A Historical Perspective of the Effect of the Great Recession on Hospitals

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ABSTRACT

At 18 months, the Great Recession of December 2007 to June 2009 is the longest recession since World War II. The recession led to soaring unemployment, resulting in loss of employment-based health insurance for millions of people. In addition to seeing increases in uninsured patients, hospitals experienced losses in their investment portfolios, which in turn increased bad debt, charity care, and uncompensated care nationwide. Hospital executives began to devise cost-cutting strategies to balance the rising debt, such as standardizing medical equipment, cutting staff positions, and delaying construction projects and capital expenditures as well as implementing value analysis strategies. The recession is officially over, and, although economic recovery has been slow and unemployment continues to be an issue, hospitals' net revenue started improving as of 2009 and hospital construction started increasing in 2010. Still, caution is warranted in the postrecession climate, because it is unknown what effects will be seen when the Baby Boomer generation begins using Medicare. *AORN J* 100 (August 2014) 177-187. © AORN, Inc, 2014. http://dx.doi.org/10.1016/j.aorn.2013.10.026

Key words: *recession, unemployment, employment-based insurance, cost cutting, value analysis.*

The Great Recession of December 2007 through June 2009 will go down in history along with other notable US economic crises, including the Great Depression of 1929, the savings and loan crisis of the 1980s, and the dot-com bubble burst of March 10, 2000. The National Bureau of Economic Research (NBER) stated that the US recession began in December 2007, after determining the decline in economic activity qualified that a recession had begun.[1] According to the NBER, "A recession is a period of falling economic activity spread across the economy, lasting more than a few months, normally viable in the real [gross domestic product], real income, employment, industrial production, and whole-sale—retail sales."[1] The NBER Business Cycle Dating Committee stated on December 11, 2008, "the payroll employment measure, which is based on a large survey of employers, as the most reliable comprehensive estimate of employment . . . reached a peak in December 2007 and has declined every month since then."[2]

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During a September 19, 2010, conference call of the NBER Business Cycle Dating Committee, the committee

> *determined that a trough in business activity occurred in the US economy in June 2009. The trough marks the end of the recession that began in December 2007 and the beginning of an expansion. The recession lasted 18 months, which makes it the longest of any recession since World War II. Previously the longest postwar recessions were those of 1973 to 1975 and 1981 to 1982, both of which lasted 16 months.*[1]

During and after the Great Recession, millions of Americans lost their jobs and, subsequently, employment-based health insurance. This affected hospitals—and, specifically, surgical services—by harming investments, increasing bad debt, and necessitating major cost-cutting measures, including medical staff member cuts. In the postrecession years, the economic recovery has been slow, and issues continue related to unemployment, but there have been improvements in hospitals' net revenue and other measures. Hospital administrators will continue to need to address the effects of the recession, such as by implementing clinical value analysis (CVA) strategies.

UNEMPLOYMENT

A key indicator of an economic recession is a rising unemployment rate. The US Bureau of Labor Statistics stated that the unemployment rate in December 2007 was 5.0%, a constant for 30 months.[3] By June 2009, it had risen to 9.5%, and, in October 2009, it was at 10.0% (Table 1).[3] Unemployment claims for the week ending on January 17, 2010, were 4.78 million, a record high since recording began in 1967.[4] According to a news article in *U.S. News Digital Weekly*, the country lost more jobs during the recession of 2007 to 2009 than the previous four recessions combined.[5] The same article indicated that 8.8 million jobs were lost during the recession and only 900,000 were recovered in 2010; this represented 14 million unemployed citizens. If the

TABLE 1. Unemployment Rate for Americans Over 16 Years Old

Year	January	February	March	April	May	June	July	August	September	October	November	December
2004	5.7	5.6	5.8	5.6	5.6	5.6	5.5	5.4	5.4	5.5	5.4	5.4
2005	5.3	5.4	5.2	5.2	5.1	5.0	5.0	4.9	5.0	5.0	5.0	4.9
2006	4.7	4.8	4.7	4.7	4.6	4.6	4.7	4.7	4.5	4.4	4.5	4.4
2007	4.6	4.5	4.4	4.5	4.4	4.6	4.7	4.6	4.7	4.7	4.7	5.0
2008	5.0	4.9	5.1	5.0	5.4	5.6	5.8	6.1	6.1	6.5	6.8	7.3
2009	7.8	8.3	8.7	9.0	9.4	9.5	9.5	9.6	9.8	10.0	9.9	9.9
2010	9.7	9.8	9.9	9.9	9.6	9.4	9.5	9.5	9.5	9.5	9.8	9.4
2011	9.1	9.0	9.0	9.1	9.0	9.1	9.0	9.0	9.0	8.8	8.6	8.5
2012	8.2	8.3	8.2	8.2	8.2	8.2	8.2	8.1	7.8	7.8	7.8	7.9
2013	7.9	7.7	7.5	7.5	7.5	7.5	7.3	7.2	7.2	7.2	7.0	6.7
2014	6.6	6.7	6.7	6.3								

Source: US Department of Labor Bureau of Labor Statistics. http://data.bls.gov/timeseries/LNS14000000. Accessed May 19, 2014.

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