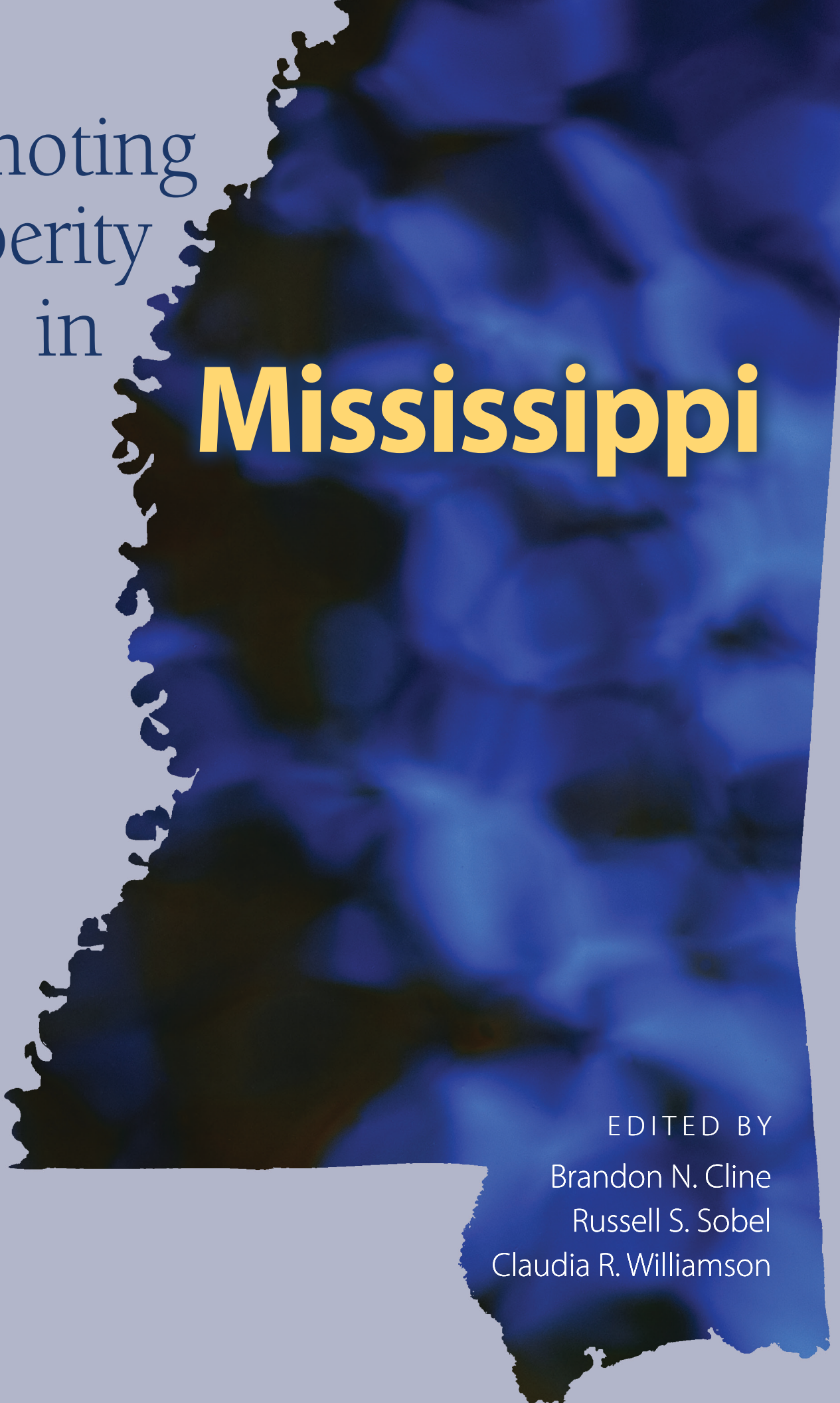
Promoting Prosperity in Mississippi



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Published by the
Institute for Market Studies at Mississippi State University

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Institute for Market Studies at Mississippi State University

The Institute for Market Studies at Mississippi State University was created in 2015 to support the study of markets in order to provide a deeper understanding regarding the role of markets in creating widely shared prosperity.

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Book design by Finney Creative, Inc. © 2018

Printed in the United States of America

ISBN 978-1-7320353-0-0

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Preface

What creates prosperity? Why are some states rich and others poor? Why does Mississippi consistently rank as one of the poorest states in the nation? Can anything be done to move Mississippi 'out of last place'? These questions are often raised by our students and fellow Mississippians. This book addresses each of these questions by identifying areas in which Mississippi can improve its economic conditions.

In this book, we identify key areas for Mississippi economic policy reform. Twenty-one scholars, ten of which are from or work in Mississippi, have contributed original policy research. All twenty chapters were written specifically for Mississippi with a shared goal to promote prosperity in the state. While some of the chapters contain complex policy reforms, we have made every effort to present the concepts and ideas in a way that is understandable to the average citizen, the person who can benefit the most from this information.

The first three chapters of the text summarize the basic economic principles necessary to achieve economic prosperity. These three chapters present the principles behind the reforms proposed in the subsequent seventeen chapters. Each chapter was written independently and offers unique insight into different areas of state policy reform. While the topics covered range from tax reform, education reform, healthcare, corporate welfare, occupational licensing and business regulatory reform to criminal justice reform, and natural disaster recovery efforts, there is a clear unifying framework underlying the conclusions reached in each chapter. The theme throughout is that economic growth is best achieved through free market policies, policies which are based on limited government, lower regulations, lower taxes, minimal infringement on contracting and labor markets, secure private property rights, low subsidies, and privatization. Policy based on these principles allows Mississippians to have more rights and more choices in their lives.

We hope that readers come away with a better understanding of capitalism's true potential to generate the long-run economic growth necessary to make Mississippi more prosperous, as well as ideas for policy reforms that could accomplish it in our lifetimes. This book illustrates that if Mississippi embraces economic freedom, the state will experience more entrepreneurship, increased business and capital formation, higher labor productivity and wages, and overall economic growth. Our main goal is to provide the scholarly, academic research that can inform state policy decisions and open a much needed dialogue on growth-oriented policy reform in Mississippi.

We focus on long-run policy improvements. Thus, the analysis is not an assessment of any particular administration or political party. Instead, this book can be thought of as a blueprint of possible economic reform proposals that use scientific evidence as a guiding principle. We emphasize that our unifying framework, which shapes the conclusions drawn in each chapter, is based on economic science, not politics. All authors address their respective topics by relying on academic research. Topics and policy conclusions were not based on any particular political agenda, political party, or political expediency. Instead, the authors relied on cold, hard facts and data with references to published academic literature to develop policy reform suggestions specific for Mississippi. In fact, many reforms suggested may not be politically possible.

The inspiration for this book came from *Unleashing Capitalism*, a series of books using economic logic to improve state policy in West Virginia, South Carolina, and Tennessee. We owe thanks to more people

than we could possibly list. We are indebted to our colleagues and the Finance and Economics advisory board at Mississippi State University who helped review chapters and provide invaluable feedback. We thank Ken and Randy Kendrick, Earnest W. and Mary Ann Deavenport, and the Pure Water Foundation for the funding necessary to embark on a project of this magnitude. We also thank our friends and family for their support, and for putting up with the long working hours that went into conducting this research. Most importantly, we would like to thank the staff and supporters of the Institute for Market Studies at Mississippi State University for publishing this book. Without their support, this book would not have been possible.

Let's start promoting prosperity in Mississippi!

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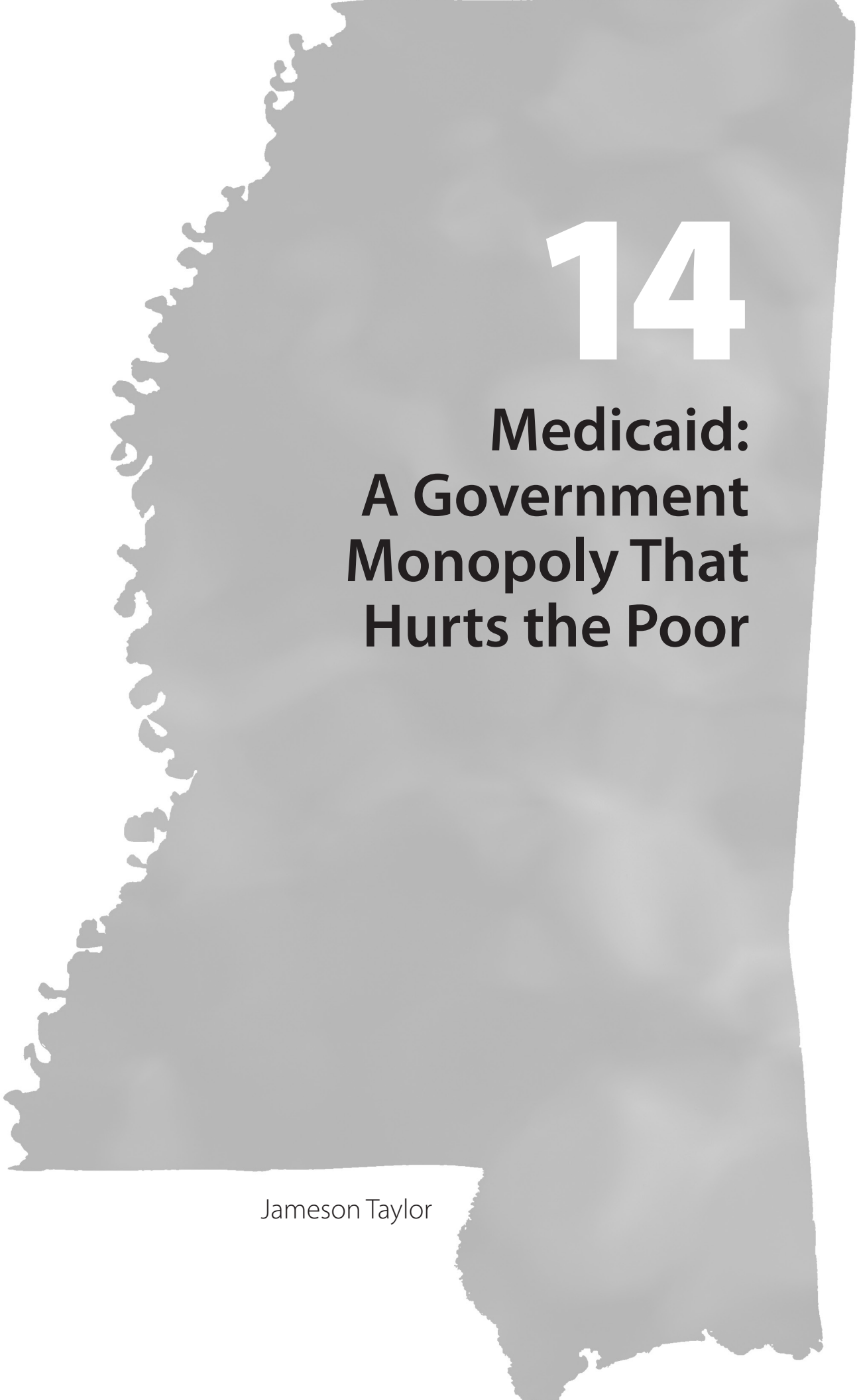

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Medicaid: A Government Monopoly That Hurts the Poor

Jameson Taylor

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Medicaid: A Government Monopoly That Hurts the Poor

Jameson Taylor

Government: If you think the problems we create are bad, just wait until you see our solutions.

Despair, Inc.

Medicaid is a microcosm of what's wrong with American health care. It is subsidized, expensive, and inefficient, spending vast sums to obtain marginal benefits. It is too focused on health insurance, instead of quality of care. As a government-sponsored monopoly, Medicaid is also crowding out better products and policies.

At the state level, health care policy revolves around Medicaid. It constitutes the single largest expenditure in Mississippi's budget, far outstripping K-12 education. It is also among the largest, if not the largest, purchasers of health care in Mississippi. At the same time, the state has little control over its Medicaid program. In theory, Medicaid is a voluntary federal-state partnership. In practice, the federal government funds much of the program, leaving few opportunities for reform. Medicaid is a conundrum. Mississippi cannot afford to leave the program, even as it increases costs for taxpayers and leads to poor outcomes for patients.

The road to a free-market health care system in Mississippi cannot go through Medicaid, but must go around it. Disruptive innovation, focused on the power of pricing and direct payment models, is the best strategy for salvaging the system. Many of these improvements, however, must be undertaken at the federal level. Still, state policymakers can implement a handful of concrete ideas that will inch us toward a free market for health care.

What is Medicaid?

Many people do not really understand what Medicaid is, often confusing it with Medicare. Here is a list describing what Medicaid is and is not:

First, Medicaid is not health care. Created in 1965, Medicaid is a government-subsidized health insurance program for low-income families. As an insurance product, Medicaid essentially provides financial protection from medical bankruptcy. In turn, the Mississippi Division of Medicaid is not a health care provider, but a purchaser of health care. A person may have Medicaid insurance, but still be unable to see a doctor who accepts Medicaid. In addition, even people who have no insurance at all are guaranteed emergency care under a federal law known as EMTALA.

Second, Medicaid is not Medicare. Medicare is a (mostly) single-payer, national insurance program that covers people aged 65 and older and some disabled populations. Medicare is fully funded by the federal government whereas Medicaid requires cost-sharing between the federal government and the states. "Dual eligibles" are people eligible for both Medicaid and Medicare. Nineteen percent of Mississippi's population is on Medicare.

Third, Medicaid is a large and costly program. Medicaid is the largest health insurer in the United States. It covers 71 million people while Medicare covers 57 million. The federal agency that runs both programs, the Centers for Medicare and Medicaid Services (CMS), is the single-largest purchaser of health care in the world. One-quarter of Mississippi's population is on Medicaid.

As a share of U.S. health care expenditures, combined Medicaid/Medicare spending (37 percent) exceeds private health insurance spending (33 percent). Over the next 10 years, federal Medicaid spending is projected to exceed $5 trillion. For Mississippi, combined federal/state appropriations for 2015-2016 were $6.396 billion with total state appropriations of $1.59 billion.[1] With average monthly enrollment of 779,298, Medicaid insurance costs federal/Mississippi taxpayers roughly $8,207.26 per beneficiary per year.[2]

Fourth, Medicaid is optional, as underscored by the U.S. Supreme Court in *NFIB v. Sebelius* (2012). That said, the financial incentives are so great every state participates.

Why is Medicaid Important?

Medicaid has an ideological and practical significance that makes reforming the program very difficult and eliminating the program extremely unlikely. The ideological significance derives from the Left's desire to use Medicaid and Medicare as a vehicle for creating a single-payer health insurance system in which the government pays all costs: "Medicare-for-all." The "insurer" in this case is present and future taxpayers and debt holders. What is left out of the fantasy, is that under this system the government will control (and ration) everything: health care providers, medical equipment, hospital construction, etc.

Advocates of socialized medicine have been largely successful owing to the mixture of sympathy and confusion many voters feel about health care. On the one hand, most Americans are uncomfortable at the prospect of someone "dying in the street" because that person cannot afford care. On the other, many

1 These figures include a $51.6 million midyear deficit request.

2 This total includes both Medicaid and Medicare DSH payments and Mississippi Hospital Access Payments (MHAP); it also includes agency administrative costs. The latest data available (2013-2014) records Medicaid spending for a full-benefit enrollee at $6,780 per person for Mississippi, with a high of $21,087 for seniors and a low of $2,568 for children. The estimate provided here is more comprehensive and also includes CHIP enrollment.

people do not understand how health insurance works and do not know how much health care costs. This ignorance has been used to transform Medicaid (and, even more so, Medicare) into a "third-rail": a program that is politically untouchable, however defective it may be.

When many voters hear "Medicaid," they think "health care for the elderly and the disabled." They do not realize Medicaid is health insurance, and they do not realize anyone may obtain emergency care, regardless of ability to pay. They are also not familiar with direct-payment models that bypass traditional insurance. The reason for this misunderstanding is beyond the scope of this chapter, but the government is largely to blame.

The practical significance of Medicaid, especially for Mississippi, is that many, many entities benefit: hospitals, insurance companies, doctors and patients. Best of all, most of the costs are paid for by someone else: federal and state taxpayers and federal debt holders. For the average politician, Medicaid brings in billions of dollars of "free money."

Federal Medicaid funding for each state is determined by a formula called the federal medical assistance percentage (FMAP), correlated against state per capita income. In exchange for this funding, each state agrees to the federal government's rules, in particular, minimum eligibility and benefit requirements.

As the poorest state, Mississippi has the highest FMAP: 74.63 percent for 2016-2017. This means the federal government contributes 75 cents of every dollar Mississippi spends on Medicaid. By contrast, for every dollar in cuts Mississippi makes to its Medicaid program, it saves only 25 cents. If the state wanted to save $10 million in state Medicaid funding, it would have to reduce its overall Medicaid budget by $40 million.

In addition, Mississippi has almost no incentive, and little authority, to limit Medicaid enrollment and spending. Medicaid is an open-ended entitlement, which means anyone eligible for the program has a legal right to enroll. Federally mandated coverage groups include: children, very low-income parents, pregnant women, and aged, blind and disabled individuals receiving SSI (Supplemental Security Income). Income eligibility is generally correlated against the federal poverty limit (FPL), with Mississippi's categories ranging from $27,168/year for a family of three with children aged 6 to 18 to $42,684 for a family of three enrolled in the Children's Health Insurance Program (CHIP).[3] States may cover optional services and populations, and many do so in order to drawdown even more federal funds.[4] At the same time, states are prohibited from implementing enrollment caps or individual spending caps.[5] The only real limit on Medicaid spending is demonstrated need. Consequently, Medicaid is "a market perpetually in a state of excess demand."[6]

In Mississippi, total Medicaid appropriations for 2017-2018 were $6.015 billion, consuming 32 percent of an $18.531 billion budget. By comparison, total K-12 appropriations were $3.448 billion. Excluding federal funding, state General Fund appropriations for Medicaid were $853 million, with every expectation the Division would go over budget and request additional funding by midyear.

3 CHIP covers children with family income that exceeds Medicaid limits. Passed in 1997 by a Republican-majority Congress, the program was a fallback plan after the failure to enact "Hillarycare." CHIP has some features, such as a capped block-grant allotment, that would help control Medicaid spending.

4 For a list of mandatory and optional services, see: https://www.macpac.gov/subtopic/mandatory-and-optional-benefits/. For a list of mandatory and optional populations, see: https://www.medicaid.gov/medicaid-chip-program-information/by-topics/waivers/1115/downloads/list-of-eligibility-groups.pdf.

5 By contrast, TANF (Temporary Assistance for Needy Families) is a cash welfare program funded by a block grant, meaning states receive a fixed amount of funding per year and so have incentives to reduce costs.

6 Graboyes (2014), 180.

Who Benefits from Medicaid?

While Medicaid seems indispensable, its value has come under additional scrutiny since the passage of the Affordable Care Act (otherwise known as Obamacare). The Affordable Care Act (ACA) attempted to force states to provide Medicaid coverage to able-bodied, childless adults earning less than 138 percent FPL: $16,642.80 for an individual in 2017. The U.S. Supreme Court struck down this mandate, making it optional. As a result, some states have engaged in robust debates over whether to expand Medicaid. To date, 19 states, including Mississippi, have declined to expand Medicaid to include able-bodied, childless adults. Much of the wrangling over the ACA repeal and replace effort is over how long to continue to fund this expansion in the other 31 states.[7]

If Medicaid were such an advantageous program, more states would be eager to expand. As indicated above, hospitals, insurance companies, doctors, and patients are the primary beneficiaries, but each group benefits to varying degrees.

As far as hospitals go, institutional participation in Medicaid and Medicare is voluntary, but virtually all hospitals participate. Nonprofit hospitals are also encouraged under the terms of their tax-exempt status to care for Medicaid/Medicare patients. Accordingly, such patients account for 60 percent of all hospital care provided in the United States.

Not unlike private insurance companies, Medicaid negotiates discounted prices with providers. In Mississippi, provider reimbursements for Medicaid fee-for-service procedures are set at 90 percent of Medicare fees. The national average is 72 percent. It would seem Mississippi Medicaid pays providers relatively well, except providers complain that Medicare does not pay enough.

Whether hospitals lose money on Medicaid/Medicare is a contentious issue. Many hospitals claim they do and demand government backstop payments, referred to as Disproportionate Share Hospital (DSH) payments and Upper Payment Limits (UPL), to cover losses. Hospital pricing, though, is notoriously inflated, leading to questions over whether "uncompensated care" costs are as high as reported.[8]

For all their handwringing, most hospitals profit from Medicaid.[9] Notes a recent study in *Health Affairs*:

> It is generally believed that most hospitals lose money on Medicaid admissions. The data suggest otherwise. Medicaid admissions are often profitable for hospitals because of payments from both the Medicaid program and the Medicare program, including payments for uncompensated care and from the Medicare disproportionate-share hospital program.[10]

Not coincidentally, hospitals around the country also strongly supported the Obamacare Medicaid expansion. Thus, we find the president of the Mississippi Hospital Association declaring:

> The Mississippi Hospital Association supports Medicaid expansion and we have consistently said we are for Medicaid expansion. ... We also support expansion because of the financial realities our hospitals now face.

7 The Medicaid expansion population is eligible for a 90 percent federal match, which is larger than any state's FMAP and a larger match than for any other population, including the disabled.

8 Gruber and Rodriguez (2007) argue the value of uncompensated care is vastly overstated, accounting for less than 1 percent of physician revenue.

9 "Many hospitals receive Medicaid payments that may be in excess of cost. Understanding how much Medicaid pays hospitals is difficult because there is no publicly available data source that provides reliable information to measure this nationally across all hospitals." See Cunningham et al. (2016).

10 The authors note that the Medicare DSH formula incentivizes Medicaid admissions and discourages charity care. For the last several years, observers have been waiting for CMS to amend this formula. Stensland et al. (2016).

Oddly enough, private insurance companies also earn significant profits from Medicaid through a payment model known as managed care. Under managed care, Mississippi pays private insurance companies a monthly payment to insure Medicaid recipients. Mississippi's program is called MississippiCAN and enrolls about 500,000 individuals with annual spending estimated at $3 billion and an average monthly payment of $473 per member. Notably, MississippiCAN excludes the most expensive Medicaid recipients – nursing home residents, for example, but includes the least expensive – children.

Medicaid's benefit to physicians and providers who do not directly work for a hospital is less predictable.[11] Because states cannot cap enrollment or per person funding, they have few options when it comes to reducing costs. They can eliminate or reduce optional coverage categories or services, but this risks alienating some voting blocks, such as the disabled. They can also cut payments to providers. By and large, physicians are the easiest target.[12]

While some health care providers are willing to take a loss on Medicaid patients, others are not. Presumably still others are able to profit, likely by reducing the time spent with each patient, thus increasing volume. In any event, a significant number of doctors in Mississippi do not accept Medicaid insurance. A 2014 survey by the Social Science Research Center at Mississippi State found that between 26 percent and 50 percent of primary care physicians are not accepting new Medicaid patients, compared to 7 percent not accepting new patients with private insurance and 15 percent not accepting new Medicare patients. National studies have found a 58 percent non-acceptance rate, suggesting the upper bound of 50 percent is more likely.

Finally, patients who have Medicaid insurance obviously benefit from having their insurance paid for by other people. This benefit is of dubious value, though.

Who is Harmed by Medicaid?

Medicaid is often said to be a "good deal" by Mississippi policymakers boasting that the program brings in $3 in federal funding for every $1 Mississippi contributes. Even so, the state's capacity to fund Medicaid is limited by competing priorities. Even assuming a net fiscal impact for Mississippi, Medicaid is a harmful program that results in poor health outcomes and crowds out innovation.

It might sound strange that patients with Medicaid insurance are harmed by it. What we mean is that while Medicaid functions like any insurance product by providing a measure of financial protection, it does so at the expense of good health outcomes. In fact, in terms of health care quality, having Medicaid insurance is generally worse than having no insurance at all.

Several studies show that health outcomes for Medicaid beneficiaries are very poor. A University of Virginia study reviewed nearly 900,000 surgical procedures finding that mortality rates for Medicaid patients were far higher than for any other group, including the uninsured, who have similar risk factors. Similarly, economists at the University of Missouri-Columbia calculated that Medicaid recipients have a 32 percent higher mortality rate than the uninsured.[13]

11 As Medicaid expands, physicians may be forced to participate. See http://www.illinoisattorneygeneral.gov/pressroom/2009_04/20090427.html.

12 See Holgash (2017).

13 See Kim and Milyo (2011). A note of caution: the study uses these findings to invite skepticism regarding other studies using observational methods that purport to show the opposite – namely that being uninsured (and, conversely, remedying this problem with Medicaid insurance) correlates with high mortality rates. See also Chris Conover's entertaining analysis, which specifically questions the methodology used in the Medicaid expansion study by B. Sommers (2012); https://www.forbes.com/sites/theapothecary/2017/06/30/reality-check-the-obamacare-medicaid-expansion-is-not-saving-lives-part-i/#3bc57511100a.

One reason Medicaid patients have higher mortality rates than the uninsured is because some health care providers would rather treat an uninsured patient, not to mention a patient with private insurance. "At least with uninsured patients, there is some prospect of high reimbursement," explain Gruber and Rodriguez. As a result, even though a patient may have Medicaid, he may still be unable to obtain care in a timely manner. A 2011 survey published in the *New England Journal of Medicine* observed that "children with Medicaid/CHIP were significantly more likely to be denied an appointment than privately insured children", and that "on average, children with public insurance waited 42 days for an appointment with a specialist, whereas privately insured children waited 20 days."

The best study we have on Medicaid outcomes is called the Oregon Health Insurance Experiment (OHIE). The OHIE compared uninsured, low-income, able-bodied adults that were randomly selected by lottery to participate in Medicaid against a statistically similar control group not selected in the lottery. After two years, they found that Medicaid increased the use of health care services. Medicaid also "decreased financial strain ... and virtually eliminated catastrophic out-of-pocket medical expenditures." The study, however, found "no statistically significant effect on physical health outcomes." As health policy guru Avik Roy chastised, "If Medicaid were a new medicine applying for approval from the Food and Drug Administration, it would be summarily rejected."

Faced with the sobering conclusion that Medicaid's functional value is equivalent to a very expensive catastrophic health insurance plan, the Oregon researchers pivoted toward evaluating the program as a "redistributive tool." They found that Medicaid primarily benefits hospitals, not patients. Most importantly, the researchers observed that Medicaid recipients do not value Medicaid as much as other welfare programs, and that they would rather be uninsured if they had to pay for their own Medicaid coverage. "A substantial portion of the government's Medicaid spending – about 60 cents on the dollar – represents a transfer to the providers," concluded the study, "rather than a direct benefit for Medicaid recipients."[14]

Setting aside the question of whether health care is a right that places a claim on others, most people would agree that if we are going to have government-subsidized health care, it should be cost-effective. As indicated, the estimated cost of Mississippi Medicaid is $8,207 a year per enrollee. Compared to what Obamacare defines as a "Cadillac" plan, this cost is fairly low. The cost is also somewhat lower than the average price of an individual unsubsidized insurance policy in Mississippi.[15] The OHIE, however, found that the value of Medicaid to the average recipient is only 40 percent of the total cost, meaning that, relative to the perceived value it provides, Medicaid is way overpriced.

Even if Medicaid costs were lower, the program perpetuates massive inefficiencies and opportunity costs. First, Medicaid is displacing other spending priorities, consuming resources that could otherwise be used to stabilize the state employee retirement system, maintain roads, or cut taxes. Second, Medicaid is crowding-out private insurance coverage. Recall from Chapter 3, crowding out is what happens when government spending displaces private investment and activities. Gruber and Simon estimate Medicaid/CHIP crowds-out private coverage at a rate of 60 percent to 81 percent. This means that for every 100 families who enroll in Medicaid/CHIP, 81 families stop purchasing private insurance. Third, Medicaid is increasing the cost of private insurance. One prominent study conservatively pegs the increase at between $21.1 billion and $42.2 billion, roughly 2.3 percent to 4.6 percent of private health insurance costs.

14 The authors take great pains to clarify how the various models they use affect the results. See Finkelstein, Hendren, and Luttmer (2015).

15 The average age of purchasers of individual plans on ehealthinsurance.com was 37 years old; obviously, Medicaid covers a population ranging from the very young to the very old. This makes apples-to-apples comparisons difficult. See http://news.ehealthinsurance.com/_ir/68/20169/eHealth%20Health%20Insurance%20Price%20Index%20Report%20for%20the%202016%20Open%20Enrollment%20Period%20-%20October%202016.pdf.

Fourth, Medicaid increases the price of health care overall. Medicaid patients tend to over-utilize certain forms of care (such as emergency rooms), but lack access to and may postpone seeing a specialist. They are also more likely than patients with private insurance to require nonelective/urgent surgery, resulting in higher costs and longer hospital stays.

Taken together, the benefits of Medicaid do not outweigh the costs. For patients, Medicaid either does not improve physical health outcomes, or correlates with worse outcomes, compared to the uninsured and those with private insurance.[16] Likewise, physicians are significantly less likely to see Medicaid patients because Medicaid pays less, or in some cases not at all. It also imposes time-consuming and expensive administrative burdens on health care providers. Medicaid even fails as a mechanism for funding hospital uncompensated care liabilities: a direct subsidy would cost far less in the end.

The Problem with Medicaid

It is tempting to presume Medicaid could be fixed by increasing provider payments.17 This would boost physician participation, but it would not encourage patients to become more proactive about their health, as discussed in Chapter 15 regarding how to fight obesity. The root problem is incentives.

Medicaid facilitates poor lifestyle decisions by shifting the consequences of these decisions to others. Even as Medicaid may give patients more access to some health care services, it insulates them from the financial consequences of poor health care decision-making. In turn, these poor choices translate into worse health care outcomes and mortality rates than Medicaid patients might otherwise have under a system with better incentives.

For example, the OHIE researchers found that Medicaid insurance recipients, in comparison to the uninsured control group,[18] used more health care services: 50 percent more office visits; 40 percent more emergency room visits; 30 percent more hospital admissions. Medicaid recipients also used more prescription drugs and obtained more preventative care and screening. Most telling, being on Medicaid increased the likelihood of being diagnosed with diabetes and using diabetes medication, but did not result in a significant change in the marker (glycated hemoglobin) that indicates effective treatment. It seems these patients simply didn't follow their physicians' advice. Because they are not paying for their care, Medicaid recipients use more health care, at least whenever it is readily available. But, perhaps, because they do not feel responsible for their care, Medicaid recipients are not able to leverage this access to obtain better health.

As Congress continues to struggle over how to fix Obamacare, the White House is encouraging states to use (Section 1115) waivers to innovate within their Medicaid programs. Some of the options include: work requirements for able-bodied adults; lifetime caps; participation time limits; meaningful cost-sharing; and Health Savings Accounts (HSAs). That said, most of the ideas are punitive in nature, aimed at reducing Medicaid dependency; and HSAs have not been proven to work in a Medicaid context.[19]

What is most needed is a global waiver that would allow states to opt out of Medicaid altogether

16 Still, the causal relationship between any form of insurance coverage and health outcomes, not to mention mortality, is very difficult to verify. There are too many factors to control for; although that doesn't stop health policy advocates from trying. Second, and for the same reason, the causal relationship between even health outcomes and health care access is difficult to verify.

17 Roy (2013) notes that even though Oregon pays providers significantly more than the national average, the OHIE still did not find improved health outcomes, as compared to the uninsured; although it may well account for the increase in health care utilization.

18 After one year, the lottery group was 25 percent more likely to have insurance (i.e., Medicaid) than the control group.

19 Seema Verma and Don McCanne debate the pros and cons of Indiana's Medicaid HSA here: http://www.pnhp.org/news/2016/august/indiana%E2%80%99s-phony-medicaid-health-savings-accounts. Other attempts – Florida, South Carolina, West Virginia – at incorporating consumer-directed accounts into Medicaid invite skepticism.

if they can show how to use reduced funding to produce similar, if not better, results. Such a revolution is not without precedent. Romneycare, the Massachusetts program that laid the groundwork for Obamacare, was partially a product of an 1115 waiver. A state pilot program that went in the opposite direction, allowing for innovation outside of the broken Medicaid construct, would be a good first step. Second that, Congress will continue to debate giving states block grants that could be used to make existing Medicaid programs more efficient.[20]

Medicaid reform is a doubtful proposition because it is very difficult to fix the incentives (for instance, by charging higher copays) without essentially replicating a private insurance program. This would be a step in the wrong direction because Medicaid's number one problem is that it functions too much like a typical American insurance policy in that it detaches recipients from health care pricing. Improving aspects of Medicaid insurance coverage, such as expanding networks or increasing provider payments, will not necessarily produce better health outcomes. Instead, policymakers should be clear about the actual goal: delivering quality care to low-income families.

Create Healthcare Customers

One reason we have Medicaid is because most Americans believe insurance coverage is necessary to obtain health care. The ACA reinforces this bias by penalizing employers who do not offer insurance and fining individuals who do not obtain insurance. While there is a place for third-party insurance in health care, employer-based insurance, in particular, has almost completely undermined the U.S. health care market by training Americans not to approach health care with a consumer mentality that balances price against quality.

Above we noted that hospital pricing is nontransparent. Health care pricing, in general, is nontransparent because insurance companies (along with Medicaid and Medicare) are the largest purchasers of health care. Most individual consumers simply do not care how much their health care costs because their insurance provider is paying the bill. Those few who do pay out-of-pocket are often charged exorbitant prices, with one recent study finding charges more than 10 times the amount allowed by Medicare, with "a markup of more than 1,000 percent for the same medical services." "Because it is difficult for patients to compare prices, market forces fail to constrain hospital charges," conclude the authors.[21]

Fixing health care will require creating a market that incentivizes quality care at a lower price. Lawmakers should promote policies that encourage consumers to pay cash for health care, or to at least begin to ask about price. Three policy reforms, in particular, can unleash the power of pricing in health care: Large Health Care Savings Accounts (HSAs); direct primary and surgical care; and comparative shopping incentives.

An HSA is a tax-advantaged medical savings account that, under federal law, must be paired with a high-deductible health insurance policy. Because HSA holders have high deductibles, they tend to pay cash for minor services. If HSA contribution limits were higher, more consumers could use their HSA to pay for major medical procedures. While Mississippi can't increase the federal limit, it can increase its own. Much like Singapore, federal policymakers could also create subsidized HSAs as an alternative to Medicaid.[22]

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20 A somewhat similar reform is the Rhode Island Global Waiver, an 1115 waiver granted in 2009 by the Bush administration. The program used the concept of a "medical home" in an attempt to lower costs by better managing and coordinating care, but critics charge the program reduced state spending by shifting costs to the federal government.

21 Bai and Anderson (2015).

22 As Bartholomew (2016) observes, there is no free-market health care system anywhere. Singapore, though, does an admirable job of reducing the distortions caused by government subsidies. See pp. 67-70.

State lawmakers should also incentivize direct surgical care. In 2015, Mississippi became one of the first states to protect the contractual right of physicians to provide direct primary care, also known as "concierge care." Concierge care patients pay a monthly fee to a physician in exchange for a predefined set of benefits, such as unlimited doctor visits. The next step is to expand the direct payment model to surgical care, as is being done at the Surgery Center of Oklahoma. At least one public health plan (Oklahoma County) and numerous private employers are bypassing the traditional insurance model and partnering with the center, which bills itself as a "free-market loving, price displaying, state-of-the-art facility." The center lists on its website all-inclusive prices for hundreds of procedures, attracting customers from around the world. It does not accept insurance. The center's prices are about 1/6 that charged for comparable procedures at local nonprofit hospitals and lower than what Medicare or Medicaid would pay.[23]

Finally, even people with traditional insurance can be encouraged to comparison shop. Some states have experimented with mandatory pricing transparency without much success. The missing element is to provide an incentive for consumers to actually shop around. New Hampshire is seeing success by using an app that enables state employees to compare health care pricing. If an employee elects to use a less expensive provider, he gets to keep some of the savings. The rest accrues to the state. In three years, the New Hampshire State Employee Health Plan has saved $12 million, with $1 million going back to shoppers. In 2017, Maine also instituted incentivized shopping for small-group health plans.

The reforms described above would benefit all consumers by using the power of pricing to deliver affordable, quality care. But what about families who cannot afford health care? As indicated, the reason we have Medicaid is because policymakers have fallen into the trap of confusing health insurance with health care access. Not everyone who is uninsured in America is unable to afford health care. A 2008 study by Pfizer found 7 percent of the uninsured earn more than $75,000 annually while 30 percent earn more than $50,000. Likewise, not all of the uninsured are uninsured for very long. According to a pre-ACA Congressional Budget Office report, 71 percent of the uninsured regained insurance within a year.

Instead of treating the uninsured, or the poor, for that matter, as a victim class, policymakers should approach them as customers. From a market perspective, Medicaid is a niche product created for low-income consumers. Its value should be judged against similar "products" in the same sector. The primary nongovernmental competitors in this market are nonprofit hospitals and charity care clinics.

Nonprofit hospitals – in Mississippi, there are 31 – receive significant federal and state tax breaks in return for offering a "community benefit." Prior to 1969, federal law required every nonprofit hospital to provide "to the extent of its financial ability, free or reduced-cost care to patients unable to pay for it."[24] According to a 2015 IRS report, community-benefit activities for nonprofit hospitals accounted for about 10 percent of total expenses, with just over 5 percent of total expenses actually being used on charity care and uncompensated care. Public hospitals didn't do much better. Mississippi lawmakers could encourage nonprofit hospitals to provide more charity care by strengthening the state's "community benefit" provisions; otherwise, they should eliminate the targeted tax breaks for these hospitals.

By contrast, dozens of private charity care clinics around the state are providing free and low-cost care to indigent persons. Based on the experience of other states, policy reforms aimed at deregulating charity care could incentivize $27 million in free care for Mississippi. Another way to expand charity care is to provide a corporate and individual tax credit for donated time and money.

Still, other would-be competitors to Medicaid have been regulated out of existence. One such alter-

23 See https://surgerycenterok.com/blog/lets-discuss-pricing/.

24 James (2016).

native is mandate-light insurance coverage that costs less, but includes fewer "essential health benefits," such as contraception or chiropractic. Prior to the ACA, it was estimated that such mandates increased the cost of insurance by at least 30 percent. Obamacare's essential health benefits provisions have increased premiums even more.

Worst of all, Medicaid's insurance monopoly has stifled the development of new insurance products and health care services that could better serve low-income Americans.[25] Free-market entrepreneurs are not naturally attracted to the health care sector because the government is such a large purchaser and regulator of health care. Likewise, Medicaid has stifled the ability of states to develop a better safety net for low-income families. The promise of Medicaid was to help states improve upon their existing charity care infrastructure. Instead, Medicaid undermined this infrastructure, leading to the closure of charity wards and other centers for indigent care.[26]

Conclusion

Medicaid is the federal government's attempt to deliver better health care to low-income families. Poor health outcomes for Medicaid patients demonstrate the program has not met this objective. In addition, Medicaid has crowded out the private sector from developing innovative products that would deliver high-quality, affordable care to low-income consumers. It has also handicapped the public sector in developing better policies. If we want to promote good health – and prosperity – in Mississippi, we must disrupt Medicaid's deadly monopoly.

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25 One option might be to connect EITC payments with incentivized HSAs. Public-private partnerships, similar to the "Alzira Model" of Spain, might also show promise.

26 See "Before Medicaid, how did doctors treat the poor?" for a brief discussion of how some physicians approached charity care prior to Medicaid. https://www.centerforhealthjournalism.org/fellowships/projects/medicaid-how-did-doctors-treat-poor.

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Summary of Chapter Conclusions

PART 1. Introduction: The Role of Government and Economic Growth

Chapter 1: The Case for Growth—Russell S. Sobel, The Citadel, and J. Brandon Bolen, Mississippi State University

- Mississippi is the poorest state in the United States in terms of per capita income. Mississippi underperforms economically relative to all of its bordering states.
- Focusing on policies that generate economic growth is the most viable pathway to alleviating Mississippi's weak economic condition.
- Very small changes in economic growth rates may yield vast positive changes in the quality of life for Mississippi residents within as little time as one to two generations.
- Focusing on economic growth does not mean that other important policy goals such as improving health and education and reducing crime are neglected.

Chapter 2: The Sources of Economic Growth—Russell S. Sobel, The Citadel, and J. Brandon Bolen, Mississippi State University

- The economic activity of a state necessarily occurs within that area's institutional context, including the legal, regulatory, and tax environments, as well as the degree of private property rights. The quality of these institutions affects the output of economic activity.
- Capitalism is an economic system based on the private ownership of productive assets within an economy.
- Abundant evidence demonstrates that areas with institutions that allow capitalism to thrive experience much higher levels of prosperity relative to areas that do not rely upon capitalism.

Chapter 3: Why Capitalism Works—Russell S. Sobel, The Citadel, and J. Brandon Bolen, Mississippi State University

- The prosperity of an area is determined by the total quantity of production and quality of goods and services that individuals value. This prosperity is influenced by factors such as the degree of specialization of labor, capital investment, and entrepreneurship.
- Capitalism is an economic system that generates prosperity because its decentralized nature supports the specialization of labor, capital investment, and entrepreneurship.
- Government policies, even when well-intentioned, often create harmful unintended consequences. This is often due to the more centralized nature of government decisions.

PART 2: Promoting Prosperity One Issue at a Time

Chapter 4: Why are Taxes so Taxing? —Brandon N. Cline and Claudia R. Williamson, Mississippi State University

- High taxes can be extremely costly. In addition to the cost of the tax itself, taxes create indirect costs including enforcement costs, administrative costs, and costs incurred from distortions of the market economy.
- Mississippi has a higher tax burden compared to its bordering states. This may negatively affect the location decisions of businesses and individuals, causing them to leave the state.
- Empirical evidence demonstrates that high tax rates significantly damper rates of economic growth.

Chapter 5: Make Business Taxes More Competitive—Brandon N. Cline and Claudia R. Williamson, Mississippi State University

- State and local taxes represent a significant cost for businesses. These tax costs affect the location decisions of businesses and deter them from operating in Mississippi.
- In addition to corporate income taxes, there are a myriad of other taxes businesses pay, such as property taxes and inventory taxes. Some taxes such as the inventory tax and intangible property tax do not exist in the majority of other U.S. states.
- To generate more prosperity within the state, Mississippi should consider reducing its tax burden upon businesses.

Chapter 6: "Selective Incentives," Crony Capitalism and Economic Development—Thomas A. Garrett, University of Mississippi, and William F. Shughart II, Utah State University

- This chapter evaluates the costs and benefits of targeted tax incentives designed to lure new private business enterprises to Mississippi.
- Our analysis demonstrates that Mississippi is poorer, not richer, by funding incentive programs.
- Reasons that incentive packages fail include no new employment since many individuals hired were previously employed, the additional tax cost to accommodate the new population growth, and resources allocated to funding the subsidies could have been spent on better schools, roads, or used to finance a reduction in tax rates for all.
- The funds now being spent to benefit a handful of private business owners could be used to finance broad-based reductions in tax rates and lightening the regulatory burden on all Mississippians.

Chapter 7: Incentive-Based Compensation and Economic Growth—Brandon N. Cline and Claudia R. Williamson, Mississippi State University

- Incentive based compensation is a payment method where an individual's pay is in some way tied to their performance. Economic literatures studying incentive based pay for executives show that use of incentive based pay improves company performance and by extension state economies.
- Empirical data shows that firms in Mississippi use incentive-based compensation less than similar firms in other states.
- Mississippi can help improve its economic position by restructuring parts of its tax code to allow for greater use of incentive based executive compensation.

Chapter 8: Mississippi Shadow Economies: A Symptom of Over-Regulated Markets and Measure of Missed Opportunities—Travis Wiseman, Mississippi State University

- This chapter discusses Mississippi's regulatory environment and the state's cumbersome habit of maintaining outdated and burdensome regulation, far longer than other states.
- Several sensible and low-cost reforms are introduced that can help curtail unwanted shadow economic activity, and promote prosperity in Mississippi.
- A case study of one industry that Mississippi over-regulates – the brewing industry – is discussed.

Chapter 9: Occupational Licensing in Mississippi—Daniel J. Smith, Troy University

- Occupational licensing, the regulation of individual entry to a profession, enables industry practitioners to restrict entry to their profession and raise prices on consumers.
- The effects of occupational licensing fall heaviest on low-income residents who must pay higher prices or resort to lower-quality home-production or black market provision.
- Mississippi has at least 118 different occupational categories with licensing, representing nearly 20 percent of Mississippi's labor force.
- The total estimated initial licensing costs in Mississippi exceed $48 million and the estimated annual renewal costs add up to over $13.5 million.
- Mississippi policymakers can promote prosperity in Mississippi by removing unnecessary and overtly burdensome licensing laws.

Chapter 10: Prosperity Districts: A Ladder Out of Last Place—Trey Goff, Out of Last Place Alliance

- Prosperity districts are geographically self-contained areas that reduce or eliminate unnecessary government restrictions on business activity, including regulation, taxation, and private subsidization
- Prosperity districts can be a unique and promising solution to the state's economic woes by allowing specific areas to be exempt from unproductive policies.
- Prosperity districts allow experimentation to determine which policies work best.
- Real world examples of the potential success of prosperity districts can be seen in the closely related concept of special economic zones, which have seen tremendous economic growth and development in places such as Singapore.

Chapter 11: Promoting Prosperity in Mississippi through Investing in Communities—Ken B. Cyree, University of Mississippi, and Jon Maynard, Oxford Economic Development Foundation

- We investigate the impact of investing in community livability and the relation to the change in total employment to promote prosperity in Mississippi.
- We document the decline in Mississippi employment, on average, from 2007-2016, and especially the decline in manufacturing employment.
- Our analysis shows that increased employment is significantly related to better school rankings, higher changes in wages, and higher changes in per capita retail sales. New business creation is not statistically related to employment.
- Our results suggest that in order to promote prosperity in Mississippi, we should invest in quality of life for the community.

Chapter 12: Local Governments Run Amok? A Guide for State Officials Considering Local Preemption—Michael D. Farren, George Mason University, and Adam A. Millsap, Florida State University

- Local governments sometimes implement regulations and ordinances that stifle economic growth.
- Preemption is a legal doctrine asserting that state law takes precedence over local law. In some cases it should be used by state governments to overrule local governments.
- State officials should consider preemption when local rules violate the principles of generality or free exchange. Such policies often involve barriers to entry, price controls, or business practice mandates.
- Violations of generality and free exchange harm economic growth because they inhibit economic activity and the efficient allocation of resources. Conversely, preempting such policies promotes economic growth.

Chapter 13: School Choice: How To Unleash the Market in Education—Brett Kittredge, Empower Mississippi

- The United States has fallen behind other countries in K-12 education. One study found that American students ranked 38th out of 71 countries when tested in math, reading, and science.
- A government monopoly has existed in our delivery of education in the United States. Students are assigned to a school based on their zip code and the year they were born.
- Because students are assigned to a school based on a district line, real estate prices naturally rise in neighborhoods within a desirable school district. This has the effect of pricing out many families and forcing them to live in areas with less desirable schools.
- To improve quality, our education system should be student centered and market based. Parents should have options available to craft a custom education for their child based on their specific learning needs.
- The legislature can adopt a market based education through a universal school choice program that has broad eligibility, autonomy for all schools, and level funding across the various educational sectors.

Chapter 14: Medicaid: A Government Monopoly That Hurts the Poor—Jameson Taylor, MS Center for Public Policy

- State health care policy revolves around Medicaid, which is a government-subsidized insurance program consuming one-third of Mississippi's budget.
- Health outcomes for Medicaid insurance patients are very poor; patients with no insurance at all fare better.
- Medicaid's number one problem, like that of many American insurance plans, is that it incentivizes the over utilization of health care while insulating recipients from the financial consequences of poor lifestyle choices.

- Medicaid is crowding out the development of innovative products and policy ideas.
- Reforms aimed at unleashing the power of health care pricing including large HSAs, direct surgical care, and comparative shopping incentives can begin to disrupt Medicaid's monopoly.

Chapter 15: Tipping the Scales: Curbing Mississippi's Obesity Problem—Raymond J. March, San Jose State University

- Widespread obesity has serious health and financial consequences in Mississippi.
- Government policy, although well intended, is associated with increased levels of obesity especially for lower-income households.
- State-led efforts to reduce obesity are costly and unlikely to succeed because they fail to address the underlying causes of why less healthy food options are consumed.
- Private and local solutions are more effective in promoting health and reducing obesity.
- The most effective way to combat widespread obesity is the market, not the government.

Chapter 16: Criminal Justice Reform in Mississippi—Trey Goff, Out of Last Place Alliance

- Despite decreasing rates of both violent and property crime since 1996, Mississippi incarceration rates have steadily increased.
- Mississippi has an incarceration rate that is among the highest in the world, most due to incarcerating non-violent crimes.
- The economic drain from this level of mass incarceration is extremely detrimental for the state economy in terms of both the cost of maintaining incarceration and the negative effects of incarceration upon individuals in the labor market.
- Reevaluating and restructuring the criminal justice system in Mississippi to reduce incarceration rates would be an extremely effective tool to increase the economic strength and wellbeing of the state.

Chapter 17: Property Takings: Eminent Domain and Civil Asset Forfeiture—Carrie B. Kerekes, Florida Gulf Coast University

- Secure private property rights provide incentives for individuals to undertake investments and make capital improvements to their property and businesses. To promote prosperity, Mississippi policy makers should continue to improve laws and policies to restrict property takings.
- Following reforms passed in 2011 to protect against development takings, property owners in Mississippi are reasonably protected from eminent domain takings.
- Citizens are significantly less protected in the case of civil asset forfeiture. Civil asset forfeiture laws in Mississippi provide incentives for law enforcement agencies to seize private property.

Chapter 18: The Small-Dollar Loan Landscape in Mississippi: Products, Regulations, Examples, and Research Findings on Interest Rate Caps—Thomas (Tom) William Miller, Jr., Mississippi State University

- The best fuel for economic growth and prosperity is free market prices, including interest rates.
- Despite the goal of improving consumer welfare, interest rate caps often harm the very people legislatures intend to help—especially users of small-dollar loan products.
- Despite their well-known harmful effects on consumers, laws continue to fetter consumer credit markets with interest rate caps.
- Setting good rules governing how legitimate businesses provide access to consumer credit is important for everyone living in Mississippi.
- The Mississippi legislature can greatly help consumers by eliminating, or greatly raising, interest rate caps in all small-dollar loan markets.

Chapter 19: Natural Disasters and Prosperity in Mississippi—Daniel Sutter, Troy University

- Extreme weather poses a severe financial risk for a state economy. Mississippi is particularly exposed to the threat of damage from natural disasters.
- Free market practices often perform better at meeting the challenges posed by natural disasters rather than government policies. Removal of harmful policies such as occupational licensing and building codes during disaster may better allow the market to speed disaster recovery.
- Some government policies such as flood and wind insurance may exacerbate exposure to natural disasters. Other policies slow recovery time by creating uncertainty after the occurrence of a natural disaster.

Chapter 20: Learning from Disasters in Mississippi—Stefanie Haeffele and Virgil Henry Storr, George Mason University

- This chapter examines disaster recovery in Mississippi and how policies that foster entrepreneurship might help spur disaster recovery going forward.
- Entrepreneurs can spur disaster recovery by providing needed goods and services, restoring disrupted social networks, and acting as focal points around which other residents can coordinate their recovery efforts.
- To promote prosperity in Mississippi, officials should develop policies that ensure that entrepreneurs have the space to act in the wake of disaster.

About the Institute for Market Studies at Mississippi State University

The Institute for Market Studies (IMS) at Mississippi State University, created in 2015, is a nonprofit research and educational organization conducting scholarly research and providing educational opportunities to advance the study of free enterprise.

The IMS's mission is to support the study of markets and provide a deeper understanding regarding the role of markets in creating widely shared prosperity. This includes advancing sound policies based on the principles of free enterprise, individual liberty, and limited government. The IMS pursues its mission by bringing together leading scholars to conduct timely research on current economic and financial issues.

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MISSISSIPPI STATE UNIVERSITY™
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ISBN 978-1-7320353-0-0
52995>
9 781732 035300