VIEWPOINT

Triad Business Journal welcomes letters to the editor

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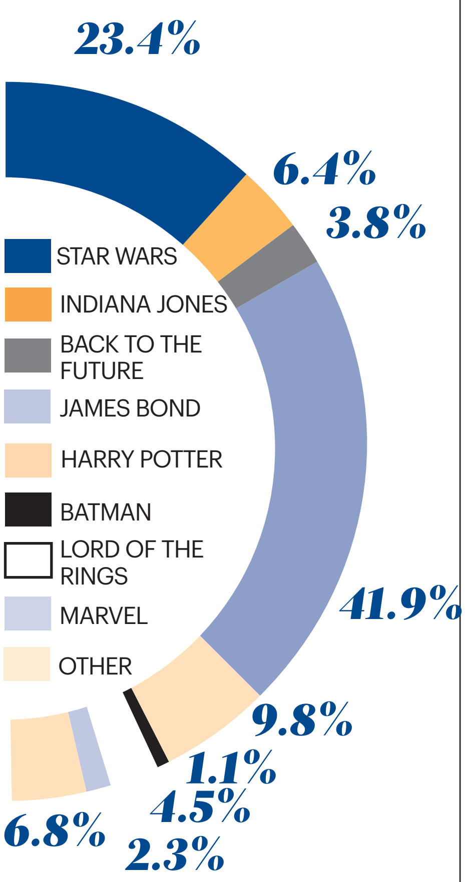
▸ BUSINESS PULSE SURVEY

WE ASKED

WHAT'S THE BEST MOVIE FRANCHISE OF ALL TIME?



THIS WEEK'S QUESTION

WHAT IS THE OUTLOOK FOR YOUR COMPANY/ ORGANIZATION IN 2016?

POINT OF VIEW

I don't think that correlation means what you think it means

It's 2016, the third year of North Carolina's refusal to expand Medicaid under the Affordable Care Act. The federal government would have covered 100 percent of the additional coverage costs through 2016, and no less than 90 percent thereafter. But state officials decided that it was a bad idea to have someone else pay our bills.

A recent study by the conservative Civitas Institute agrees. The Civitas study looks at data on federal transfers and grants to state and local governments, and it concludes that such transfers actually cause state revenues (net of federal transfers) to rise.

The Civitas report claims that in other words, "free money" from the feds isn't free: for each additional dollar of federal funding, a state's "own-source" revenues rise by 82 cents.

Did North Carolina really dodge a fiscal bullet by rejecting Medicaid expansion? This report doesn't make the case.

The Civitas study examines data for 49 states over a few decades. After correcting for various factors, it finds a simple correlation. In years and in states in which federal-to-state transfers are higher than average, state revenues are higher as well.

But there are problems with the analysis. For example, as the report's graphs illustrate, both federal transfers and state revenues are pro-cyclical. That means they both rise during expansions and fall during recessions. Therefore, some of the observed correlation is simply a spurious outgrowth of the effects of the business cycle.

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In addition, the report combines federal transfers of all types. It makes no distinction between temporary and ongoing funding, even though the basic question is what a state does after federal funding ends. It also makes no distinction among the uses of federal funding. The data include transfers for highways and poverty programs as well as health care.

Finally, the report makes no distinction between spending imposed by unfunded federal mandates and spending that the state desires. It's not surprising that the latter would contribute to the correlation.

Consider an example from the Civitas report. A light-rail project costs $200 million to build and $5 million per year to operate, and the local government will move forward only with a $100 million federal grant. The local government must come up with the other $100 million plus all the operating costs, and perhaps it will have to raise taxes. But if the project is beneficial and is approved by elected officials, it's hard to see that as a problem.

The purpose of the Civitas report is to claim that its broad correlation applies specifically to Medicaid expansion. Most people know that correlation doesn't always imply causation. A causal pattern could be established by going into the details of Medicaid expansion, but the report doesn't do that.

Not surprisingly, there's no mention of research showing that Medicaid expansion generates savings as well as costs. Expansion reduces the state's responsibility to reimburse hospitals for treating uninsured patients who can't pay their bills.

Some studies, such as one by the Rand Corp., have shown that these savings more than offset the increase in program expenses. Medicaid expansion could lower net program costs. And if it doesn't, states can always terminate the expansion. It's hard to see how a state could be forced to raise taxes.

So yes, the Civitas report identifies a very general correlation. But to paraphrase Inigo Montoya from the movie "The Princess Bride," when that correlation is applied to Medicaid expansion, it doesn't mean what Civitas thinks it means.

▸ GAINERS & LOSERS

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N.C.'S POPULATION

The Tar Heel state has reached another milestone according to estimates from the U.S. Census Bureau: 10 million residents. That makes N.C. the ninth state to reach that mark.

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BRICK AND MORTAR

If you want to understand the challenges facing retail stores — particularly locally owned stores — these days, consider this: Amazon Prime, which offers unlimited 2-day shipping as part of its annual $99 fee, sold another 3 million memberships in the two-week around Christmas.

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TURNOVER

A survey by CareerBuilders finds 21 percent of employees plan to look for greener pastures in 2016, up from 16 percent at the end of 2014. Younger employees are more inclined to be looking for a new gig, with three in 10 employees age 18 to 34 saying they expect to have a new job by the end of 2016, compared with 23 percent last year.

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OIL

As 2016 closed, low oil prices continued to play havoc with economies from Texas to Saudi Arabia. But isn't filling up your car with gas a bit less onerous?