The elephant in the room: why some states are refusing to expand Medicaid

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After the US Supreme Court overturned the Affordable Care Act’s mandate that states expand Medicaid, roughly half the states have declined to expand. Declining states blame the high state budgetary cost. While these states do have significantly higher expansion costs, they are also significantly more likely to have Republican Party control of the legislature and governor office. Statistical inquiry confirms that after controlling for costs, it is indeed political party control, particularly of the lower chamber of the state legislature that is the most important statistical determinant of state Medicaid expansion decisions.

Keywords: Medicaid expansion; ACA; ideology

JEL Classification: H72; H75; H77

I. Introduction

Medicaid is jointly funded by states and the federal government. The programme is managed at the state level, and each state sets its own eligibility requirements. The federal government’s share of funding (the ‘Federal Medical Assistance Percentages’) varies across states from a low of 50% to a high of 73.4% and is determined annually by a formula based on the state’s per capita income relative to the US average (Fichtner, 2014). In 2012, total Medicaid spending was over $400 billion, accounting for almost 20% of state government budgets. Medicaid’s rapid growth, averaging approximately 7% per year over the past 5 years, has put a strain on state budgets in a time of recession and declining tax revenue.

The Patient Protection and Affordable Care Act (‘ACA’) of 2010 contained a provision requiring all states to expand Medicaid eligibility to 138% of the poverty threshold and to adults without dependent children. The federal government agreed to finance 100% of the cost of the expansion for 3 years, and the percentage would gradually be reduced to 90% by 2020. However, states still faced substantial costs of expansion from newly enrolled but previously eligible individuals and worried the future burden of the expansion may shift more heavily to states as the federal budget situation became more strained.

On 28 June 2012, however, the US Supreme Court ruling (National Federation of Independent Business v. Sebelius) made the expansion of Medicaid optional. As of April 2014, 25 states (plus D.C.) have chosen to expand, while 21 have refused, with 4 still undecided (Kaiser Family Foundation, 2014). Many states, including Florida, have cited the high cost of expansion as the justification for refusing to expand Medicaid. Florida Governor Rick Scott cited a cost to the state of approximately $1.9 billion per year when pushing for his state to refuse the expansion. Indeed, the average state cost of expansion is $1.3 billion higher in those states refusing to expand when compared to those who have agreed to the expansion.

However, the Republican Party has made fighting the ACA a political strategy throughout recent elections. All of the states refusing to expand Medicare have at least one branch of government controlled by the Republican Party.
The raw data clearly suggests that the states refusing to expand Medicaid are both significantly more Republican controlled and face significantly higher costs of expansion. Table I presents the averages for the ‘yes’ and ‘no’ states along with the difference in means significance test levels (all are significant at the 1% level).

Are these states’ decisions not to expand Medicare really about costs, or about politics, or are both significant factors? That is the central research question empirically addressed in this article. The empirical model will also allow both predictions such as which of the undecided states are likely to expand (or not) and which ‘no’ states may change their minds in the future and agree to expand.

II. Literature Review

There are only a few previously published papers directly examining economic aspects of Medicaid. Barrilleaux and Miller (1988) find that political ideology, diversity of special interests and spending needs are the primary determinants of the cross-state variation in Medicaid spending. Hanson (1984) finds that while economic factors may constrain policymaking on Medicaid, political factors are the main determinants. Olson (1985) discusses how politically powerful interest groups drive Medicaid policy decisions. Finally, Fichtner (2014) is an edited volume containing chapters discussing the economics of various aspects of Medicaid.

A broader literature has addressed how political influences shape state tax and spending decisions more generally. Husted and Kenny (1997) find that Republican Party control is associated with significantly smaller share of state budgets spent on transfer programmes (such as Medicaid). Sobel (1998) finds that state-level legislators are rewarded differently for taxes and spending depending on their political party. In particular, Republicans are rewarded less at the polls for expanding spending programmes, while also being punished harder for tax increases. Thus, due to the nature of their constituencies, Republicans politically maximizing strategy is to spend less and also to avoid tax increases more.

Weingast et al. (1981) argues that different types of programmatic costs have different impacts on political decisions. They argue that within-district costs that flow in the form of peculiarly gains to individual factor owners are counted in the political calculus as benefits, rather than costs. The jobs and labour cost associated with a military base, for example, while a true economic cost, are viewed as benefits by legislators. In the case of Medicaid expansion, the local hospitals and medical providers who benefit from increased demand for their services represent this type of cost that may alternatively be viewed as a benefit by a legislator due to the political support it returns at the voting booth. In the extreme, this logic would imply that states with higher costs of expansion may actually be more likely to expand the programme, especially given that the majority of the tax cost is funded at the federal level by taxes on other states and districts.

Based on the previous literature, the impact of expansion costs on state decisions is mixed. While two studies suggest political ideology determines Medicaid spending, one concedes that economic costs are still a main constraint. Two studies suggest higher costs should increase the odds of expansion due to special interest group influence, while two other studies suggest the impact of costs could differ between the Republican and Democratic Parties. Ultimately, then it is an empirical question.

III. Empirical Model

In this section, probit and logit binary choice models are fitted to the ‘yes’ and ‘no’ decisions of the 45 states who have made decisions on Medicaid expansion. This will allow identification of the factors significantly correlated with states’ decisions and also for using the estimated model to obtain predicted probabilities (and thus likely final decisions) for the four still undecided states.¹

Party control is an indicator (dummy) variable for whether the state has a Republican governor, a Republican-controlled upper legislative chamber and a

¹Ordered probit and logit models using an intermediate value for the four ‘maybe’ states produced identical results.
Republican-controlled lower legislative chamber. The results are robust to alternative measures of cost, such as including both the federal and state amounts as well as measuring the costs in dollars or as a per cent of the entire state budget.

Table 2. Probit and logit models of state Medicaid expansion decisions

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<thead>
<tr>
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<th>Probit</th>
<th>Logit</th>
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<tbody>
<tr>
<td>Constant</td>
<td>1.984 (3.307)***</td>
<td>3.370 (2.950)***</td>
</tr>
<tr>
<td>Republican lower chamber control</td>
<td>−1.654 (1.807)*</td>
<td>−2.858 (1.699)*</td>
</tr>
<tr>
<td>Republican upper chamber control</td>
<td>−0.363 (0.700)</td>
<td>−0.549 (0.326)</td>
</tr>
<tr>
<td>Republican governor</td>
<td>−0.821 (1.285)</td>
<td>−1.296 (1.148)</td>
</tr>
<tr>
<td>Estimated percentage increase in state Medicaid spending from expansion</td>
<td>−0.161 (0.016)</td>
<td>−2.123 (0.112)</td>
</tr>
<tr>
<td>McFadden R-squared</td>
<td>0.461</td>
<td>0.454</td>
</tr>
<tr>
<td>Log-likelihood</td>
<td>−16.677</td>
<td>−16.869</td>
</tr>
<tr>
<td>AIC</td>
<td>43.354</td>
<td>43.738</td>
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Notes: Absolute t-statistics are given in parentheses. ***, **, * indicate significance at the 1%, 5% and 10% levels, respectively.

Republican expansion cost estimates are obtained from Holahan et al. (2012) and are included as a percentage of current state Medicaid spending. The results are shown in Table 2. The only statistically significant variable is whether the state has a Republican-controlled lower legislative chamber. Republican control of the upper chamber and governor are also negative but insignificant. The expansion cost variable is insignificant.

Due to possible nonlinear impacts of having Republican control of both legislative chambers, or both legislative chambers and the governor, the models were re-estimated with these interactions, but all interactions were insignificant. Whether the state went for the Republican presidential candidate in 2012 was also insignificant when added to the model. When any of these political variables are included alone, however (without the others), they are individually significant. However, in no case does the cost variable become statistically significant, and in all cases, the lower chamber is the only significant variable if included.

Using the estimated model, it is possible to obtain predicted probabilities for the states that are yet to decide. The state with the highest predicted probability of eventually saying yes is New Hampshire (94.2% from logit and 94.7% from probit), suggesting it is likely to expand Medicaid. Two states have very low predicted probabilities: Pennsylvania (20.1% from logit and 19.6% from probit) and Utah (19.4% from logit and 19.5% from probit). These two states are likely to decide not to expand. The final state, Missouri, has a predicted probability on the borderline of the 50% cut-off (47.1% from logit and 48.5% from probit), leaving that state’s decision harder to predict.

IV. Conclusion

Now that the US Supreme Court has allowed states to individually decide on Medicaid expansion, roughly half the states have agreed, while half have declined. Many that have declined to expand blame the decision on the budgetary cost. In the raw data, it is clear the states refusing to expand have significantly higher budgetary costs (almost $2 billion higher, or 3% of the Medicaid budget higher). However, in the raw data, the states refusing are also significantly more likely to have Republican Party control of their upper and lower chambers of their legislature and a Republican governor.

Previous literature finds that Democratic states were likely to have more expansive programmes with higher expenditures, which explains why Republican-controlled states are also the ones with higher expansion costs to meet the ACA guidelines. Statistical inquiry confirms that after controlling for costs, political party control of the lower chamber of the state legislature is the most important statistical determinant of state Medicaid expansion decisions.

References


Fichtner, J. (Ed) (2014) The Economics of Medicaid: Assessing the Costs and Consequences, Mercatus Center, George Mason University, Arlington, VA.


