

Employment in health care: a crutch for the ailing economy during the 2007–09 recession

During the last recession, employment in the health care industry grew while total nonfarm employment was down by more than 7.5 million; although growth in health care was not as robust as in the previous two recessions, the industry still gained 428,000 jobs

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The health care industry added 428,000 jobs throughout the 18-month recession from December 2007 until June 2009 and has continued to grow at a steady rate since the end of the recession.¹ Historically, health care employment has been immune from fluctuations in the business cycle, as shown by the industry's continued growth throughout previous recessions. Indeed, the industry has been among the leading contributors to overall job growth during recessions. In an economy hit with more than 7.5 million job losses, a national unemployment rate that rose to 10 percent in October 2009, and large declines in gross domestic product (GDP), all since the start of the most recent recession, the health care industry stood out as one of a few areas that continued adding jobs, thereby serving as a crutch for the ailing economy.

Industry trends during downturns

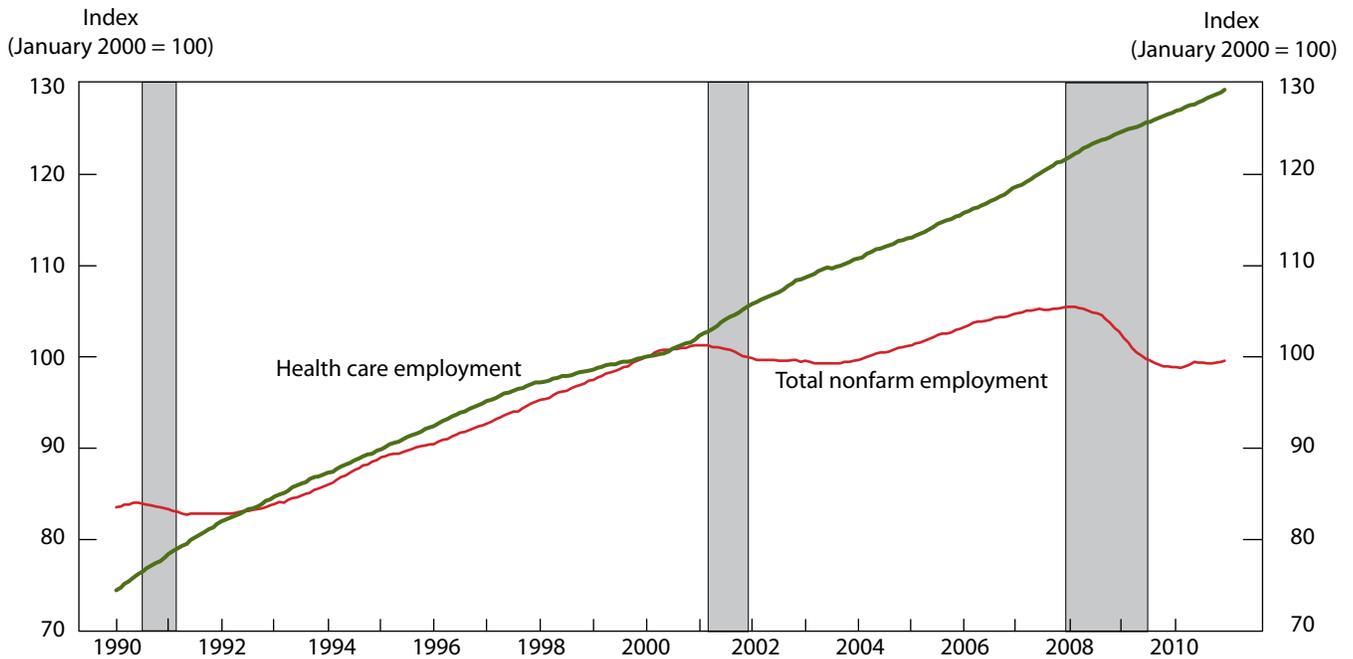
As in past recessions, the health care industry served as a beacon of job opportunities while total nonfarm employment plummeted in the 2007–09 recession. (See chart 1.) Fiscal stimulus packages funded hospitals through additional Medicaid subsidies and increased health-related spending during the recession, a common accompaniment of

economic downturns. These federally funded programs effectively made health coverage more affordable for, and available to, the unemployed. In the 2007–09 recession, one such program allowed the unemployed to finance and maintain their employer-sponsored private health coverage: the temporarily extended Consolidated Omnibus Budget Reconciliation Act (COBRA) guaranteed those out of work temporary coverage through subsidies that enabled them to pay their premiums. Fiscal stimuli also enabled hospitals to increase hiring, improve information technologies, and increase emergency care services to the unemployed, with Medicaid funding typically covering these services, thus offering a more economical substitution for primary care providers.²

One important opposing factor was the heightened cost of care, which weakened the demand for health services and resulted in a slower rate of job growth than in previous downturns. (See chart 2.) In the longest recession since World War II, government subsidies were insufficient to meet health care costs throughout the 18-month downturn. Consequently, coverage became more limited and unaffordable as (1) hospitals overspent Medicaid expenditures that were driven by the addition of 3.5 million new enrollees, (2) programs expired, and (3) health

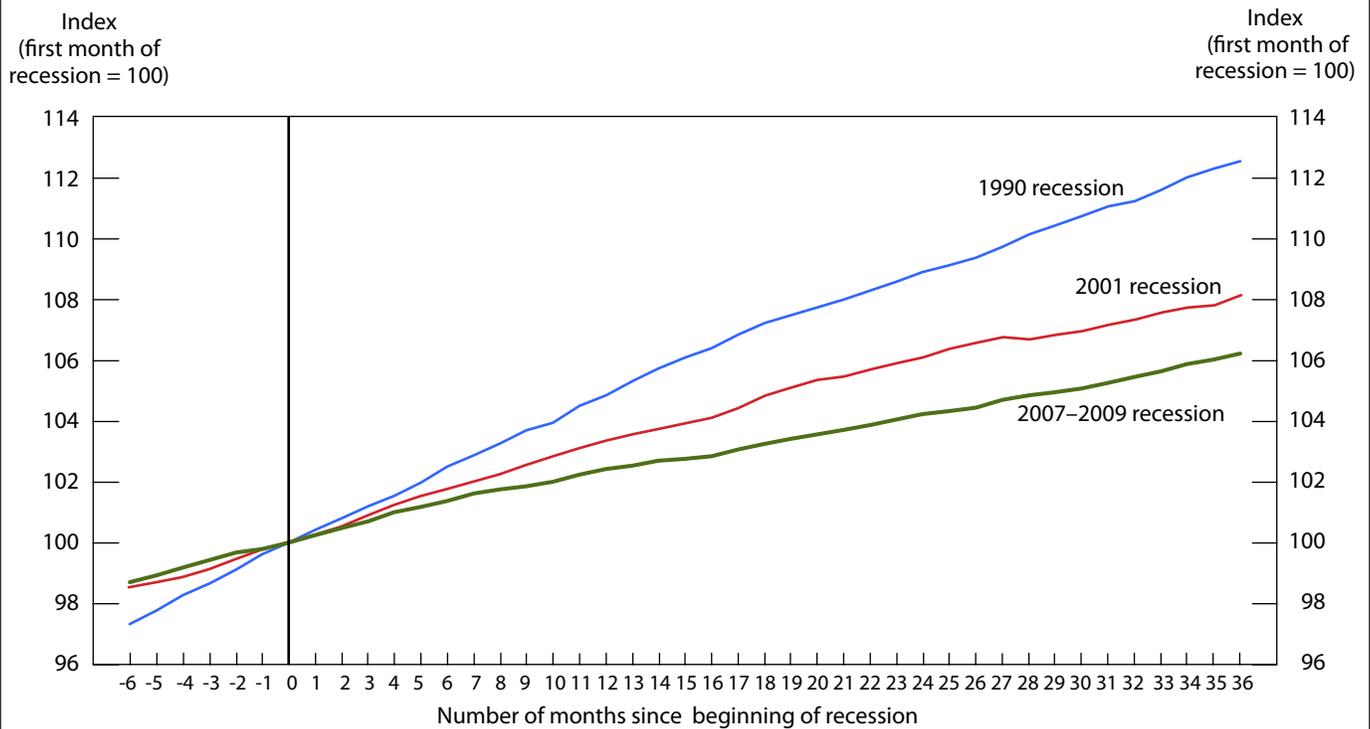
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Chart 1. Total nonfarm and health care indexes of employment, seasonally adjusted, 1990–2010



NOTE: Shaded areas represent recessions as determined by the National Bureau of Economic Research (NBER).
SOURCE: U.S. Bureau of Labor Statistics.

Chart 2. Health care index of employment, seasonally adjusted



NOTE: Beginning and ending months of recessions are determined by the National Bureau of Economic Research (NBER).
SOURCE: U.S. Bureau of Labor Statistics.

care providers were forced to make budget cuts and hire at a slower rate. As the number of medically uninsured increased by 3.8 million (from 42.7 million in 2008 to 46.5 million in 2009) and Medicaid enrollments escalated, limited resources shrank and the cost to the patient increased significantly.³

The low growth rate of national health spending throughout the 2007–09 recession explains why job growth progressed at a slower pace than during previous recessions. In 2009, national health spending grew by 4.0 percent, the lowest annual rate of increase in the 50-year history of the National Health Expenditure Accounts. This rate was preceded in 2008 by 4.7-percent growth, the second-lowest historical rate. Both rates of growth of health care spending in the most recent recession are significantly lower than the 8.5-percent and 11.0-percent rates posted in the recessions of 1990 and 2001, respectively.⁴ As one source put it, “The recession contributed to slower growth in private health insurance spending and out-of-pocket spending by consumers, as well as a reduction in capital investments by health care providers.”⁵ The increased burden the recession placed on households, businesses, and governments limited the financial resources that were available to pay for health care. As they lost their jobs and, consequently, their employer-sponsored private health care coverage, individuals could not afford health care and were forced to discontinue maintenance care and elective procedures, thus weakening the demand for health services.⁶

Despite the weakened demand for care, job growth was widespread and robust across health care throughout the 2007–09 recession, as all of the industry’s components—ambulatory health care services, hospitals, and nursing and residential care facilities—boosted employment.⁷ (See table 1 and chart 3.) Employment in these industries grew, at least in part, as a result of the increasing U.S. population and the continued, albeit slower, growth in demand for health care. From 2000 to 2009, the population increased by 26 million, or 9 percent, and from 1990 to 2009 by 58 million, or 23 percent.⁸ The growing and aging population, with its consequent increased demand for health care services, resulted in a net gain in job growth throughout the industry during the past three recessions.

Ambulatory health care services

Employment in ambulatory health care services,⁹ such as doctors’ offices and home health care services, had the largest positive contribution to job growth in the health care industry during the last three recessions. Ambulatory care

added 231,000 jobs, or an average of 13,000 per month, in the 2007 recession, compared with 13,000 per month during the 2001 recession and 15,000 per month in the 1990 recession. Within ambulatory services, home health care services had the greatest impact on job growth in the most recent recession, boosting employment by 95,000 as more affordable alternative care options increased. An infant industry in the 1990s, home health care grew dramatically as an economical option to traditional nursing homes. As medical technologies such as electromyography allowed the disabled to become more independent and use hands-free devices controlled by small muscle movements (for example, the blink of an eye), as pacemakers enabled cardiologists to control irregular heart rates, and as companion services spurred the growth in employment of home health care aides,¹⁰ preferences for in-home care increased among the elderly and disabled population.

Hospitals

Although health care employment tends to expand throughout changing business cycles, hospital employment has moved countercyclically to both real GDP and total nonfarm employment throughout the last three recessions.¹¹ (See chart 4.) Consequently, when unemployment rises, so does the jobs growth rate in hospitals. According to one economist, “While the trend of employment in all hospitals combined is consistently upward, the rate of growth may be described as countercyclical: when general business conditions are weak, hospital employment exhibits greater growth.”¹² Hospital employment saw its most significant gains at the onset of the most recent three recessions, when GDP declines were at their highest.¹³ In the 2007–09 recession, employment in hospitals added an average of 10,000 jobs per month between December 2007 and July 2008, whereas health care employment gained an average of 3,000 per month from August 2008 through the end of the recession in June 2009.

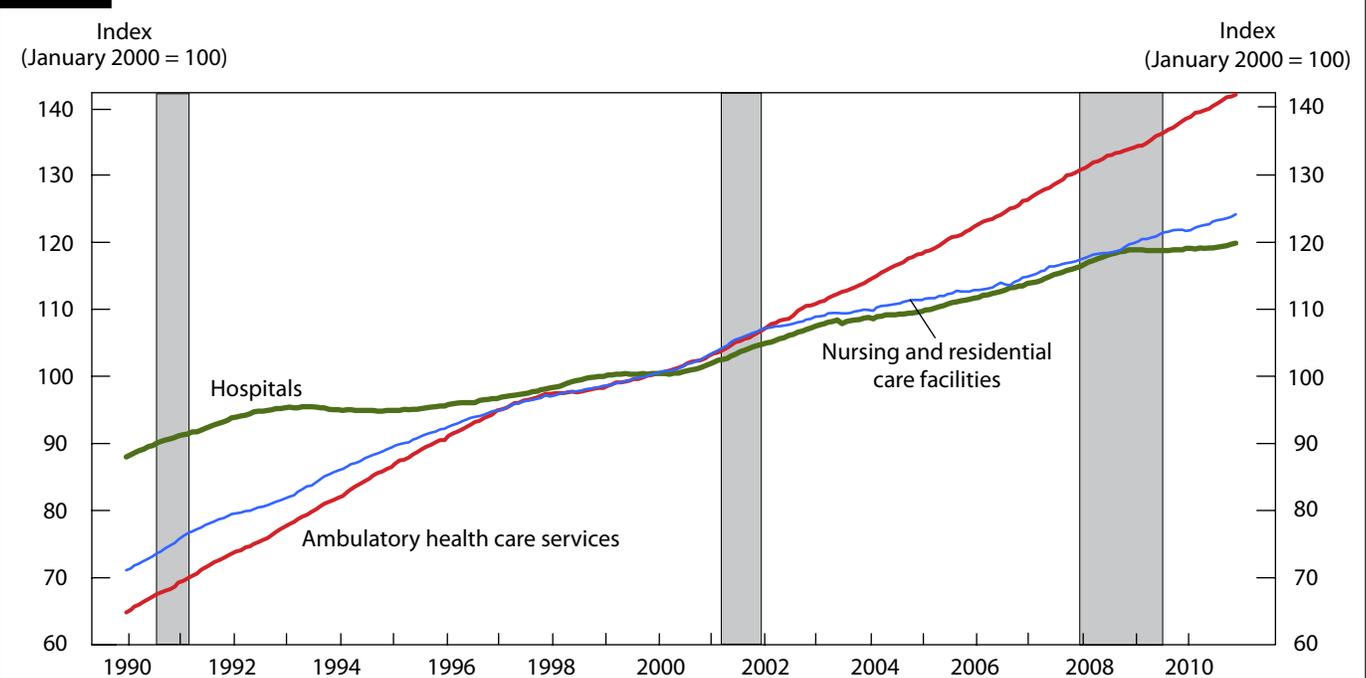
Real government hospital expenditures fluctuated opposite real GDP and help explain the countercyclical movement of hospital employment. As unemployment levels rose, discretionary funding to hospitals and social services through Medicare and Medicaid increased.¹⁴ Although hospital work is generally less attractive than other health care jobs, more workers were motivated to resort to hospital jobs as other health care employment options declined and jobs became more limited and unstable. Growth in hospital employment slowed during the last 10 months of the recent recession as Federal subsidies ran out and financial pressures resulted in budget cuts and reductions in staff.

Table 1. Employment in selected components of the health care industry and in total nonfarm establishments, in thousands, seasonally adjusted, previous three recessions

Industry	December 2007– June 2009		March 2001– November 2001		July 1990– March 1991	
	Net change in jobs	Average monthly change	Net change in jobs	Average monthly change	Net change in jobs	Average monthly change
Total nonfarm.....	-7,490	-416	-1,599	-200	-1,240	-155
Health care.....	428	24	250	31	270	34
Ambulatory health care services.....	231	13	105	13	116	15
Offices of physicians.....	46	3	45	6	41	5
Outpatient care centers.....	33	2	10	1	5	1
Home health care services.....	95	5	21	3	38	5
Hospitals.....	102	6	78	10	67	8
Nursing and residential care facilities.....	95	5	67	8	87	11
Nursing care facilities.....	34	2	24	3	56	7

NOTE: Beginning and ending months of recessions are determined by the National Bureau of Economic Research (NBER).
SOURCE: U.S. Bureau of Labor Statistics.

Chart 3. Employment index for selected components of health care industry, seasonally adjusted, 1990–2010



NOTE: Shaded areas represent recessions as determined by the National Bureau of Economic Research (NBER).
SOURCE: U.S. Bureau of Labor Statistics.

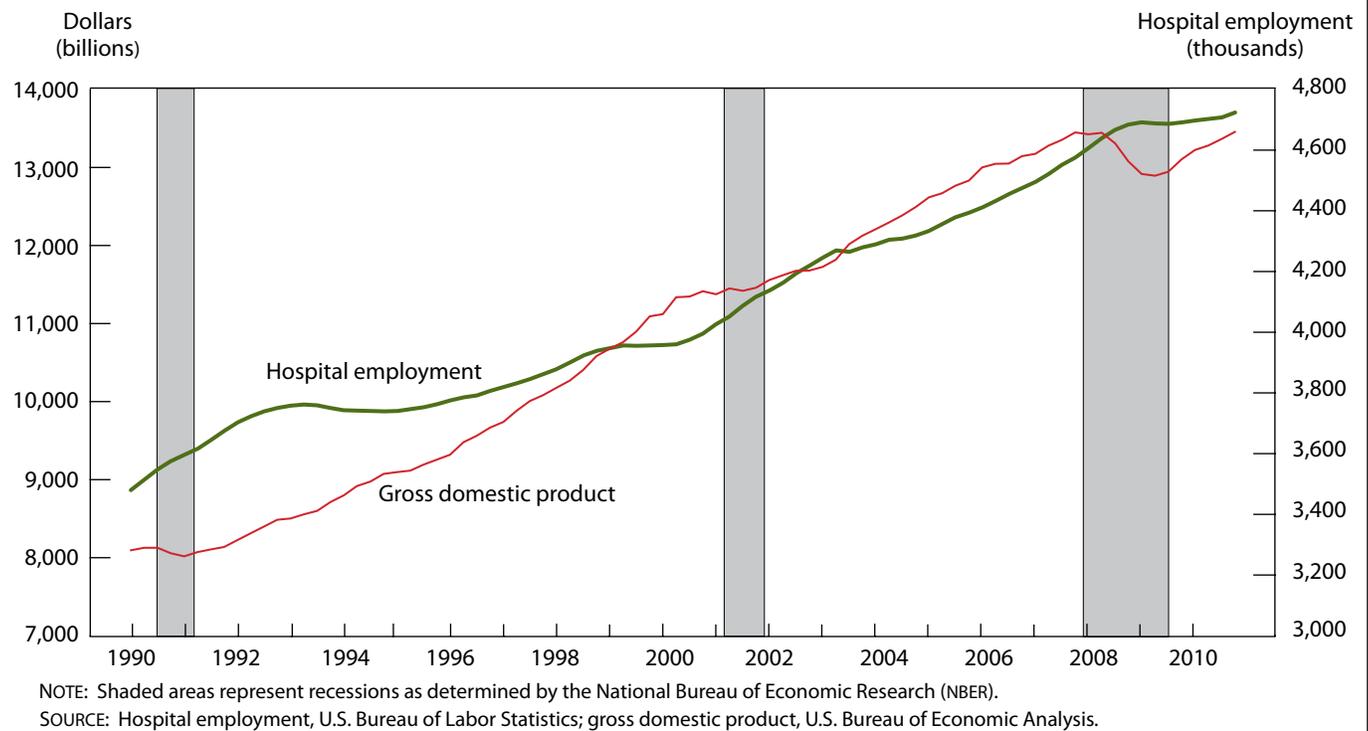
Nursing and residential care facilities

Despite having grown, employment in nursing and residential care facilities did not account for as large a share of health care employment gains in the 2007–09 recession as it did in both the 1990 and 2001 recessions. This falloff in share is due primarily to the creation of the home health care industry and alternative care options that offset rising demand from the aging population. Employment in nurs-

ing and residential care facilities grew by 95,000 during the most recent recession, accounting for 22 percent of the total jobs added in the health care industry. In the 1990 and 2001 recessions, nursing and residential care facilities had accounted for 32 percent and 27 percent, respectively, of the total jobs added in health care. This shift indicates the preference for alternative options over nursing and residential care facilities.

Nursing and residential care facilities expanded con-

Chart 4. Hospital employment, quarterly averages, seasonally adjusted, and real gross domestic product, chain-weighted 2005 dollars, 1990–2010



comitantly with the Nation's population growth and increased life expectancy. As of 2000, "35.0 million people 65 years of age and over were counted in the United States,"¹⁵ a figure that represented a 12.0-percent increase since 1990. Although the 65-years-and-older age bracket was a smaller proportion of the total population in 2000 than in 1990, this tendency is expected to reverse as baby boomers begin to reach age 65, starting in 2011. In addition, total life expectancy at birth increased from 75.4 years in 1990, to 76.8 years in 2000, and to an estimated 78.3 years in 2010. Life expectancy is projected to rise to approximately 79.5 years in 2020.¹⁶

EMPLOYMENT IN THE HEALTH CARE INDUSTRY continued to grow steadily throughout the last three recessions as total nonfarm employment lost millions of jobs. During the longest recession since World War II, health care gained 428,000 jobs while the economy as a whole lost more than 7.5 million jobs. Although health care employment exhibited consistent monthly gains throughout the last three recessions, it grew less rapidly in the 2007–09 recession than during the 1990 and 2001 downturns. The slowdown was due to a number of factors, including the length and breadth of the most recent recession; cuts

in government funding that were not so pronounced during other economic downturns; the long-term impact of the loss of employer-sponsored private health coverage, thus decreasing the demand and affordability of health care; and the weakest rate of growth in national health spending in more than five decades. Factors such as a growing population, increasing life expectancy, and the aging of the population increased demand for health care, thus leading to a consistent expansion in the industry's employment levels. It is safe to say that throughout the last three recessions the health care industry has served as a crutch for an ailing economy, and although its effect was not as pronounced in the most recent recession, that it boosted employment at all during such a severe and prolonged economic downturn is remarkable. □

NOTES

¹ The data on employment used in this article are from the Current Employment Statistics (CES) survey, a monthly survey of approximately 140,000 nonfarm business and government agencies representing approximately 440,000 individual worksites. For more information on the survey's concepts and methodology, see "Technical Notes to Establishment Survey Data Published in *Employment and Earnings*" (Bureau of Labor Statistics, Feb. 4, 2011), <http://www.bls.gov/web/cestn2.htm> (visited Oct. 7, 2010). To access CES data, see "Current Employment

Statistics - CES (National)" (Bureau of Labor Statistics, Mar. 4, 2011), <http://www.bls.gov/ces> (visited Apr. 21, 2011). The CES data used in this article are seasonally adjusted unless otherwise noted.

Recessions are identified by the National Bureau of Economic Research (NBER), according to which the most recent recession began in December 2007 and ended in June 2009. The previous two recessions were from July 1990 to March 1991 and from March 2001 to November 2001, respectively. For a complete list of business cycle dates, see "U.S. Business Cycle Expansions and Contractions" (Cambridge, MA, National Bureau of Economic Research, Mar. 31, 2011), <http://www.nber.org/cycles/cyclesmain.html> (visited Apr. 21, 2011).

² Anne Martin, David Lassman, Lekha Whittle, Aaron Catlin, and the National Health Expenditure Accounts Team, "Recession Contributes to Slowest Annual Rate of Increase in Health Spending in Five Decades," *Health Affairs*, January 2011, pp. 11–22.

³ *Ibid.*

⁴ See "Table 2. National Health Expenditures Aggregate Amounts and Average Annual Percent Change, by type of Expenditure: Selected Calendar Years 1960–2009" (Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, January 2011), <http://www.cms.gov/NationalHealthExpendData/downloads/tables.pdf> (visited Jan. 13, 2011).

⁵ Martin, Lassman, Whittle, Catlin, and the National Health Expenditure Accounts Team, "Recession Contributes," p. 11.

⁶ Annamaria Lusardi, Daniel Schneider, and Peter Tufano, "The Economic Crisis and Medical Care Coverage," Working Paper No. 15483 (Cambridge, MA, National Bureau of Economic Research, March 2010).

⁷ According to the North American Industry Classification System (NAICS), the code for the health care and social assistance sector is 62. The sector comprises the three health-related subsectors of ambulatory health care services (code 621), hospitals (622), and nursing and residential care facilities (623) (hereafter, collectively, the health care industry), and the social assistance subsector (624). (For a full account and listing of industry codes, see "North American Industry Classification System" (U.S. Census Bureau, Mar. 16, 2011), <http://www.census.gov/epcd/www/naics.html> (visited Apr. 21, 2011).)

⁸ Population changes and percent changes are calculated from population estimates from the U.S. Census Bureau. (See "Population

Finder" (U.S. Census Bureau, no date), http://factfinder.census.gov/servlet/SAFFPopulation?_submenuId=population_0&_sse=on (visited Feb. 11, 2011).)

⁹ According to NAICS, "Industries in the Ambulatory Health Care Services subsector provide health care services directly or indirectly to ambulatory patients and do not usually provide inpatient services. Health practitioners in this subsector provide outpatient services, with the facilities and equipment not usually being the most significant part of the production process." (See "2007 NAICS definitions: 621 Ambulatory Health Care Services" (U.S. Census Bureau, no date), <http://www.census.gov/naics/2007/def/NDEF621.HTM#N621> (visited Jan. 11, 2011).) Components of the ambulatory health care services subsector include offices of physicians (NAICS 6211), offices of dentists (6212), offices of other health practitioners (6213), outpatient care centers (6214), medical and diagnostic laboratories (6215), home health care services (6216), and other ambulatory health care services (6219). (For industry definitions and codes, see "2007 NAICS definitions.")

¹⁰ William C. Goodman, "Employment in hospitals: unconventional patterns over time," *Monthly Labor Review*, June 2006, pp. 3–14 especially p. 5), <http://www.bls.gov/opub/mlr/2006/06/art1full.pdf>.

¹¹ See "Table 1.1.6. Real Gross Domestic Product, Chained Dollars [Billions of chained (2005) dollars], seasonally adjusted at annual rates, 1947 Quarter I to 2010 Quarter II" (Bureau of Economic Analysis, September 2010), <http://www.bea.gov/national/index.htm#gdpC> (visited Mar. 8, 2011).

¹² Goodman, "Employment in hospitals," p. 7.

¹³ "Table 1.1.6. Real Gross Domestic Product."

¹⁴ Goodman, "Employment in hospitals," pp 8–9.5

¹⁵ See Lisa Hetzel and Annetta Smith, *The 65 Years and Over Population: 2000*, Census 2000 Brief (U.S. Census Bureau, October 2001), <http://www.census.gov/prod/2001pubs/c2kbr01-10.pdf> (visited Dec. 12, 2010).

¹⁶ See "Table 102. Expectation of Life at Birth, 1970 to 2006, and Projections, 2010 to 2020" (U.S. National Center for Health Statistics, Centers for Disease Control and Prevention, no date), <http://www.census.gov/compendia/statab/2010/tables/10s0102.pdf> (visited Dec. 12, 2010).