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Medicaid's Waste

[Peter Suderman](#) | April 18, 2011

One of the complaints that some people have about the idea of shifting Medicaid from its current system of federal matching funds to a block grant system is that doing so would shift the cost of the program to state budgets. Instead of expanding their programs and billing Washington for a portion (on average, a little more than half), states would be given flat dollars amounts and allowed to innovate, experiment, and expand as they please. The requirement would simply be that states pay for any additional costs themselves.

Would that mean cutting back on services, or the number of people the program served? In some cases, probably. But it's not at all clear that Medicaid is spending its money wisely right now, or that, in the absence of the program, current beneficiaries would have nowhere else to turn. Indeed, as the Cato Institute's Michael Cannon [argues at Kaiser Health News](#), quite the opposite is true:

Various experts estimate that fraudulent and other improper payments account for an [estimated 10 to 40 percent](#) of this [\\$466 billion](#) program.

Economists estimate that Medicaid and similar programs [crowd out](#) private coverage at rates as high as [60 percent](#). That suggests there are millions of people on the Medicaid rolls who could obtain coverage on their own, and that states could reduce the cost of the program by targeting subsidies to the truly needy.

Fraud and abuse have become so prevalent in Medicaid largely due to the perverse incentives created by the matching-grant system.

Combating Medicaid fraud and abuse is currently a low-return proposition for state officials. Providers inevitably chafe under the additional paperwork and investigations necessary to police fraud. Currently, if a state inflicts enough of this political pain to eliminate \$1 of fraud, it only keeps 20 to 50 cents; the rest goes back to Washington. As a result, governors quite rationally make policing fraud and abuse too low a priority.

Under block grants, states would keep 100 percent of the savings from rooting out fraud and abuse, which would encourage states to spend their Medicaid dollars wisely, reduce the cost of the program, and enable states to do more with fewer resources.

Yes, block grants would put states on a budget. But forcing states to budget wisely would encourage them to focus on covering only those who could not get insurance elsewhere and finding more effective ways to cut down on rampant waste and fraud.

Read [my take](#) on Medicaid block grants in *The Wall Street Journal*.