



Entitlement Programs Are Turning America Into a Decrepit Welfare State

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By [Daniel Mitchell](#)

I've been fretting for a long time that [poorly designed entitlement programs](#) are going to turn America into a decrepit welfare state.

Medicare obviously is [a big part](#) of the problem, but the [fraud-riddled Medicaid program](#) may be even worse.

The program is [a nightmare](#) for both federal taxpayers and state taxpayers.

In an article for the *Daily Caller*, John Graham of the Independent Institute has [some very grim analysis](#) of the fiscal black hole otherwise known as Medicaid.

“In 2014, total Medicaid spending is projected to grow 12.8 percent because Obamacare has added about 8 million dependents. A large minority of states have chosen to increase residents’ eligibility for Medicaid by expanding coverage to adults making up to 138 percent of the federal poverty level. Unfortunately, more states are likely to expand this welfare program. This is expected to result in a massive increase in the number of Medicaid dependents: From 73 million in 2013 to 93 million in 2024. Medicaid spending is expected to grow by 6.7 percent in 2015, and 8.6 percent in 2016. For 2016 to 2023, spending growth is projected to be 6.8 percent per year on average. This comprises a massive increase in welfare dependency and burden on taxpayers.”

But the actual numbers may be worse than these projections.

“...official estimates often low-ball actual experience. This is because it is hard to grapple with how clever states are at leveraging federal dollars. ...The incentive lies in Medicaid’s perverse financing merry-go-round. In a rich state like California, for example, the federal government (pre-Obamacare) spent 50 cents on the dollar for adult dependents. So, if California spent 50 cents, it automatically drew 50 cents from the U.S. Treasury. And most states had a bigger multiplier. Which state politician can resist a deal like that? ...The situation will deteriorate because Obamacare’s Medicaid expansion significantly increases states’ perverse incentives to game Medicaid financing. ...Newly eligible Medicaid beneficiaries will be fully financed by the federal government for 2014 through 2016. Then, it slides down until the federal government funds 90 percent of their costs starting in 2020, with the states footing 10 percent. Recall the cunning with which states developed ways to abuse federal taxpayers when they could only

double their money from Uncle Sam. The new normal is that they will be able to get nine times their money!”

By the way, these numbers would be even worse if it wasn't for the fact that [many states refused the lure of “free” federal money](#) to expand Medicaid.

So what's the solution? Graham suggests [federalism is the answer](#).

“A reform in the right direction would be to get rid of the federal match in favor of a block grant, based on a simple measurement of the population in each state, and precisely define a limited federal commitment.”

He's exactly right, at least in the short run.

Let's copy the success of welfare reform and turn over a fixed amount of money – along with concomitant authority and responsibility – to state governments and let them figure out the best way of delivering health care to lower-income populations.

In the long run, of course, I'd like to phase out the block grant so that states are responsible for both collecting the money and providing the services.

But before we get to the point of adopting health care policies for an ideal libertarian society, we first have to stop the bleeding (or, to be more accurate, hemorrhaging) and stabilize the program.

And that's why I fully agree that the federalism approach, in the form of block grants, is the right policy.

Daniel J. Mitchell is a top expert on tax reform and supply-side tax policy at the [Cato Institute](#). Mitchell is a strong advocate of a flat tax and international tax competition.