



Editor's Introduction

Thomas A. Garrett

The Federal Reserve Bank of St. Louis co-hosted a one-day conference on Medicaid finance on June 8, 2007. Co-hosts included the Weidenbaum Center on the Economy, Government, and Public Policy at Washington University in St. Louis, the Center for Health Policy at Washington University in St. Louis, and the Missouri Foundation for Health. Titled “Medicaid Financing: Challenges for Missouri and the Nation,” the conference intended to provide attendees with a nontechnical description of the major issues surrounding Medicaid financing in Missouri and the nation.¹ The conference coincided with pending legislation in the Missouri legislature (SB 577) that would modify various provisions relating to Missouri’s medical assistance program. The Missouri Health Improvement Act of 2007 was signed into law by the governor of Missouri on July 2, 2007.

To provide diversity of views and experiences, the conference brought together physicians, hospital administrators, state health officials, and nationally recognized academic scholars and policy-makers. The conference format consisted of presentations by academic scholars as well as several panel sessions involving health officials, physicians, and hospital administrators. This issue of *Regional Economic Development* contains selected papers from the conference.

¹ More information on the symposium can be found at <http://research.stlouisfed.org/conferences/medicaidconf/index.html>.

MEDICAID IN THE UNITED STATES

Tommy Thompson, former Governor of Wisconsin and former U.S. Secretary of Health and Human Services, provided the keynote address. Governor Thompson discusses three major problems facing the future of Medicaid and the U.S. health care system: The rising costs of health care and its effect on America’s competitive position in the global economy, a decrease in the number of companies offering health insurance, and the inability of the federal government to prevent the insolvency of Medicaid in the coming years. Governor Thompson outlines several solutions to the problems facing Medicaid and the U.S. health care system. The first is that of prevention and education versus treatment—because preventing an illness is cheaper than treating it. Governor Thompson outlined several key areas for prevention dollars: tobacco use, diabetes, and obesity. In addition to prevention, Governor Thompson argues that more funding should be used for medical technology that would reduce medical errors in the treatment of patients.

MEDICAID—THE NEED FOR REFORM

In the first paper of the conference, John Holahan and Alan Weil outline the major issue facing Medicaid—rising costs—and argue that recent policy initiatives will not significantly curb Medicaid spending. Reasons cited by the authors include moral hazard, excessive benefits packages,

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and rapid enrollments due to the decrease in employer provided insurance.

The authors present four options for Medicaid reform, each that would, the authors argue, ensure the sustainability of the Medicaid program. One reform would require states to increase coverage to certain income levels for parents and childless adults, with the aim of establishing uniform coverage across states and reducing the number of uninsured. Another reform would increase federal matching rates or services for selected populations or services. A third reform plan would shift responsibility for some services or populations wholly to the federal government while shifting others wholly back to the states. The final reform plan would end the Disproportionate Share Hospital Program. Holahan and Weil provide cost estimates for each reform option.

In his discussion, James Fossett focused on health care politics and choices that federal and state governments are going to be able to make in the near term. He acknowledges the rapid growth in health care spending but argues that state and federal governments will be unable to devise any reform plans, including those proposed by Holahan and Weil, to deal with Medicaid and health care in general. Specifically, Fossett argues that military spending, the federal budget, and weakening state revenue growth all limit the chances that any Medicaid reform will be achieved in the next several years.

MANDATORY AND AFFORDABLE HEALTH INSURANCE

Len Nichols argues that a reformed health care system in the United States should provide universal coverage and a more efficient delivery system. Nichols stresses, however, that universal coverage does not imply only government provision of health care, but rather cooperation between the public and private sectors to provide health care to all citizens. He outlines several universal financing arrangements that support tax-financed, single-payer (or Medicaid for all) programs, as well as mandates on employers and employees to purchase private health insurance. To ensure universal cov-

erage, Nichols argues that any reform should create an effective health insurance market, all individuals should be required to purchase health insurance, and there must be substantial subsidies for low-income individuals and families, among others. Nichols then suggests that the success of any health care system is dependent upon the delivery system. He outlines three elements of an effective delivery system.

In his discussion, Thomas Stratmann argues that more free market solutions to health care should be considered by policymakers, and he points out several problems with the current system. Subsidization of health care creates an overuse of health care services, thus driving up costs. In addition, the expected treatment of illness creates an incentive for individuals to participate in behavior that is conducive to ill health, such as drug abuse, smoking, etc. Stratmann argues that the uninsured in the United States are primarily healthy and young, so their need for health insurance is relatively low and forcing insurance upon these individuals would create extra costs. Finally, Stratmann argues that catastrophic health insurance should be mandated. The costs of such a reform would be relatively low because catastrophic events are infrequent, and no additional funds would be needed to finance such coverage for those with lower incomes because they are covered by Medicaid.

PANEL DISCUSSIONS

In addition to the two academic papers, two panel discussions (not included here) were also held during the conference. For the first, two hospital administrators and two physicians from Missouri discussed their ideas for Medicaid reform and why such reforms are needed. The last session of the day consisted of a panel of health policy experts and state administrators who discussed the future of Medicaid. Panelists shared their views on likely reforms in Missouri as well as the nation. Each panel session provided the audience an opportunity to understand the highly political nature of Medicaid financing in Missouri.

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