

This Is the Rainy Day for Which You've Been Saving

As the effects of the recent economic crisis become evident, departments of medicine are feeling the pinch. Unemployment creates a larger uninsured population, leading to reduced clinical revenue. The stock market has battered endowment income, and state funding has been cut. Although federal research funding through The American Recovery and Reinvestment Act of 2009 is a bright spot, foundation funding and pharmaceutical research are likely to be down. A combination of short- and long-term strategies will be needed to manage these challenges.

How will departments handle the budget cuts in the short term? A voluntary survey of Chairs of Medicine at the February 2009 meeting of the Association of Professors of Medicine showed that most of the 27 responding Chairs expected to increase the clinical productivity of their faculty (Table 1). Research and educational programs were less likely to be cut. These strategies seem highly appropriate because they focus on operational efficiency and protect core missions. However, the current economic crisis is likely to have long-term effects. If experience is any guide, many of the budget cuts will not be fully restored when the economy recovers. Healthcare reform might have additional effects that are difficult to predict. Moreover, clinical productivity per faculty has an upper limit and ultimately will encroach on the other missions.

In these times of economic distress, it is tempting for a department to focus solely on the short-term bottom line. Indeed, most Deans would not look favorably on a Chair whose department was in the red. Yet, this is not a formula for long-term success. During the Great Depression, the famous economist John Keynes warned about the perils of overemphasizing balanced budgets.¹ He argued that reduced spending leads naturally to a self-sustaining cycle of reduced demand, loss of jobs, and more spending reductions. For a department of medicine, this cycle equates to falling revenue leading to increased

clinical workloads, faculty burnout, and subsequent loss of faculty, leading in turn to additional reductions in revenue.

If short-term efficiencies are not enough, what else should be done? Odd as it may seem to financially strapped departments, this is the time to spend money. Many departments have reserves that might be considered "rainy day" funds. These reserves can be used to invest in creating a sustainable long-term strategy to deal with the changing economy. The type of investment is driven by the underlying vision and mission of the department.

Opportunities for investment abound and are likely to exceed the amount of money available to a single department. However, every college and department is affected by the economic downturn. Many would welcome an investment partner to fund a shared vision or joint hire. Such cross-campus initiatives could be used to seek college or university investment. Hiring plans for joint positions can target young investigators who are having trouble finding positions or talented researchers who have been overburdened with clinical responsibilities at more shortsighted institutions. With businesses suffering, the cost of renovating crumbling infrastructure and replacing outdated equipment can be relatively low. Local employers are always eager to consider creative ways to provide affordable healthcare for their employees. Community

Table 1 Survey of Department Chairs (n = 27 Respondents)

In the Next Year Do You Plan to Use any of the Following Strategies to Deal with Budget Reductions?

Strategy	No. (%)
Increase clinical productivity of faculty	25 (93%)
Cut discretionary/travel funds provided to faculty	18 (67%)
Cut clinical staff to reduce cost of practice	16 (59%)
Terminate/do not renew selected faculty	12 (44%)
Reduce departmental funding for research (eg, bridge funding, start-up, seed money)	10 (37%)
Outsource expensive operations	6 (22%)
Eliminate \geq 1 clinical programs	4 (15%)
Eliminate \geq 1 educational programs	2 (7%)

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physicians and hospitals also are suffering, and many have become receptive to academic partnerships.

Of course, Keynesian economic theory is not fully applicable to departments of medicine. Unlike the government, departments cannot run substantial deficits and survive. Some level of prudence is required, but this also is the time for action. Weathering this storm will require a combination of increased productivity/efficiency in current operations and strategic investment in the future.

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Reference

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