



# Executive Alert



VOL. 17, NO. 3

ALL THAT'S NEW IN THE WORLD OF IDEAS

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Sen. Lindsey Graham (R-SC) speaks about the need for Social Security reform at an NCPA Capitol Hill briefing. See Page E-3.

## Orphan Drugs Adopted

Few, if any, treatments were available to those suffering from rare diseases some 20 years ago. Some of these disorders affected only a handful of patients, and others a few thousand, but because of the high cost of drug development, for-profit pharmaceutical companies did not develop therapies, even when basic research had identified potential treatments.

- Rare diseases collectively affect 25 million Americans, but those patients are subdivided into more than 6,000 subpopulations, ranging in size from less than one dozen to 200,000.

- These conditions are often caused by rare genetic defects that can have devastating consequences — for example, a defective enzyme causes cystinosis,

which can lead to kidney failure and affects roughly 400 Americans, and 0.2 percent of the population is afflicted with sucrose-isomaltase deficiency which prevents them from properly digesting sugars and starches.

- Bringing a new drug to market is costly — the industry claims that it now costs an average of \$800 million — so firms concentrate on treatments for such relatively common, chronic disorders as hypertension, depression and arthritis.

However, the 1983 Orphan Drug Act gave drug companies financial incentives to sponsor new therapies for adoption by the U.S. Food and Drug Administration. In the following years, drug companies developed dozens of orphan drugs and biologics (therapies deriving from living materials):

- In the past two decades, 229 orphan drugs that together treat 11 million patients have entered the market, and the FDA has

granted orphan status to nearly 1,000 other drugs.

- Over the past 10 years, orphan drugs accounted for 17 percent of all drugs and biologics approved for sale in the United States.

As new uses were found for orphan drugs, they also proved to be a boon to patients with more common diseases. For example, Epogen and Procrit, used to fight anemia in cancer and AIDS patients and after surgery, are versions of epoetin alfa, first developed to treat the 78,000 patients annually suffering from end-stage kidney failure. And Adagen, used to treat hepatitis C, was developed to treat severe combined immunodeficiency disease, which affects only a few dozen children worldwide.

Sources: Thomas Maeder, "The Orphan Drug Backlash," *Scientific American*, May 2003, and Marlene E. Haffner, Janet Whitley and Marie Moses, "Two Decades of Orphan Product Development," *Nature Reviews: Drug Discovery*, October 2002.

## Small School Advantage

The trend for generations has been toward larger and larger public schools. It is often presumed that large schools offer a more diverse curriculum and are less costly. Today, more than two-thirds of American students attend schools with enrollments exceeding 1,000, and 50 percent of schools have more than 1,500 students.

- In the 1937–38 school year, the average student body of a secondary public school was approximately 200; in the 1997–98 school year, the average was 779.

- Today, high schools with enrollments of 2,000 to 3,000 students are common; New York City has schools with enrollments of more than 5,000.

However, the average size of public high schools varies extensively depending on the state. For example, Florida's secondary public school average is 1,662; South Dakota's is 173.

Studies show that the academic achievement of students in small schools equals or exceeds that of students in large schools. Small school dropout rates are lower than at larger schools, and a larger percentage of students go on to college. For example:

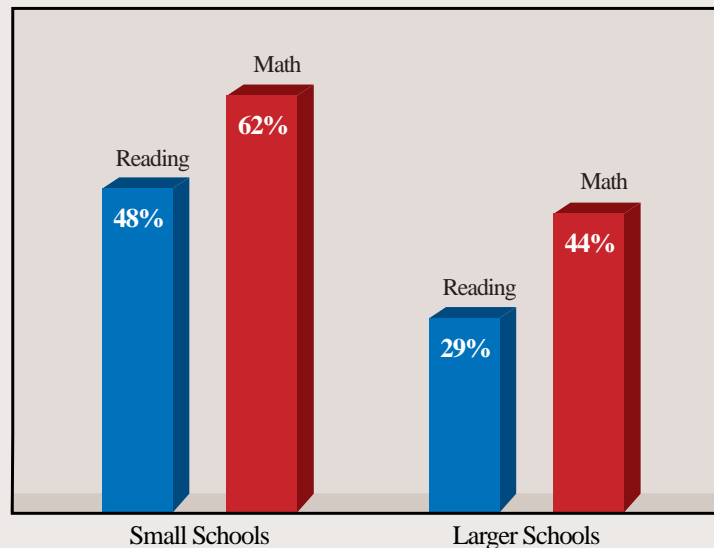
- A study documenting Chicago's small-school reform, involving 150 schools, found that small school students missed 8 to 10 days on the average, compared to 14 days for students in larger schools.

- In Nebraska, researchers found that 73 percent of students in districts with fewer than 70 high school students enrolled in a postsecondary institution, compared to 64 percent of those in districts of 600 to 999 high school students.

When per pupil costs are calculated on the number of students who actually graduate from school, rather than on the number who just attend, researchers say that the cost advantage due to economies of scale at larger schools disappears.

Source: Hanna Skandera and Richard Sousa, "Smaller is Better," Winter 2003, *Hoover Digest*, Hoover Institution, Stanford University, Stanford, Calif. 94305, (650) 723-1754.

## PERCENTAGE OF CHICAGO STUDENTS AT OR ABOVE NATIONAL NORMS



Source: Patricia Wasley et al., "Small Schools: Great Strides," June 20, 2000, Bank Street College of Education.

## After School

In the past few years, after-school programs have been set up in schools across the country using federal funds. Called "21st Century Community Learning Centers," they aim to keep latch-key kids off the streets and improve their school performance.

The centers provide a mix of recreational activities and academic assistance, such as tutoring and help with homework, mainly to students in low-performing urban and rural public schools. The cost of the program has grown from \$40 million in 1998 to \$1 billion, and in 2002 included about 7,500 schools across the country.

A comprehensive study of 96 of the programs involving more than 5,000 elementary and middle school students found some positive results:

- There were slight improvements in the math grades of middle school students, with a larger grade improvement for minority students than whites.

- Moreover, parents were more likely to volunteer at their child's school and help their children with homework if their child was involved in an after-school program.

However, there appeared to be few benefits for most students:

- Reading test scores, grades and completion of homework were no better, on average, among students in after-school programs than similar students who stayed away.

- The centers did nothing to decrease the number of "latchkey children" home alone after school, but did reduce the number left in the care of older siblings.

- Students who participated did not feel any safer than their peers, and most students who used the programs attended less than twice a week.

Participants were also more likely than nonparticipants to sell drugs, smoke marijuana and cigarettes, steal, engage in fights, and be arrested or detained by police.

Partially as a result of the study's findings, the Bush administration is asking Congress to cut funding for the centers from \$1 billion to \$600 million.

Source: Mark Dynarski et al., "When Schools Stay Open Late: The National Evaluation of the 21st-Century Community Learning Centers Program," 2003, *Mathematica Policy Research*, Office of the Under Secretary, U.S. Department of Education, Washington, D.C.

## Poor Behavior

About 31 million Americans live in households with incomes below the poverty level, according to the latest U.S. Census data. But poverty is more than a lack of income — it is also the consequence of specific behaviors and decisions.

For example, dropping out of high school or having children outside of marriage substantially increases one's chances of long-term poverty. On the other hand, completing high school, getting a full-time job and marrying are behaviors which substantially reduce the chances of poverty.

According to Census reports for 2001:

- Only 9.6 percent of high school graduates are poor, compared to 22.2 percent of those without a diploma.
- Just 2.6 percent of people 16 years or older with full-time jobs are poor.
- By contrast, 11.4 percent of part-time workers fall under the poverty line, and 20.8 percent of those who do not work fall below the poverty line.

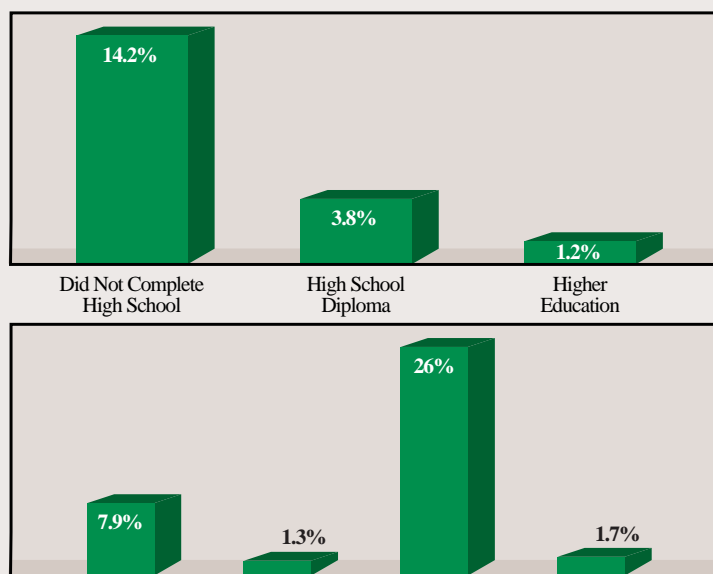
Having children outside of marriage is costly for both the individual and the child:

- More than half (51.6 percent) of never-married households with two or more children under the age of 18 are poor, compared to only 7.9 percent of married households.
- On average, a child raised by a never-married mother is nine times more likely to live in poverty than a child raised by two parents in an intact marriage, according to a Heritage Foundation analysis.

Government can encourage behaviors that help people avoid poverty. Programs such as the 1996 welfare reforms encouraged work — and the rate of poverty fell. Proposals to encourage marriage, like President Bush's plan to eliminate the income tax marriage penalty, could also have similar benefits.

*Source: Blake Bailey, "How Not to Be Poor," Brief Analysis No. 428, January 15, 2003, National Center for Policy Analysis, 12655 N. Central Expy., Suite 720, Dallas, Texas 75243, (972) 386-6272.*

## ODDS OF LONG-TERM POVERTY



*Source: "Poverty Dynamics in Four OECD Countries," 2000, Organization for Economic Cooperation and Development.*

## Income Gains

Record numbers of women have left welfare and found employment in recent years. Largely as a result of welfare reform, the poverty rate for families headed by single mothers fell to a record low. The drop in poverty was particularly large among those groups of single mothers who have always had the highest levels of poverty and welfare participation — black and Hispanic women, never-married mothers and high school dropouts.

There was concern that these families would fall back into poverty during the 2001 recession. After declining about 20 percent from 1996 to 2000, the poverty rate of single-mother families increased only slightly in 2001 to 33.6 percent.

A further concern was that these new workers would be stuck in low wage jobs that could not lift their families out of poverty. However, single mothers continue to progress economically:

- Single mothers' own cash incomes rose 21 percent between 1995 and 2000, and total household income (including noncash benefits) increased significantly among those mothers who left welfare since 1996.

- Employed single mothers earned considerably more than the minimum wage — on average, \$11.60 per hour in 2001.

- Only 4 percent of working single mothers earned the minimum wage or less, and among those who are high school dropouts, only 8 percent did so.

There is evidence that single mothers will progress economically the longer they are off welfare:

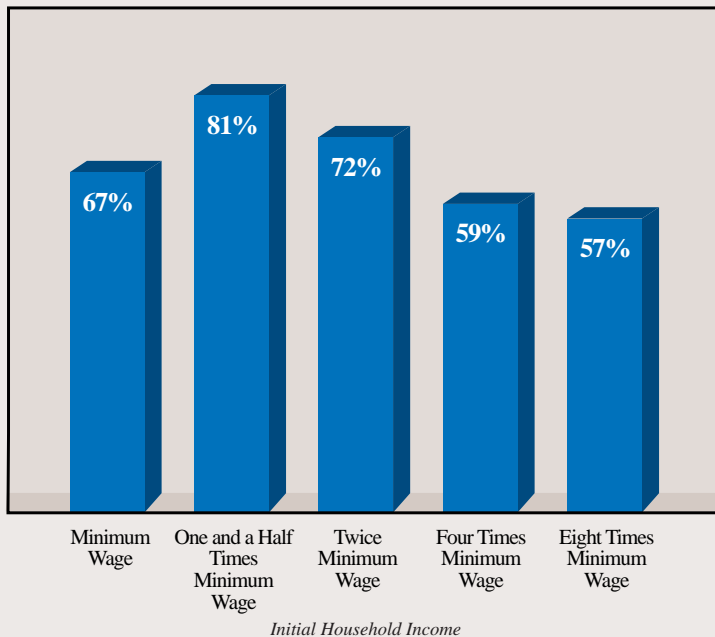
- Before leaving welfare, the average incomes of these women ranged from about 10 percent to 40 percent above the poverty level, but by the end of the second year after leaving welfare their incomes were 50 percent to 70 percent above poverty.

- After four years, the poverty rate fell by about 50 percent among women who left welfare in 1996.

- Hourly pay of single mothers who left welfare after 1994 increased about 2 percent for each additional year worked between 1994 and 1998 and each additional year with the same employer increased pay another 1 percent.

*Source: June O'Neill and M. Anne Hill, "Gaining Ground, Moving Up: The Change in the Economic Status of Single Mother Under Welfare Reform," Civic Report No. 35, March 2003, Manhattan Institute, 52 Vanderbilt Avenue, New York, N.Y. 10017, (212) 599-7000.*

**MARGINAL LIFETIME TAX RATES  
FOR FULL-TIME WORKING COUPLES**  
(net of transfer benefits)



Source: "Does It Pay to Work?" Policy Report No. 258, National Center for Policy Analysis.

**Overtaxed  
Investments**

Corporate profits are taxed 35 percent at the corporate level and as much as 38 percent when distributed to the company's shareholders. As a result, the effective rate on corporate profits is as much as 60 percent. By contrast, the profits of partnerships or Subchapter S corporations are taxed at personal income tax rates.

This overtaxation raises the cost of capital and depresses investment, encourages excessive corporate borrowing and discourages dividend payments. Furthermore, two businesses of equal profitability can pay sharply different tax rates on their earnings based solely on their legal form of organization.

In the past, dividend payments were the best assurance investors had that corporate profits were "real." More recently, unfavorable tax treatment has led corporations to forgo paying dividends at all:

- The percentage of large companies paying dividends in a given year fell from 68.5 percent in 1978 to 21.3 percent in 1998.
- The average dividend yield on stocks — that is, dividends as a percentage of shares' market prices fell from 5.28 percent to 1.49 percent over the period, according to economists Eugene Fama and Kenneth French.

With the disappearance of dividends, an important element of investor control over management was lost. It is much easier to manipulate earnings statements in order to boost the stock market value of shares than to come up with cold cash to pay dividends. Therefore, allowing investors to receive their dividends tax free not only would eliminate double taxation and lower the cost of capital but also would help to restore investor trust in corporate management.

Source: Bruce Bartlett, "Investor Tax Relief," Brief Analysis No. 425, December 12, 2003, National Center for Policy Analysis, 12655 N. Central Expy., Suite 720, Dallas, Texas 75243, (972) 386-6272.

**The Cost of Work**

Over time, going to work raises some taxes and government benefits and lowers others. The cost of work includes such forgone government benefits as welfare, Medicaid and Food Stamps, as well as the loss from higher income, payroll and sales taxes.

Using a computer model of a two-earner couple with two children at various income levels, economists calculated the lifetime consequences of employment. They found that Americans at every income level face a lifetime marginal net tax rate greater than 50 percent. That is, for every dollar they earn, they will lose more than 50 cents in higher taxes and reduced transfer benefits.

Furthermore, they found the highest marginal net tax rates are imposed on those with the lowest earnings. For example:

- At two times the minimum wage (\$42,800), working couples keep less than 30 cents out of each dollar they earn.
- At 1.5 times the minimum wage (\$32,100), they keep less than 20 cents.
- By contrast, a couple earning \$200,000 a year keeps 44 cents.

The disincentives to work at the low end of the income scale are even worse comparing part-time with full-time work:

- A minimum-wage couple that moves from half-time to full-time work will lose 97 cents out of every extra dollar they both earn.
- At 1.5 times the minimum wage, the couple will lose \$1.06 for every extra \$1.00 they earn; for them, working more literally means having less.

Marginal net tax rates for low-income families are draconian because our system has a very generous package of welfare benefits for people who do not work, but begins taking away those benefits at a steep rate for modest income workers.

The couple modeled, for example, can expect \$489,100 in lifetime benefits if they never work. However, if both spouses work full-time and each earns about \$16,000, the loss of Medicaid and other welfare benefits will cost them two-thirds of their income over the whole of their worklives.

Source: Jagadeesh Gokhale, Laurence J. Kotlikoff and Alexi Sluchynsky, "Does It Pay to Work?" Policy Report No. 258, March 2003, National Center for Policy Analysis, 12655 N. Central Expy., Suite 720, Dallas, Texas 75243, (972) 386-6272.

## Forecast for 2050

Social Security and Medicare will consume an ever-increasing portion of workers' incomes as the government seeks to keep its promises to future retirees, according to the 2003 annual reports for Social Security and Medicare.

Social Security and Medicare Part A (Hospital Insurance) are funded by a 15.3 percent payroll tax. Currently, the two programs together consume only 13.4 percent of taxable payroll, so they run a small surplus each year. However, according to the Trustees' "intermediate" forecast:

- When today's college students reach retirement age in 2050, workers will face a payroll tax rate of 17.3 percent just to pay Social Security benefits — a 40 percent increase.

- When Medicare Part A is included, the payroll tax burden will have to rise to 24.4 percent — almost a fourth of all the wages workers will earn that year.

Medicare Part B (Supplemental Medical Insurance) and other government health programs are paid from general revenues. However, they can also be expressed as a percentage of taxable payroll:

- Adding the government's share of Medicare Part B, the burden on workers will climb to 29.2 percent by 2050.

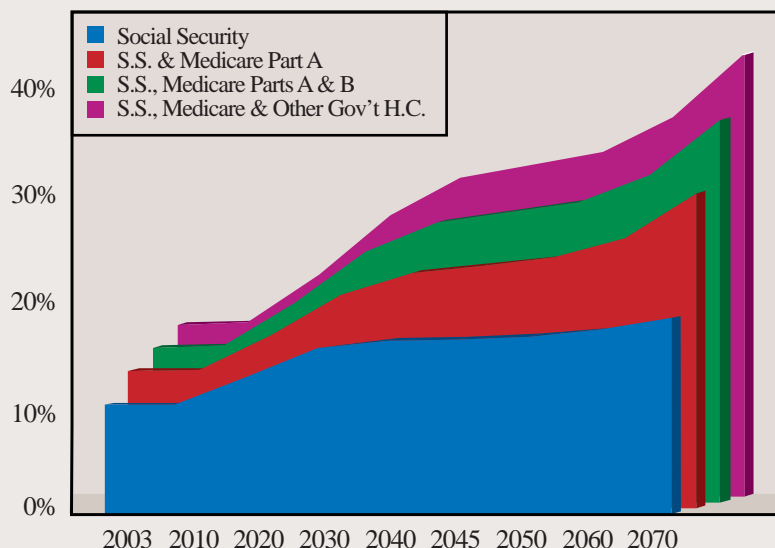
- Adding other elderly health care expenses, such as Medicaid and veterans' benefits, the total burden will reach 33.6 percent by midcentury.

To cover these increasing costs, the federal government could dip into general income tax revenues. By 2030, about the midpoint of the baby boomer retirement years, the two programs will need about 36.5 percent of all federal income taxes to pay full benefits.

By 2050, Social Security and Medicare will require more than half of federal income tax revenue — 54.2 percent — in addition to payroll taxes.

Source: Matt Moore (NCPA policy analyst), "Social Security & Medicare Forecast: 2003," *Brief Analysis No. 436*, April 22, 2003, National Center for Policy Analysis, 12655 N. Central Expy., Suite 720, Dallas, Texas 75243, (972) 386-6272.

## ELDERLY ENTITLEMENT SPENDING AS A PERCENT OF TAXABLE PAYROLL



Source: National Center for Policy Analysis calculations, and the 2003 Social Security and Medicare Trustees Report.

## Shrinking Expectations

Even if nothing is done to reform Social Security, the proportion of workers' income replaced by Social Security will fall in future years. Factoring in higher effective tax rates due to other retirement income, and rising premiums for Medicare, tomorrow's retirees face a drop in net benefits of 25 percent or more, compared with today's retirees.

Three aspects of current law will shrink Social Security benefits.

First, the age for collecting full retirement benefits will increase to 67 by 2022 — amounting to a benefit cut for anyone who retires at an earlier age:

- From replacing an average of 55.5 percent of earned income in 2000, benefits will sink to 49.1 percent in 2030.

- For example, the replacement rate will fall from 27.3 percent to 24 percent for an earner who makes the maximum taxable wage.

Second, the premium for Medicare Part B, the insurance that covers doctor bills and other services, is expected to rise faster than monthly retirement benefits:

- A person who retired at 65 in 2000 paid about 6 percent of his Social Security retirement benefits for the insurance premium.

- In 2020, when the same person is 85, the insurance premium will take 10.6 percent of retirement benefits.

- A person retiring in 2030 can expect Medicare premiums to absorb 9.1 percent of his benefits at age 65 — but 13.6 percent 20 years later.

Third, the proportion of retirees paying income taxes on their Social Security benefits will rise, reducing net benefits. For example, a 15 percent personal income tax on half of the benefits will reduce replacement rates by another 7.5 percent.

These three factors will reduce the Social Security income replacement rate from the current 41.2 percent to 30.5 percent for a medium-income worker retiring at the early age of 65 in 2030 — a loss of 26.5 percent of benefits compared with today's retirees.

Source: Alicia H. Munnell, "The Declining Role of Social Security," *Just the Facts on Retirement Issues*, No. 6, February 2003, Center for Retirement Research at Boston College, Fulton Hall 55, 140 Commonwealth Avenue, Chestnut Hill, Mass. 02467, (617) 552-1762.

## Green Bottom Line

There are thousands of mutual funds from which a potential investor can choose. Among them are so-called socially conscious or environmentally friendly funds. These funds include corporations that couple traditional accounting measures of profit and loss with measures of environmental and social performance.

Funds that invest only in green corporations, for example, claim that they can generate average returns as high as funds that look only at a corporation's profitability or increase in share value. But how green are these companies and how well has the index done?

The Dow Jones sustainability index (DJSI) tracks the stock market performance of more than 300 multinational companies whose business practices have received the green seal of approval from a Swiss outfit known as Sustainable Asset Management (SAM).

■ Environmental performance accounts for only 4.2 percent of the weighting in the index's criteria for selection; regular financial considerations are given much greater weight and thus skew the DJSI closer to an ordinary index of large-capitalization industry leaders.

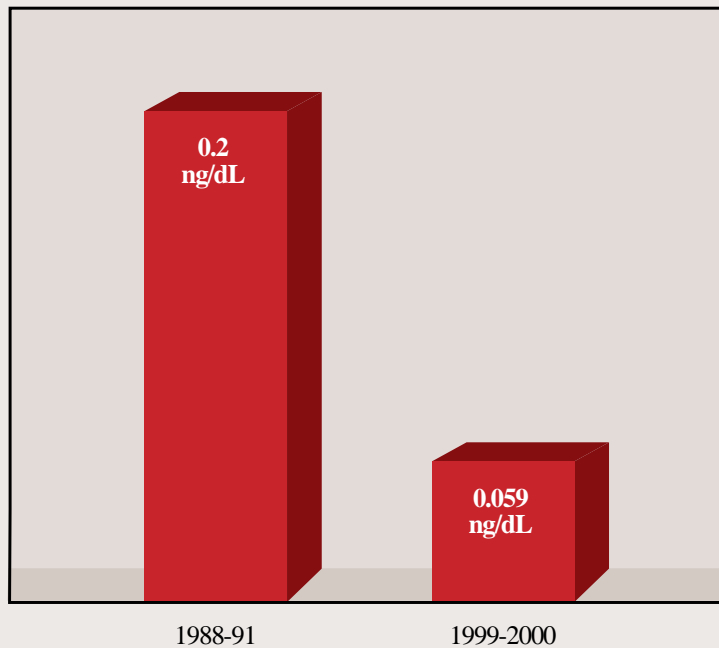
■ The DJSI adds and deletes companies more frequently than most indexes — recently replacing more than 70 companies — almost a quarter of the total; that turnover skews the index's usefulness for consistent comparison with the broad market.

■ Despite these changes, the DJSI has performed poorly compared to the market — the index is down 40 percent from its launch in January 1999, whereas the Dow Jones industrial average is only 13 percent below its level at that time.

Given the index's performance, observers are skeptical about the significance of efforts to shoehorn sustainability into hard-nosed financial analysis.

*Source: Steven F. Hayward, "The New Corporate Balance Sheet: Black, Red — and Green," Environmental Policy Outlook, October 2002, American Enterprise Institute, 1150 Seventeenth Street, N.W., Washington, D.C. 20036, (202) 862-5800.*

## MEDIAN BLOOD LEVELS OF TOBACCO BYPRODUCT (COTININE) IN U.S. NONSMOKERS



*Note: Measured in nanograms (billionths of grams) per deciliter (10ths of a liter) of blood.*

*Source: "Second National Report on Human Exposure to Environmental Chemicals," January 2003, U.S. Center for Disease Control and Prevention.*

## Chemical Exposure

Scientists are now capable of detecting the minutest trace of a substance, measuring concentrations to a thousandth, millionth and billionth parts. This enables us to better assess chemical exposure and risk. But it also raises concerns about exposure to very low levels of chemicals. The Centers for Disease Control and Prevention (CDC) says that exposure to many chemicals is falling, and levels are well below those shown to affect human health.

■ Exposure to lead, which is particularly harmful to children, and cotinine, a tobacco residue, is down.

■ During the 1990s cotinine exposure dropped 55 percent for teens, 58 percent for kids and 75 percent for adults; however, black children's exposure remains disproportionately high.

■ Contact levels with some of the most toxic chemicals — such as

dioxins, furans and coplanar PCBs — are extraordinarily low.

The Environmental Working Group, a nonprofit research organization, conducted its own study and found an average of "91 industrial compounds, pollutants and other chemicals" in nine volunteers studied. Many of these chemicals, claimed the group, cause cancer, birth defects or other harms and result in a significant "body burden."

But low-level exposure does not show that there is any harm. As the CDC explained: "Just because people have an environmental chemical in their blood or urine does not mean that the chemical causes disease."

*Source: Doug Bandow, "Chemical hysteria and environmental politics," www.townhall.com, February 25, 2003, Heritage Foundation, 214 Massachusetts Avenue, N.E., Washington, D.C. 20002, (202) 546-4400; "Second National Report on Human Exposure to Environmental Chemicals," January 2003, Centers for Disease Control and Prevention, U.S. Department of Health and Human Services, Washington, D.C.*

## Natural Gas Abundant

Demand for natural gas is increasing as more efficient power plants are built. Gas-fired generators produce 53 percent of electricity in the United States and are expected to account for 95 percent of new plants.

However, after remaining steady for a decade, U.S. natural gas production is projected to fall 10 percent in 2003.

Natural gas is the preferred fossil fuel of some environmentalists because it produces few pollutants. Fields can be explored and developed in an environmentally sensitive manner: the Audubon Society, Nature Conservancy and other preservation groups allow fossil fuel development on their reserves.

Despite the need for increased production, development of natural gas fields containing more than 213 trillion cubic feet (TCF) of natural gas is banned due to environmental concerns. Some of the fields are in coastal waters, and the rest on public lands:

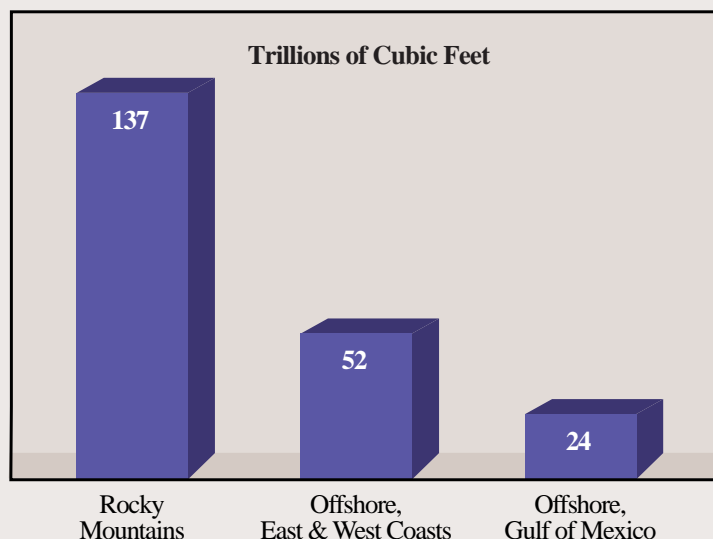
- In the Rocky Mountain region, an estimated 40 percent or 137 TCF of all the natural gas in the ground is off limits.
- Exploration and development of another 52 TCF of natural gas off the east and west coasts has been banned.
- Another 24 TCF are blocked because drilling is banned in portions of the Gulf of Mexico.

Exploration and development of natural gas fields off the Arctic coasts of Alaska and Canada has also been held up—but not due to environmental problems. These reserves are not being tapped due to the lack of a pipeline to transport the natural gas to market. The estimated natural gas reserves there potentially top 160 trillion cubic feet—more than more than all current U.S. reserves combined.

Accordingly, one component of national energy policy should be the development of a natural gas pipeline from Alaska to the Lower 48.

*Source: H. Sterling Burnett, Ph.D., "Shaping a Progressive Energy Policy: Natural Gas," Brief Analysis No. 434, April 10, 2003, National Center for Policy Analysis, 12655 N. Central Expy., Suite 720, Dallas, Texas 75243, (972) 386-6272.*

## NATURAL GAS LOCKED-UP BY ENVIRONMENTAL BANS



*Source: National Petroleum Council, 1999.*

## Clean Water

There is a growing recognition that poverty is a core environmental issue. Globally, the poorest countries face the worst environmental problems. They are poor because they lack the political, economic and cultural institutions necessary for economic growth. Because of their poverty, they lack the capital to invest in environmental protection.

One urgent problem in poor countries is the lack of access to clean drinking water. Worldwide, there are 1.1 billion persons who lack clean drinking water.

- In North America, 100 percent of the population has a clean water supply, and in Europe 96 percent do.
- In Asia, 81 percent have potable water, but because that is the most populous continent, it has the largest number of people without—about 700 million.
- In Africa, only 62 percent—out of a population of more than three-quarters of a billion—have clean running water.

However, important progress in increasing access to clean water was made between 1990 and 2000, much of it

in countries with higher economic growth rates.

- Although world population increased by nearly 800 million during the decade, in both Asia and Africa the percent of population with access to clean water jumped five percentage points.
- Worldwide, 816 million people gained access to clean water.

Water is perhaps in shortest supply in Africa, where it is subsidized or free. Often there are no incentives to protect it or penalties for polluting it. Consequently, farmers' runoff damages downstream waters, industrial polluters dump waste products into watersheds and cities pour untreated effluents into rivers and lakes.

Corporate business enterprises have the expertise and access to financing necessary to build water purification plants, wastewater treatment plants, pipelines and pumping stations. To harness these capabilities, poor countries must reform institutions to secure property rights and freedom of enterprise.

*Source: Michael Novak (American Enterprise Institute), "Blue Is True," National Review, March 10, 2003.*

## Medicaid Costs

Spending on Medicaid — the federal-state health program for the poor — is projected to exceed spending on Medicare for the second year in a row in 2003. At \$280 billion this year, Medicaid costs almost \$1,000 for every man, woman and child in the country — or \$4,000 for a family of four. Indeed, it is likely that many taxpayers are paying more in taxes to fund health insurance for the poor than they pay for their own private health insurance.

Part of the reason for rapidly rising Medicaid costs is that most states have not taken advantage of cost-control techniques widely used in the private sector. For example:

- Due to Texas' largely cost-based method of paying for hospital care, Medicaid pays some Dallas hospitals three times as much as other hospitals for the same services.

- Because Ohio's method of paying for nursing home care is essentially cost-based, the state is paying for 13,000 empty beds.

A "pro-patient" approach to Medicaid would provide better health care while slowing the rate of spending increases. Some elements of this strategy include:

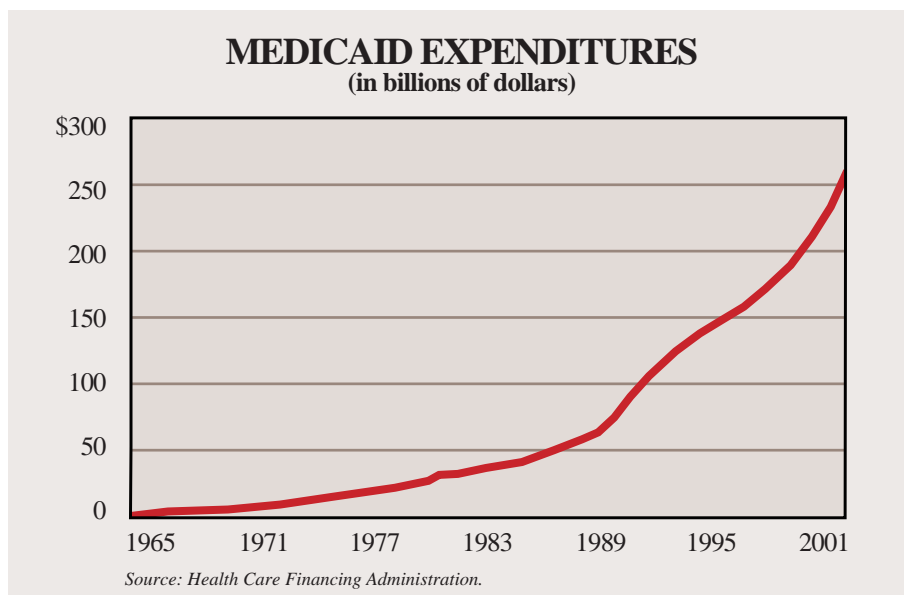
- Converting Medicaid into a defined-contribution system, under which each state determines how much it is willing to spend and patients (along with their doctors) choose how to spend it.

- Providing Medicaid enrollees with access to private sector plans, including the plans of their employers.

- Changing Medicaid to private, portable insurance — where enrollment continues even after eligibility for Medicaid has lapsed.

Studies estimate that as much as 75 percent of the expansion of Medicaid nationwide has been offset by a reduction in private insurance. This is one reason why the number of uninsured in America keeps rising, despite the expansion of costly public programs.

Source: Michael Bond, John C. Goodman, Ronald Lindsey and Richard Teske, "Reforming Medicaid," Policy Report No. 257, February 2003, National Center for Policy Analysis, 12655 N. Central Expy., Suite 720, Dallas, Texas 75243, (972) 386-6272.



## Ohio's Medicaid Crisis

Medicaid costs in Ohio have skyrocketed. With 2003 direct spending of over \$7.5 billion, Ohio's Medicaid program costs \$661 per state resident (or \$2,644 per year for a family of four). Direct Medicaid spending is expected to grow to \$12.5 billion in only four years. Unless these costs are brought under control, the Medicaid program will literally bankrupt the state.

The Buckeye Institute proposes several options to completely restructure Medicaid in order to reduce costs and increase the quality of services provided. Among those options:

- Following the lead of private insurers, Medicaid should contract with those hospitals that provide the lowest price for a given quality level.

- Enroll substantial numbers of beneficiaries with disabilities in managed care programs to better meet their unique needs.

- Consider block-granting Medicaid funds to innovative localities.

Additionally, Ohio could apply for a federal waiver so that it can make long-term reforms to the Medicaid program. These include:

- Giving Medicaid enrollees an opportunity to enroll in employer plans.

- Giving beneficiaries who do not

qualify for a private-sector plan opportunities to enroll annually in a plan that provides a Medical Savings Account (MSA).

- Exploring a consumer-driven grant system for nursing home care.

- Restructuring benefit levels and options for people with disabilities and low income families.

Once implemented, these reforms are estimated to produce savings of as much as 15 percent or \$1.5 billion per year in the short-term and more than \$100 billion by 2025.

Source: Michael T. Bond, John Goodman and Ronald Lindsey, "Reforming Medicaid in Ohio," March 2003, Buckeye Institute, 4100 N. High Street, Suite 200, Columbus, Ohio 43214, (614) 262-1593.

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Publisher ..... John C. Goodman  
 Editor Emeritus ..... Dorman E. Cordell  
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 Contributing Editors ..... Barry Asmus  
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