be part of a broader $300 - $400 billion or more stimulus package. As my colleague Jeanne Lambrew explained, "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."[18]

- **An SCHIP expansion would be an important "win/win" for stimulus and a down payment on long-term health priorities.** Expansion of the State Children's Health Insurance Program (SCHIP) presents a win/win scenario in terms of providing strong stimulus while also providing a down payment on a long-term priority: universal coverage, starting with all children. Like FMAP, SCHIP funds can go out quickly and be spent by states that already have programs in place. All federal appropriations for SCHIP expire in March 2009, so this will be an issue the Congress is forced to address or risk eliminating coverage for over 7 million children. Indeed, an increase in the federal FMAP match will not be as effective unless there are additional funds provided for SCHIP.

  The struggle to pass an SCHIP reauthorization with important expansions and incentives for states to enroll more eligible children such as so-called "Express Lane" enrollment, relaxed documentation requirements and enhanced outreach grants has been frustrated in recent years by Presidential vetoes and threats of vetoes, as well as the White House guidance in August 2008 that stopped a number of state expansions from going forward. I know that as we speak there are significant discussions going on over how to extend and expand SCHIP to cover the increased demand for health coverage that our current economic recession will bring. As the health community and this Committee structure the exact package, I would recommend the following: One, while long-term and permanent expansions require appropriate off-setting savings, there is a strong case to be made on stimulus grounds for waiving the off-sets for about the first couple of

[18] Jeanne Lambrew, "Healthy Stimulus." Center for American Progress 1/28/08; http://www.americanprogress.org/issues/2008/01/healthy_stimulus.html

years of the reauthorization when the economy would still be in a slow-growth period. Two, it would make sense to seek an expansion of outreach efforts during the period of economic downturn. Doing so would put thousands of people to work at a time of economic weakness, while also laying the foundation and infrastructure needed for achievement of our moral imperative to ensure universal coverage for all children—and hopefully for all Americans of any age. While President Obama works with the Congress on a comprehensive health care bill, boosting SCHIP can be a temporary and well-targeted stimulus plan, prevent millions of children from losing coverage they already have and move us closer to achieving universal coverage.

- **Investigating one-time health information technology as a stimulus:** There is wide agreement coming from leaders ranging from Congress and the new Administration to the Business Roundtable that major advances could be made on our economic and fiscal imperative to lower the rapid growth in health care costs through a one-time implementation of advanced information technology in our hospitals and doctors' offices. Implementing advanced health IT will be a large one-time cost to bring health care into the 21st Century. The Rand Corporation conservatively estimates savings of $77 billion per year if most hospitals and doctors' offices adopt health IT, reducing unnecessary hospital stays, eliminating wasted time on paperwork, and efficiently allocating drugs.[19] The Business Roundtable estimated the savings to be $165 billion per year, or about $2,200 for a typical family. Administration and Congressional policymakers should undertake an immediate investigation of the viability of implementing a portion of the health information technology quickly over the next 12-18 months. If there is a possibility for such quick action, this could fit into the win/win area of investments that can both jumpstart jobs and jumpstart creating the health and fiscal future we aspire to.

VI. **Final note: Universal health care reform as part of a fiscal discipline "Grand Bargain."** Some have recently questioned whether, in light of the high deficit and large stimulus needed to revitalize economic growth, we can afford to move forward on major universal health care legislation. I believe this is the wrong perspective.

- **Cost of inaction is too high:** Rather than seeing a movement toward health care reform to cover all Americans, improve quality, and bring down the growth of health care costs as an expensive luxury to be deferred, I believe the largest cost would be the cost of inaction. Not only does inaction delay us from our moral imperative as a nation to ensure health care to all of our people, but it allows a status-quo to remain in place that is hurting our competitiveness and leading to high growth in our long-term entitlement bill

[19] Richard Hillestad, James Bigelow, Anthony Bower, Federico Girosi, Robin Meili, Richard Scoville, and Roger Taylor, "Can Electronic Medical Record Systems Transform Health Care? Potential Health Benefits, Savings, And Costs," *Health Affairs*, September/October 2005; 24(5): 1103-1117

concerning health care. It makes no sense from an economic perspective to allow our national health care bill to remain exceedingly large and growing simply because the steps to greater national efficiency require a temporary shifting of some costs for the uninsured to the public ledger. The serious reforms that can only take place with a major health coverage bill—reducing cost-shifting while expanding prevention measures, chronic care management, health information technology and eliminating the tens of billions of dollars spent on excluding and discriminating against those with pre-existing conditions—are among the measures most needed to reduce the growth of health care costs, which are also driving our largest long-term entitlement challenges concerning Medicare.

- **A grand bargain on fiscal discipline: do more, not less, on the nation's long-term priorities.** Rather than responding to the large deficits the new President will inherit by pushing only for incremental change, the "grand bargain on fiscal discipline" should be to go forward with bold efforts on stimulus, universal health care and climate change. Those concerned about our long-term fiscal future should not call for abandoning plans for universal health care, but rather for ensuring it is done in a way that is effective in lowering the growth of health care costs. And with the partial privatization of Social Security dead and buried, there could be a new opening for a Social Security reform plan that is progressive, does more for widows and other elderly women, locks-in Social Security as a rock-solid guaranteed benefit, and is part of a package that includes a universal 401K as well as defined benefit plan protections.

  This grand bargain would mean that we seek to marry stimulus and long-term priorities with fiscal discipline not by seeking less bold change, but more.