

**Statement for the Record
Of
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**Treatments for an Ailing Economy:
Protecting Health Care Coverage and Investing in Biomedical Research**

Good morning, and thank you to Chairman Pallone, Ranking Member Deal, and members of the Subcommittee for having this hearing and for inviting me to speak to you today. Families USA is a not-for-profit consumer advocacy organization. We are dedicated to achieving high-quality, affordable health care for all Americans. Among the issue areas we address, we advocate for improvements in health nationally as well as globally through expanded funding for research and development for new tools to fight global diseases.

Families USA is pleased to submit this testimony on the important role of biological research, specifically research funded through the National Institutes of Health (NIH), in stimulating local economies throughout the United States and in fostering economic growth for our nation.

NIH is America's leading medical research agency and the foremost biomedical research institute in the world. The members of the Subcommittee are well aware of the extraordinary advances in health nationally and worldwide that can be traced to NIH funded research, from decreases in death from cancer, heart disease, and stroke to dramatic increases in life expectancy for patients with diabetes and HIV/AIDS. We are here today to speak to another, less well known, contribution that NIH makes to our nation. We are here to testify to NIH's role as a positive economic force in communities across America, and to discuss how NIH stimulates growth and creates jobs in every state.

Between 80 and 90 percent of NIH's \$29 billion budget funds "extramural research," research that takes place in universities, medical research centers, hospitals, and research institutes across the country. That money clearly offers a direct benefit to the institutions that receive those funds through NIH grants or contracts. However, it also brings a broader economic benefit to the larger communities of which these institutions are a part.

NIH funding flowing into communities across America represents a new source of spending from outside the state. Spending that comes from outside of the state has a larger impact on the state economy than new spending from within the state alone, through what economists call the

“multiplier effect.” As new spending enters a state, successive rounds of spending occur. The new funds are earned by local businesses and residents who then spend these earnings on purchases from other state firms or residents. By bringing new federal dollars into a region, NIH funding promotes new spending that would otherwise not exist in a state.

In June 2008, Families USA published a report quantifying the economic impact of NIH funding on the economy of each state and nationally. That report, entitled *In Your Own Backyard: How NIH Funding Helps Your State's Economy*, used data on NIH's fiscal year 2007 grants and contracts to each state to measure the broad economic benefit that states receive from NIH funding. A copy of that study is submitted along with this testimony.

Measuring the Benefit of NIH Funding on State Economies

Families USA used the Regional Input-Output Modeling System (RIMS II) created by the U.S. Department of Commerce, Bureau of Economic Analysis to determine the overall impact of NIH funding on each state's economy. The RIMS II model measures, within a region, the extent to which an investment in one industry affects all other industries in that region, and ultimately, the region's economy. RIMS II can be used to estimate the impact of a variety of different projects, such as development of new retail establishments, construction, and university expenditures. The RIMS II model includes hundreds of economic multipliers to measure the impact of new spending in different industries.

For its analysis, Families USA used the RIMS II multipliers for the scientific research and development (R&D) industry, as the industry measure that would most accurately reflect the impact of NIH's biomedical research funding. RIMS II multipliers are specific for each state, based on an analysis of each state's economy and industry structure. The RIMS II model allowed us to estimate three economic impacts that NIH funding would have in a state.

- The first is economic output, or the value of goods and services produced in the state. RIMS II measures the increased demand in a state for goods and services supplying the research activity.
- The second is employment, or the number of jobs created in the state by the change in demand.
- The third measure is employee earnings, or the wage and salary income associated with the affected jobs.

NIH Funding: A Direct Contribution to Economic Growth

Our analysis showed that NIH spending has a significant impact on state economies. In fiscal year 2007, NIH awarded approximately \$22.8 billion in grants and contracts to universities and other research institutions in the 50 states. Seven states received more than \$1 billion in funding from NIH. On average, each dollar of NIH funding going into a state generated more than twice as much in state economic output. Nationally, the investment of \$22.8 billion from NIH generated a total of \$50.5 billion across the states in new business activity in the form of increased output of goods and services.

NIH funding also contributes to state job creation. In fiscal year 2007, NIH funding created and supported more than 350,000 jobs that generated wages in excess of \$18 billion in the 50 states. NIH funding not only created new jobs, but it created high-paying jobs. The average wage associated with the jobs created was \$52,000, nearly 25 percent higher than the average U.S. wage of \$42,000.

Although the value of NIH awards varies widely from state to state, institutions in every single state received NIH grants or contracts. As a result, NIH funding contributed to business growth and job creation in every state.

For example, in New Jersey, \$280 million in NIH funding in 2007 generated \$631 million in new business activity and led to the creation of 3,738 new jobs. The average wage associated with those jobs was \$57,720. NIH funds benefited a cross section of New Jersey universities, hospitals and businesses. Major award recipients included the University of Medicine and Dentistry of New Jersey, which received over \$120 million to support research, training, and clinical trials at the University and its affiliated teaching hospitals; and Rutgers University, which received over \$60 million to support research at multiple campuses.

In Georgia, \$374 million in NIH funding generated \$883 million in new business activity in the state, creating 6,774 new jobs with an average wage per job of \$46,924. The state's award recipients truly spanned from A to Z, from Agnes Scott College to Zygogen, an Atlanta company that offers technology supporting clinical research. Major recipients of NIH funding included Emory University, receiving over \$225 million; the University of Georgia, with over \$33 million in awards; and Morehouse School of Medicine, with over \$22 million in funding from NIH in 2007.

Looking more broadly at the impact of NIH funding on business and job growth nationally, this is a snapshot of the positive impact of NIH funding on state economies.

- The amount of new business activity generated ranged from \$8.39 billion in California to \$13 million in Wyoming.
- In 14 states, NIH funding generated over \$1 billion in new business activity. Those states are: California, Illinois, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New York, North Carolina, Ohio, Pennsylvania, Tennessee, Texas, and Washington.
- In ten states, each dollar of NIH funding generated at least \$2.26 in economic activity: Texas (\$2.49); Illinois (\$2.43); California (\$2.40); Georgia (\$2.36); Colorado (\$2.34); Pennsylvania (\$2.32); Tennessee (\$2.32); Utah (\$2.30); Ohio (\$2.29); and New Jersey (\$2.26).
- In six states, more than 20,000 new jobs were created. Those states are: California (55,286 new jobs); Massachusetts (30,864); New York (27,877); Maryland (21,299); Pennsylvania (21,262); and Texas (20,148).

- In seven states, the average wage per new job created exceeded \$55,000: Connecticut (\$60,285); Massachusetts (\$58,801); Delaware (\$57,960); New Jersey (\$57,720); Nevada (\$56,664); California (\$56,268); and Illinois (\$55,566).

Substantial Indirect Benefits

In addition to the substantial economic growth that can be measured through the RIMS II modeling, NIH funding contributes to the economic health of communities across the country in other ways that are less readily quantified.

Helping Universities Grow. NIH awards help universities, medical schools, and other research institutions to expand their programs and to attract funding from additional sources. The level of federal research funding that a university receives—of which NIH grants are a key component—is one of the criteria used to rate universities by sources as divergent as think-tanks, such as the Center for Measuring University Performance, to popular rating systems such as U.S. News & World Report. Higher ratings can translate into more applicants and a growing student body. This is critical to the economic health of the many communities nationwide where universities are a major sources of jobs, tax revenue, and area growth.

Helping Businesses Grow. While the bulk of NIH funding goes to universities, medical colleges, and research institutes across the country, some funding is directed to businesses. A state-by-state review of NIH grants shows that funding recipients include a mix of academic institutions, hospitals, research centers, and large and small businesses. NIH also helps businesses grow through non-grant resource sharing arrangements. NIH’s Cooperative Research and Development Agreements (CRADAs) and Material Transfer Agreements (MTAs) allow resources, facilities, and expertise to be shared between NIH and industry. From 1985 to 2004, NIH entered into more than 400 CRADAs. From 1991 to 2004, at least 15 drugs and vaccines approved for use were developed through NIH/industry relationships.

Improving Local Health Care and Quality of Life. NIH funding can also have a positive impact on local health care by improving the quality of medical services available in communities across the country. For example, NIH funds help out schools that are affiliated with hospitals, and as a result these hospitals perform better. Of the 20 highest-ranked hospitals, 19 were affiliated with one of the 25 top NIH-funded medical schools. Additionally, studies have found a facility’s participation in clinical trials—one of the research components that NIH funds—is positively correlated to health outcomes. In 2007, NIH spent \$3 billion on clinical trials. Much of that funding went to medical centers across the country, contributing to better health outcomes. Better health outcomes can translate into improved worker productivity and economic growth.

Helping Local Economies and Improving Health Globally. NIH funds research addressing health problems of a global scale. This includes research on “neglected infectious diseases” such as malaria, tuberculosis, and a host of tropical diseases—diseases that are most prevalent in low-income countries, and that are insufficiently researched by the drug industry. For example, NIH has awarded \$23.7 million to Emory University in Atlanta over seven years to evaluate new vaccines and therapies for infectious diseases; \$7.8 million to Texas A&M University to research tuberculosis drugs; and \$4.8 million to the University of North Carolina’s Carolina Vaccine Institute for research into vaccines for dengue fever.

These types of awards not only support growth in the U.S. communities that receive the research funding, but also help the United States show leadership in addressing major health problems globally—problems that, if better addressed, will contribute to economic growth internationally, which, in a global economy, translates to growth here at home.

Economic Benefits at Risk Due to Funding Stagnation

For the last five years, NIH's budget has been steadily declining. This has compromised the agency's capacity to fund medical research across the country and has hurt universities and other institutions that depend on NIH funding. In turn, that has hurt the communities where these institutions are an integral part of economic growth.

As part of its study of NIH's impact on state economies, Families USA used the RIMS II multiplier to estimate the impact that a 6.6 percent increase in NIH funding would have on state economies. We chose 6.6 percent because that level of increase is needed to offset past flat funding and to adjust for current inflation. For illustration purposes, we applied that hypothetical increase evenly across all states when making our calculations.

If the sum of all NIH awards to the states was increased by 6.6 percent—roughly \$1.4 billion—the economic benefit of that increase would be an additional \$3.1 billion in new business activity, 9,185 additional jobs, and \$1.1 billion in new wages. There would also be the additional economic benefits that are difficult to measure. Those are the benefits of college and university growth, business development, and improved community health care.

Investment in NIH Stimulates Economic Growth

As the Congress looks at our investment in health care and ways that investment can stimulate economic growth, it should keep in mind the interrelated set of benefits that flow from NIH funding. The government's investment in NIH is an investment in the physical and economic health of our communities and our nation. An NIH budget that fails to keep up with inflation and that fails to foster scientific growth hurts labs, hospitals, universities, businesses, communities, and America's standing as a world leader in medical research. On average, every dollar invested in NIH generates more than twice that amount in state economic output. That is an excellent investment—it is an investment that can stimulate state economies while helping ensure that we maintain our preeminence in biomedical research.

Other Investments in Health Care

With the economy continuing to decline, further economic stimulus is important to states. While there are many ways to stimulate the economy, one of the most 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. In fact, Families USA has data that show—on a state-by-state basis—that temporarily increasing the FMAP is an effective and proven way to stimulate the economy, and it provides

immediate relief to state and local economies. We are happy to share these data with the Subcommittee.

Without help from the federal government, states would be forced to reduce spending (often by cutting Medicaid). This further aggravates an economic downturn. Unfortunately, many states across the country have already made significant cuts to their Medicaid programs in the face of this economic crisis. At least 18 states have made or are proposing cuts for the current fiscal year and beyond. Many of these states made cuts this past cycle as they struggled to fill budget deficits in order to pass their Fiscal Year 2009 budgets. As the economy has continued to decline over the past few months, state revenues have fallen well below projected amounts. As a result, a number of states—including several that already made cuts and others that just barely averted cuts in developing their current budgets—are now making or considering mid-year budget cuts. Medicaid programs across the country are facing significant funding cuts.

Cutting Medicaid has a real and significant impact on individuals and families. As a result of the cuts states have made and are currently considering, fewer people will qualify for Medicaid, and it will be harder for many to enroll. For those who are enrolled, it will be more costly to get health care services, and fewer services will be covered. And it may be more difficult to find a provider who takes Medicaid, because several states are cutting reimbursement rates for health care providers. For example:

- In its fiscal year 2009 budget, California implemented enrollment barriers, increased cost-sharing, and cut provider reimbursements. Needing to fill a mid-year budget gap, the state is now proposing making further cuts, including eliminating coverage for some parents; cutting benefits; increasing cost-sharing for the aged, blind, and disabled; and reducing funds to public hospitals.
- Rhode Island eliminated coverage for some parents and increased cost-sharing. Even more troubling, in order to delay significant Medicaid cuts, Rhode Island is asking the federal government to give it additional Medicaid funds “up front” in exchange for an agreement that would put a hard cap on the amount of federal Medicaid funding the state could spend on Medicaid over a 5-year period. Essentially, Rhode Island is asking the federal government to “block grant” its Medicaid program. This will have a serious detrimental affect on Rhode Islanders in the future.
- Maine implemented an enrollment fee for some parents, which will deter many from being able to attain coverage.
- New Jersey cut charity care funding to hospitals, which will limit its ability to treat Medicaid and uninsured patients.
- Utah recently made mid-year cuts by eliminating some benefits and cutting provider rates.
- Nevada implemented an enrollment cap for its CHIP program to the approximate number of current enrollees; many uninsured and eligible children will now be left without access to health care. The state also increased cost-sharing, eliminated coverage for almost 100

pregnant women, and implemented stricter eligibility standards for elderly and disabled individuals needing institutional care.

- New York cut payments to managed care organizations and delayed implementation of a Medicaid enrollment center. The Governor is proposing billions of dollars in additional cuts from the Medicaid program, including reducing the rate of budget growth from 4 percent to 1.7 percent, and significantly cutting funding for hospitals and nursing homes. These cuts will have a detrimental effect on Medicaid beneficiaries.

These are just a few examples of the harmful Medicaid cuts taking place in the states. As states grapple with looming budget deficits resulting from the bad economy, more cuts are likely to happen.

But Congress can prevent more harm from coming to the low-income and vulnerable people who rely on Medicaid for access to critical health care services. A temporary increase in the FMAP can help state Medicaid programs sustain their Medicaid spending and avoid or minimize further cuts. Temporarily raising the FMAP has proven to be a useful tool that helps states avoid Medicaid cuts and helps them meet the increasing enrollment demands that arise during an economic downturn. Medicaid enrollment rose by 8.6 percent between 2001 and 2002 because of the recession. Congress passed the Jobs, Growth, and Tax Relief Reconciliation Act of 2003, which temporarily increased the FMAP. As a result, states received \$10 billion in federal funding, which was instrumental in helping states such as Minnesota, Missouri, and Ohio avoid or postpone cutbacks in eligibility and benefits.

Not only will an FMAP increase protect Medicaid beneficiaries, it will also buffer states' economies. 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.

Conclusion

Investments in health care can provide a stimulus that benefits communities across the country. But they can do even more. Investments in NIH bolster U.S. medical and scientific leadership. A temporary increase of the FMAP is a way to preserve Medicaid, support access to medical care for our most vulnerable citizens, and boost state economies during this time of economic crisis. Families USA supports both.