Examining the Effects of Medicaid Expansion on Employment Outcomes

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Introduction

Medicaid, the government health insurance program that offers coverage for low-income individuals, has become a controversial topic for policymakers in the United States. While some argue for its expansion, others question its sustainability. In this essay, we will examine two articles that shed light on the potential effects of Medicaid coverage on employment outcomes. The first is a study by Boudreaux and Lipton titled "Medicaid Benefit Generosity and Labor Market Outcomes" [1], published in the Journal of Human Resources, and the second article, published in the Journal of Labor Economics, is by Buchmueller et al. titled "Medicaid Expansion and the Unemployed" [2]. While the former study found that Medicaid coverage of adult vision services increased employment, the latter study focused on the impact of Medicaid expansion on the unemployed and found no statistical evidence to support the reduction in job finding or labor force attachment. However, our analysis suggests that Medicaid coverage could lead to labor market inefficiencies and hurt labor market supply. Specifically, we found statistically significant evidence that Medicaid coverage leads to a reduction in the number of weeks worked in a year for a healthy working-age individual. Based on these findings, we argue that governments faced with the decision to expand publicly funded health insurance programs should not do so as it creates labor market inefficiencies.

Literature Review

In 2021, Boudreaux and Lipton conducted a study titled "Medicaid Benefit Generosity and Labor Market Outcomes"[1] to examine the impact of a specific Medicaid service, namely vision benefits, on employment. Citing several past works of literature in their article, they found most studies to suggest expanding Medicaid eligibility will reduce labor supply and have little effect on work effort [1]. Despite acknowledging why Medicaid benefits could disincentivize work when enrolled in such a program, they try to oppose past literature. The authors contradict prior literature(s) by claiming that if individuals were provided healthcare services to reduce functional impairments, such as vision impairments, then this should remove several barriers to work [1], i.e., discomfort and strain associated with the visual impairment, and consequently enable work. Using labor force data (employment status, hours worked, full-time status, hourly

wage) from 2002-2013 from the Annual Social and Economic Supplement (ASEC) [1] combined with supplemental data from other sources, they run regressions to test their hypothesis. In addition, they refine their search to individuals between the ages 22-64[1] with family income less than twice the federal poverty level [1] to restrict the data to only those individuals on Medicaid and not enrolled in any other assistance [1] or aid programs besides it. They use two approaches to come up with a conclusion, one using a difference-in-differences [1] approach and the other a triple difference [1] model. With the two approaches, combined with the regression results, the researchers found Medicaid's coverage of adult vision services increased the number of hours worked, and the likelihood of working full-time, and helped these workers pursue higher-skilled occupations [1].

Medicaid could be thought of as a government income support as it reduces the costs associated with receiving health care services for low-income individuals. Labor economic theory suggests those on welfare receive less on average, and it discourages individuals from working so that they can remain on such assistance. From Boudreaux and Lipton's study, we can see the first part of the theory holds that Medicaid is catered towards low-income individuals with certain restrictions, so it makes sense for them to earn less on average, however, the second condition fails to hold where this benefit discourages work. Note that this result may only be limited to a particular subgroup of aid which Medicaid provides, like vision benefits as per the study, and not the causal effect of the entire Medicaid program. From this study, we learn that not all welfare benefits discourage workers from working as per the labor economic theory often taught, rather particular benefits should be independently studied before making a general statement. The result from this study will help us to understand why we may see a different labor market outcome for an individual who is covered by Medicaid, and it may be due to the difference in the aid being received in entirety versus a targeted aid they receive from the program.

In addition to the study by Boudreaux and Lipton, there was a study by Buchmueller et al. that examined the effect of Medicaid expansion on the unemployed [2]. Like other studies on this subject, they also recognize the Moral Hazard that may entail from providing public health insurance. They try to study two effects, the first was to identify if access to medical care is improved for the unemployed [2] after the expansion of Medicaid, which they found to be true [2],

and the second was to identify if this access to health insurance affected job search behavior [2], this was determined by focusing on the change in job exit rates [2]. The data used to evaluate this second effect came from the Current Population Survey from 2007-2017 on adults 26-64 years of age [2]. Using a difference-in-difference approach [2], in a regression, comparing the outcomes for workers in Medicaid expansion states to those without, they found no statistical evidence to support the reduction to job finding or labor force attachment of those unemployed [2] because of the expansion to Medicaid. Rather, they found a positive effect on labor force attachment [2] as there was evidence to suggest that an expansion to Medicaid had reduced labor force exits for two groups, parents and the short-term unemployed [2]. Labor force exit was defined in two ways, first as the tendency to exit the labor force by reducing the rate of job finding [2], and second through individuals withdrawing from the labor force [2].

There are theories in economics that identify moral hazard to be an issue when providing insurance. In the case of providing health insurance, there seems to be a risk where the individual may take advantage of the benefits which could potentially lead to market inefficiencies. However, there seems to be no hazard associated with the expansion of Medicaid [2] as evident in Buchmueller et al.'s study. Furthermore, providing welfare is believed to discourage work, but in the case of providing Medicaid benefits, this belief is contradicted by their study. Rather, they found evidence to suggest that individuals prolonged their search for employment opportunities when they were covered under Medicaid. These labor economic theories seem to not always hold when applied to a health commodity such as Medicaid and why we should avoid comparisons between a standard economic commodity to one in health when making health policy decisions. The result from this study proves to show commodities in health may have different outcomes than what we would have expected from the theories taught in labor economics, so there is room for ambiguities when making decisions on health.

Data Analysis

The data used for the analysis comes from the Current Population Survey [3] with permission from Flood et. al on individuals, without disabilities, between the ages of 22 and 61 for the years 2010-2022. We begin to look at the years after the great recession to avoid accounting for any unusual effects on our results. This age group was selected to filter out individuals who could have access to benefits other than Medicaid which could similarly cause

errors in the interpretation of our result. Furthermore, we used data on an individual's Medicaid coverage and summarized its impact on their yearly income, their total number of weeks worked in a year and its effect on the total number of weeks they were unemployed in a year. These results are summarized in Table 1.

Table 1 - *Summary statistics (mean effect of Medicaid on different variables)*

	Average Effect		
Medicaid Coverage	Salary Income	Total # of weeks worked	Total # of weeks unemployed
Yes	14429.81	28*	11*
No	28326.7	33*	8*

* Rounded to the nearest whole number

From Table 1, we notice individuals with Medicaid coverage on average have a lower salary income, fewer weeks worked, and more weeks of unemployment compared to those without Medicaid coverage. It is not so surprising to see those with Medicaid coverage earn a lower salary than those without coverage because the program itself is targeted at low-income individuals, but seeing the difference in the number of weeks worked and the number of weeks unemployed is of importance. Making note of this, we assume that we will see a similar, adverse, effect of Medicaid on employment when running a regression on the following linear model: $\beta 0 + \beta 1$ Educ $+ \beta 2$ Medicaid $+ u$.

Table 2 – *Regression results*

Weeks Worked (*as y*)	Coef. ± (Robust SE)	Statistically Significant
Intercept	34.72473 ± (.1715541)	Y
Medicaid	-4.509021 ± (.0941576)	Y
Education	.0328786 ± (.0013144)	Y

After running a linear regression to estimate the ceteris paribus effect of having Medicaid coverage on the total number of weeks worked in a year, we found significant evidence to suggest individuals who are covered by Medicaid are associated with a 4.5-week reduction in weeks worked than those without Medicaid coverage, see Table 2. We had controlled for education, because it is also a factor that can affect the number of weeks worked, however, while holding the education level constant we still observe a negative relationship between individuals on Medicaid and the number of weeks worked.

The evidence from the linear regression suggests that expanding the Medicaid program would be detrimental to the labor market supply as it would lead to a decline in the number of weeks worked by healthy working-age adults. Therefore, we should refrain from expanding the Medicaid program as it leads to labor market inefficiencies. However, note that while we are observing a negative relationship between Medicaid coverage and the number of weeks worked in a year, this is not the causal effect as there may be other variables to explain the association that we are seeing. Other variables that may impact the number of weeks worked by an individual may include their stress levels, stress from work, stress at home, the health conditions of dependents or immediate family members, etc. As we have not accounted for these factors that could affect an individual's weeks worked in a year, we cannot claim that the relationship we are seeing is causal. While this negative relationship does not necessarily imply causation, the findings suggest that access to welfare can reduce labor supply, which is consistent with labor economic theory.

Synthesis

The two articles provide insight into the potential effects of Medicaid expansion on the US labor market. Boudreaux and Lipton found that Medicaid's coverage of adult vision services increased the number of hours worked, and the likelihood of working full-time, and helped them pursue higher-skilled occupations [1]. Their study contradicts other past works of literature that suggest expanding Medicaid eligibility will reduce labor supply and have little effect on work effort. The second study by Buchmueller et al. explored the impact of Medicaid expansion on the unemployed. Their study found that there was no statistical evidence to support the reduction in job finding or labor force attachment of those unemployed [2] because of the expansion to Medicaid. Rather, they found a positive effect on labor force attachment as there was evidence to suggest that an expansion to Medicaid had reduced labor force exits for parents and the short-term unemployed [2]. The first article focused on a specific aid that is part of Medicaid, the second article focused on job-exit rates and not the change in labor attachment through the change in hours worked, and both articles failed to address whether Medicaid had unintended economic consequences.

On the contrary, the result from this study appears to show that Medicaid coverage is associated with a lower salary income, a reduction in the number of weeks worked, and a longer

duration of unemployment compared to those without Medicaid coverage. While the study cannot claim a causal relationship between Medicaid coverage and the number of weeks worked, the observed negative association between Medicaid coverage and the number of weeks worked is consistent with labor economic theory that suggests access to welfare can reduce labor supply. These findings suggest that expanding Medicaid coverage could potentially lead to labor market inefficiencies, and why we should exercise caution in considering such expansion.

In summary, the impact of Medicaid expansion on the US labor market has been debatable with conflicting findings in the literature. However, taking into consideration the studies by Boudreaux and Lipton and Buchmueller et al., the effects of expanding Medicaid on the labor market are complex. While there may be certain aspects of the aid that may prove beneficial to the economy, i.e., vision benefits, our study supports the opinion that expanding the Medicaid program, as it stands, could have negative consequences on the labor market supply and lead to labor market inefficiencies. As such, the government should not consider the expansion of Medicaid, as it could have broad implications for the economy. Instead, a more targeted approach could be considered in the future to investigate the specific aids that can be handed out and be effective in improving both health and labor market outcomes; For example, vision benefits [1] as proved valuable in Boudreaux and Lipton's study, without causing unintended consequences for the labor market.

References

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