

**\*\*\*This testimony is embargoed until January 26, 2011, at 9:00am\*\*\***

**Chairman Austan Goolsbee  
Council of Economic Advisers**

**Ways and Means Committee Hearing  
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Good morning Chairman Camp, Ranking Member Levin and members of the committee. Thank you for inviting me to testify today about the implications of the health reform law for the economy and jobs.

The Affordable Care Act was designed to make sure that health insurance coverage is affordable for individuals, families, and businesses. While millions of people are benefitting now, much of the impact of the Act will begin when the major coverage provisions take effect in 2014. But the best evidence from outside experts suggests that in addition to slowing the growth of Medicare spending and significantly reducing the deficit over the next twenty years, the Affordable Care Act can be a significant benefit to the job market by easing the burden of health care costs on small businesses and by reducing the growth rate of health care costs.

The impact of the Affordable Care Act on the labor market is an important topic for the nation and there has been a great deal of confusion over this issue, so I am very happy to have this opportunity to try to dispel some myths and answer your questions about the economics of health reform. I want to highlight two key mechanisms identified by health economists that could have significant positive impacts on the job market.

The first mechanism I want to highlight is the impact on small business. The role of entrepreneurs and small businesses in job creation is well known. And equally well known is the fact that small businesses have, for years, consistently said that the cost of health care is one of their most significant problems. Small businesses that want to provide insurance for their workers face much higher costs than large firms do for the same plan. In many states they also face the risk that a single sick employee or even an employee's ill family member will send their premiums through the roof.

The Affordable Care Act has already begun to help small business become more competitive by making health insurance more accessible and more affordable. One of the first provisions of the law to take effect is a Small Business Health Care Tax Credit that helps offset the cost of coverage for qualified small businesses. This credit covers up to 35 percent of a small business' premium costs; in 2014, this share rises to 50 percent. For qualified employers that were not already offering coverage, this will make it easier for them to do so. For those that were already providing coverage, this credit helps them with those costs, improving their bottom line and returning higher profits, higher wages for workers, and more jobs. As many as 4 million small businesses may now be eligible for the new Small Business Health Care Tax Credit.

In addition, the Affordable Care Act can level the playing field for small businesses by giving them and their workers access to the same stable premiums that large employers already enjoy. Exchanges pool risk and reduce administrative costs for small businesses; new insurers will not be able to raise rates when someone in the group becomes sick. This will allow small firms to offer competitive health benefits. People will be able to start their own company or go work for

a fast-growing small business without worrying that they would have to give up access to secure, affordable coverage.

Another aspect of the Affordable Care Act I want to highlight for its positive impact on job creation is its role in reducing the growth rate of health care costs and the impact that this reduction could have on employers. The evidence indicates that although almost all large firms already provide health insurance for their workers, health care costs have consistently been one of the fastest-growing components of employer compensation costs. And economic research indicates that these high costs have a direct negative impact on job growth at companies (Baicker and Chandra; Sood, et al).

The Affordable Care Act reduces the growth of health care costs for employers in several ways. The most immediate way is by reducing the indirect costs associated with caring for the millions of uninsured in the country that are passed through to insurance premiums. Today, the uninsured get their health care in emergency departments or in other high-cost ways and these costs are then passed on directly as a hidden tax on everyone else. Estimates put the cost of this hidden tax as high as \$1,000 per worker per year. When fully implemented, the Affordable Care Act should significantly reduce this hidden tax on employers.

Second, the Affordable Care Act introduces a number of payment and care delivery innovations in Medicare and Medicaid that will reduce spending for those programs, according to the non-partisan Congressional Budget Office; if private payers adopt the successful innovations, savings could accrue to the private sector as well. Some innovations, such as “bundled payments” and

the Medicare Shared Savings Program, which will create Accountable Care Organizations, are intended to improve care coordination and efficiency. Others, such as initiatives to reduce hospital-acquired infections and preventable hospital readmissions, provide an incentive to improve patient safety and the quality of care while also reducing spending.

Third, the Act makes a significant commitment to prevention and wellness, including requiring new insurers to cover high-value preventive services with no out-of-pocket cost to consumers. Fourth, the Affordable Care Act invests in better information about what medical treatments work best, through the creation of a Patient-Centered Outcomes Research Institute. This information will enable patients and providers to work together to make informed decisions about which treatments are the most effective.

Fifth, the Affordable Care Act continues the modernization of our health information technology infrastructure that began under the Recovery Act. There is research to indicate that health IT adoption and connectivity will help achieve efficiencies and savings in health spending by enabling administrative simplification, process improvements, and business transformation. The recent research of health economist David Cutler and colleagues suggests that all of these factors taken together may reduce health care cost inflation sufficiently to generate hundreds of thousands of additional jobs per year.

In addition, the Affordable Care Act contains provisions intended both to expand the primary care workforce and to respond to growing concerns about current and projected shortages of direct care workers, such as nursing assistants and home health aides. Programs authorized by

the act will help prepare the health system to meet the demand for health care workers through training and support for doctors, nurses, nurse practitioners and physician assistants.

In summary, when implemented, the Affordable Care Act will help small businesses; and by slowing health care cost inflation, it can play an important role in boosting the job market. As the President has said, all of us should be open to ideas of how to reduce costs further and improve the system. But repealing the Act and going back to the old way of doing things would be a major step in the wrong direction for the economy and for our nation's health.