

The Political Economy of Medicaid: The Influence of Ideology on Eligibility, Delivery, and Reimbursement

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Abstract

We investigate the influence of government ideology in U.S. states on geographic variation in Medicaid program design and operations from the mid-1990s to 2013. Medicaid expands primarily in liberal states during times when the Democratic party is in power. Simultaneously, fee-for-service reimbursement rates for physician services have been notably lower in liberal states. These patterns raise the following question: To what extent does Medicaid expansion induced by liberal state governments lead to re-allocation of resources from populations with greater need to those with less? Resource reallocation in such cases can easily be sustained as a political equilibrium under liberal state governments for two reasons. First, while eligibility is visible to voters and is decided by career politicians, it is relatively difficult to acquire information about reimbursement rates and such rates are determined by bureaucrats. Second, the budget neutrality requirement induces new cost-saving measures when Medicaid expands.

Our analysis consists of four steps. First, we establish the causal effects of state government ideology on eligibility expansion. To address spurious correlation due to population characteristics and the decision on whether to expand, we use a regression discontinuity design to capture quasi-random changes in state government ideology, and use simulated eligibility in place of the proportion of eligible population. Second, we explore the tradeoff between breadth of eligibility and reimbursement rates as well as the choice of delivery methods (fee-for-service vs. managed care). We characterize various conditions in which Medicaid expansion induces cost-saving measures such as transition to managed care and reduction in fee-for-service reimbursement rates. Finally, we explore resource allocation across eligible categories. We document the extent to which broader eligibility among healthier population categories (e.g., children) reduces expenditures on the elderly and disabled. In sum, this study explores the interplay between political environments, the scope and delivery of Medicaid, and their interactions with health care industry characteristics.

Keywords: Medicaid, Political Ideology, Eligibility, Managed Care, Reimbursement

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