HEALTH INSURANCE AND THE ECONOMICS OF THE INDIVIDUAL MANDATE

By Richard E. Smith, Ph.D.

There have been more than 37 lawsuits and challenges to various provisions of the Patient Protection and Affordable Care Act (PPACA) since it was signed by President Obama in March 2010. Most of the cases have focused, though, on a particular provision of the Act regarding “maintenance of minimum essential coverage”—otherwise known as the individual mandate. The mandate basically requires that every American, starting in 2014, have health insurance or pay a penalty. Four of the court cases have come from six states in the U.S. Courts of Appeals, and one in the Eleventh Circuit (which includes Florida), the mandate was struck down as unconstitutional. Consequently, the United States Justice Department requested that the United States Supreme Court review this decision, which it has agreed to do.

The essential question that is before the Court is whether the Commerce Clause of the United States Constitution (and prior interpretations of that clause by the Supreme Court), which grants Congress the power to regulate the economy, applies to or regulated the activity of an individual, and therefore the power to regulate how an individual would buy a good or service, could extend to the decision of that individual to whether to buy the good in the first place. Whether or not the mandate is considered constitutional in this context, the issue of the individual mandate is not new. Every state in the country has some minimum requirement of individuals to carry automobile insurance, particularly liability insurance to cover the medical and property expenses of those involved in an accident with the insured driver.

Closer to the issue at hand, Massachusetts enacted a similar reform of health insurance in the state in 2006, which included mandates on citizens to have insurance. Indeed, the Affordable Care Act (ACA) was largely, influenced by the Massachusetts reform plan. In addition, back in 1983, when President Reagan proposed major reform of the healthcare system, which included an individual mandate, seven Senate Republicans, led by John Chafee of Rhode Island, proposed an alternative plan—which included an individual mandate. Thus, despite the controversy surrounding ACA’s individual mandate, these mandates do carry insurance can make sense, and may even be necessary. Moreover, given the economic basis of the question that now resides within the Supreme Court, it would seem prudent to use economic principles to aid in understanding the logic that underlies this reasoning.

To begin, there is approximately $3.5 trillion in health care services provided annually, to individuals without health insurance, individuals who are generally, by law, not required to pay for these services. This cost is not, however, entirely absorbed by the providers of these services (i.e., physicians and hospitals), but is typically transferred, or shifted, from the service provider to patients with insurance, who ultimately pay for this uncompensated care in the form of higher insurance premiums.

In addition, health-related expenses are the leading cause of personal bankruptcy, in the United States, a cost that is also partly borne by others in society. For uninsured, there are exemptions of negative externalities. Technically speaking, a negative externality, occur whenever a party who is not directly involved in an economic transaction bears, nonetheless, some portion of the cost of the transaction. The negative externalities associated with being uninsured are considerable, and indeed, economic. In addition to the external costs borne by society, the decision to purchase health insurance.

Inside this Issue of The Tampa Bay Economy:

1 Health Insurance and the Economics of the Individual Mandate by Richard E. Smith, Ph.D. Guest Contributor

2 Evolution of the Global Economic Order: The Impact of BRICs, HIICs, and PIIGS by F. Frank Ghannadian, Ph.D. Guest Author

3 The Tampa Bay Economy by Dana Professor of Economics Dana Professor of Economics

4 The Tampa Bay Economy by Lindsey E. Smith

...continued on page 3...
The world economy and the international financial systems have been profoundly affected by changes in emerging economies that impact world economic growth. There has been a shift in the balance of economic and financial power from the “old-industrialized” economies to the “newly emerging” economies. For the last half-century, the drivers of world economic growth have been the United States, Europe, Japan and China. However, for the last 10 years, and into the foreseeable future, the newly emerging economies have and will play a leading role in the growth of the world economy. This change in connectivity and economic interdependence has resulted in a new world order, which has important implications for the future of the global economy. Three groupings of countries comprise the new world order: BRICs, HIICs, and PIIGs.

The BRIC countries—Brazil, Russia, India, and China—represent rapidly growing emerging economies, which will soon have a dominant role in the determination of world economic growth. For example, China’s GDP is projected to surpass United States’ GDP within the next 10 years, assuming China continues to grow at an average annual rate of 9 percent and the growth rate in the United States average three percent over the same period. Thus, China will be the world’s largest economy within the next decade or so.

This is not to say that the average Chinese citizen will have a comparable standard of living to the average citizen living in the United States. Standard Chartered Global Research (2010) reports that real GDP per capita in 2010 was U.S.$4,166 in China and U.S.$45,561 in the United States. By 2030 it is expected to rise to U.S.$5,671 in China and U.S.$68,873 in the United States (see table 2.1). Although the gap that exists today is living standard would remain wide. China will have experienced a 500 percent increase in real GDP per capita compared to a 250 percent increase in real GDP per capita in the United States.

The rapidly rising standard of living in China (and in the other BRIC countries) gives rise to a very large and growing class of middle-income consumers. These new consumers comprise the world’s most influential consumers with new foreign investment opportunities. This will in turn stimulate imports and growth in the world economy. It is projected that emerging economies will import more goods than developed economies in 2012. China is in essence to overtake the United States as the world’s largest importer by 2014. According to Standard Chartered Bank’s The Super Cycle Report (2010), the European Union, United States, and Japan created 60 percent of global GDP in 2010 (Figure 2.1). China and India combined contributed 11 percent of global GDP in 2010. The report’s projections for 2030 show a very different world to 2010. Today’s emerging economies will produce 25 percent of global GDP, with China producing 24 percent and India 10 percent (Figure 2.3). However, global GDP produced by the European Union, United States, and Japan will decrease to 25 percent in 2030. Clearly there will be a “New Normal” in the terms of the drivers of world economic growth in the coming years. By 2050, the BRICs will replace the old-industrialized economies as the improvers by driving world economic growth. As a result, BRICs will significantly impact aggregate demand in the European Union, United States and Japan by generating new jobs and exports to these regions. Old-industrialized economies will become increasingly less important to the well-being of the rest of the world, both economically and politically. World political and economic power will shift as the old-industrialized economies seek to raise new taxes with BRICs and because BRICs will assume more political clout in world institutions such as the World Trade Organization, International Monetary Fund and the United Nations.

The European Union, United States and Japan have struggled over the last decade with increasingly large budget deficits and national debts, earning them the new moniker of “highly indebted industrialized countries” (HIICs). According to the IMF Global Financial Stability Report (2011) national debts to GDP ratios for 2011 were expected to be in 80 percent for the European Union, 150 percent for the United States, and 230 percent for Japan. These high debt levels are because of easy fiscal policies during the last decade, which were adopted to stimulate growth between 2001 and 2006, to combat the economic effects of the great recession between 2007 and 2009, and to battle the effects of slow growth and high unemployment since 2005. The HIICs, however, are in a dilemma in implementing policy strategies that are inconsistent with attaining the goals of high employment and lower budget deficits. In addition, fiscal authorities in the HIICs will be buffeted by a demographic burden on the number of people in the labor force is expected to rise sharply over the coming decade. The political pressure on the HIICs to reduce budget deficits, both in the near term and in the long term, will result in stringent fiscal policies, which will stifle growth rates. Nevertheless, they can follow the example of many countries that are now reading debt reduction as a key goal, requiring either a decrease in spending or an increase in taxes, either of which would exacerbate a disappointing economic recovery in these countries.

Clearly the goal of budget deficit reduction is proving to be very difficult. Although in the United States the budget deficit and national debt continues to grow.
Health Insurance and the Economics of the Individual Mandate
continued from page 1
If we adapt assumptions under this system, the employee
price for these plans rose by over $300
slightly after introducing the
recession, the market for the
higher costs and premiums. Economists
continue to focus on the process of adverse selection, which
remains a key issue for policy-makers.
In the individual mandate, adverse selection
will be buffeted by a demographic
change in gross sales has increased by 0.65
peaks. Clearly, this is a signal that the housing
market has responded.

Evolution of the Global Economic Order: The Impact of BRICS, HIICS, and PIIGS
continued from page 2
States because of higher food prices. A
comparison of the two time frames does not appear
in the cards.

The economic situation in Greece and
Italy and the spread of this contagion to the
HEICs is further proof of the interdependence
between the world’s major economies and the
PPI performance in the eurozone gives
the currency partners, Italy, Greece, Ireland, and
Spain. The PPIs will most likely have to
deficit on their sovereign debt because of
extremely large current budget deficits and a huge national debt.

Italy has the third largest bond market in
the world and these bonds are entirely held
to by banks and other financial intermediaries
in Europe, the United States and Asia. A
default by Italy or its debt would have serious
worldwide repercussions. Furthermore, although the European Union has
financial resources to provide a bailout for Greece,
their resources are insufficient to provide
assistance to a country by the size of Italy. The
PPIs are contributing to economic problems experienced in the
eurozone. The situation in world economic growth is now
likely to affect growth prospects in the
HEICs. In conclusion, the global economic order
is evolving its impact on the global economic
landscape requires a new approach to


In conclusion, the global economic order
is evolving its impact on the global economic
landscape requires a new approach to


write to Professor Truscott at m.truscott@ut.edu.
THE IMPACT OF BRICS, HIICs, AND PIIGs

...gives rise to U.S.$21,420 in China and U.S.$66,073 in the United States. By 2030 it is expected to rise to 6 percent over the same period. Thus, the annual growth rate of 10 percent and the economic growth rates. For example, China's annual growth rate of 10 percent (Figure 2.2). However, global GDP has resulted in a new world order, which has been a shift in the balance of economic and political power. The rapidly rising standard of living in China, with a very large and growing class of middle-...
The Tampa Bay Economy

continued from page 5

Figure 3.7 reports the homeowner vacancy rate in Tampa Bay. A housing unit is considered vacant if no one is living in it at the time of the survey taken by the Bureau of the Census. A vacant unit may be one which is entirely occupied by persons who have a usual residence elsewhere or a unit not yet occupied. Units exposed to the elements and units entirely used for nonresidential purposes are excluded from the calculation. The Tampa Bay homeowner vacancy rate peaked at 5.1 percent in 2007, just after the housing bubble popped. However, the homeowner vacancy rate remains elevated. For the first 10 months of 2011, the rate in Tampa Bay equals 4.1 percent.

Figure 3.8 reports the rental vacancy rate in Tampa Bay, which measures the proportion of the rental inventory that is vacant and for rent. Interestingly, the rental vacancy rate spiked from 7.8 in 2006 (Tampa Bay equals 4.1 percent. The Tampa Bay homeowner vacancy rate peaked at 5.1 percent in 2007, just after the housing bubble popped. However, the homeowner vacancy rate remains elevated. For the first 10 months of 2011, the rate in Tampa Bay equals 4.1 percent.

Figure 3.9 reports the rental vacancy rate for Tampa Bay, which measures the proportion of the rental inventory that is vacant and for rent. Interestingly, the rental vacancy rate spiked from 7.8 in 2006 (Tampa Bay equals 4.1 percent. The Tampa Bay homeowner vacancy rate peaked at 5.1 percent in 2007, just after the housing bubble popped. However, the homeowner vacancy rate remains elevated. For the first 10 months of 2011, the rate in Tampa Bay equals 4.1 percent.

Figure 3.10 reports the rental vacancy rate for Tampa Bay, which measures the proportion of the rental inventory that is vacant and for rent. Interestingly, the rental vacancy rate spiked from 7.8 in 2006 (Tampa Bay equals 4.1 percent. The Tampa Bay homeowner vacancy rate peaked at 5.1 percent in 2007, just after the housing bubble popped. However, the homeowner vacancy rate remains elevated. For the first 10 months of 2011, the rate in Tampa Bay equals 4.1 percent.

In summary, much data continue to point in a positive direction. Gross sales in Tampa Bay are back to pre-recession levels. And the area is adding redundant pairwise jobs—the year-over-year change in nonfarm payroll jobs has been positive for 13 months. Despite these positive initiatives, a housing market and labor market remain weak. We likely take years for Tampa Bay to recover from the damage left behind by the great recession.

Write to Professor Fersch at ferschf@ut.edu.
Health insurance and the Economics of the Individual Mandate

continued from page 3

adverse selection because most individuals—
even the healthy—would consider such an insurance policy a necessity.

While HSAs have been available for over a decade, the market for these plans has become increasingly popular in the past few years. The presence of workers with employee-based insurance who enrolled in these kinds of plans increased from 8 to 17 percent between 2008 and 2011. A likely reason for such a dramatic swing is the increasing cost of traditional plans, although this, unfortunately, seems to be revealing a serious limitation of HSAs. Recent studies indicate a tendency for those kinds of plans to lead to financial hardship, particularly for individuals and families with chronic conditions who, even with the availability of health savings accounts, may not be able to save enough to cover their high expenses. In fact, this is another example of adverse selection. When HSAs first became available, they immediately attracted the relatively healthy, which increased the cost of traditional plans. As the process became evident over time, even the less healthy have been attracted (or forced; enrol in HSA-style plans, despite the fact these plans may offer insufficient coverage.

Thus, while there are alternatives to the individual mandate, they come with their own drawbacks. The main drawback of any alternatives that would not compel individuals to carry health insurance, HSAs included, is adverse selection. There is, therefore, an economic rationale for the individual mandate.

The question is whether that rationale overrides another important idea, particularly in the United States, which is economic freedom. As such, the question of the individual mandate is worthy of a Supreme Court decision.

Write to Professor Smith at

This newsletter is generously underwritten by:

Thomas Financial

Health insurance and the Economics of the Individual Mandate continued on page 3

adverse selection because most individuals—even the healthy—would consider such an insurance policy a necessity.

While HSAs have been available for over a decade, the market for these plans has become increasingly popular in the past few years. The presence of workers with employee-based insurance who enrolled in these kinds of plans increased from 8 to 17 percent between 2008 and 2011. A likely reason for such a dramatic swing is the increasing cost of traditional plans, although this, unfortunately, seems to be revealing a serious limitation of HSAs. Recent studies indicate a tendency for those kinds of plans to lead to financial hardship, particularly for individuals and families with chronic conditions who, even with the availability of health savings accounts, may not be able to save enough to cover their high expenses. In fact, this is another example of adverse selection. When HSAs first became available, they immediately attracted the relatively healthy, which increased the cost of traditional plans. As the process became evident over time, even the less healthy have been attracted (or forced; enrol in HSA-style plans, despite the fact these plans may offer insufficient coverage.

Thus, while there are alternatives to the individual mandate, they come with their own drawbacks. The main drawback of any alternatives that would not compel individuals to carry health insurance, HSAs included, is adverse selection. There is, therefore, an economic rationale for the individual mandate.

The question is whether that rationale overrides another important idea, particularly in the United States, which is economic freedom. As such, the question of the individual mandate is worthy of a Supreme Court decision.

Write to Professor Smith at

This newsletter is generously underwritten by:

Thomas Financial

Health insurance and the Economics of the Individual Mandate continued on page 3

adverse selection because most individuals—even the healthy—would consider such an insurance policy a necessity.

While HSAs have been available for over a decade, the market for these plans has become increasingly popular in the past few years. The presence of workers with employee-based insurance who enrolled in these kinds of plans increased from 8 to 17 percent between 2008 and 2011. A likely reason for such a dramatic swing is the increasing cost of traditional plans, although this, unfortunately, seems to be revealing a serious limitation of HSAs. Recent studies indicate a tendency for those kinds of plans to lead to financial hardship, particularly for individuals and families with chronic conditions who, even with the availability of health savings accounts, may not be able to save enough to cover their high expenses. In fact, this is another example of adverse selection. When HSAs first became available, they immediately attracted the relatively healthy, which increased the cost of traditional plans. As the process became evident over time, even the less healthy have been attracted (or forced; enrol in HSA-style plans, despite the fact these plans may offer insufficient coverage.

Thus, while there are alternatives to the individual mandate, they come with their own drawbacks. The main drawback of any alternatives that would not compel individuals to carry health insurance, HSAs included, is adverse selection. There is, therefore, an economic rationale for the individual mandate.

The question is whether that rationale overrides another important idea, particularly in the United States, which is economic freedom. As such, the question of the individual mandate is worthy of a Supreme Court decision.

Write to Professor Smith at

This newsletter is generously underwritten by:

Thomas Financial

Health insurance and the Economics of the Individual Mandate continued on page 3

adverse selection because most individuals—even the healthy—would consider such an insurance policy a necessity.

While HSAs have been available for over a decade, the market for these plans has become increasingly popular in the past few years. The presence of workers with employee-based insurance who enrolled in these kinds of plans increased from 8 to 17 percent between 2008 and 2011. A likely reason for such a dramatic swing is the increasing cost of traditional plans, although this, unfortunately, seems to be revealing a serious limitation of HSAs. Recent studies indicate a tendency for those kinds of plans to lead to financial hardship, particularly for individuals and families with chronic conditions who, even with the availability of health savings accounts, may not be able to save enough to cover their high expenses. In fact, this is another example of adverse selection. When HSAs first became available, they immediately attracted the relatively healthy, which increased the cost of traditional plans. As the process became evident over time, even the less healthy have been attracted (or forced; enrol in HSA-style plans, despite the fact these plans may offer insufficient coverage.

Thus, while there are alternatives to the individual mandate, they come with their own drawbacks. The main drawback of any alternatives that would not compel individuals to carry health insurance, HSAs included, is adverse selection. There is, therefore, an economic rationale for the individual mandate.

The question is whether that rationale overrides another important idea, particularly in the United States, which is economic freedom. As such, the question of the individual mandate is worthy of a Supreme Court decision.

Write to Professor Smith at

This newsletter is generously underwritten by:

Thomas Financial

Health insurance and the Economics of the Individual Mandate continued on page 3

adverse selection because most individuals—even the healthy—would consider such an insurance policy a necessity.

While HSAs have been available for over a decade, the market for these plans has become increasingly popular in the past few years. The presence of workers with employee-based insurance who enrolled in these kinds of plans increased from 8 to 17 percent between 2008 and 2011. A likely reason for such a dramatic swing is the increasing cost of traditional plans, although this, unfortunately, seems to be revealing a serious limitation of HSAs. Recent studies indicate a tendency for those kinds of plans to lead to financial hardship, particularly for individuals and families with chronic conditions who, even with the availability of health savings accounts, may not be able to save enough to cover their high expenses. In fact, this is another example of adverse selection. When HSAs first became available, they immediately attracted the relatively healthy, which increased the cost of traditional plans. As the process became evident over time, even the less healthy have been attracted (or forced; enrol in HSA-style plans, despite the fact these plans may offer insufficient coverage.

Thus, while there are alternatives to the individual mandate, they come with their own drawbacks. The main drawback of any alternatives that would not compel individuals to carry health insurance, HSAs included, is adverse selection. There is, therefore, an economic rationale for the individual mandate.

The question is whether that rationale overrides another important idea, particularly in the United States, which is economic freedom. As such, the question of the individual mandate is worthy of a Supreme Court decision.

Write to Professor Smith at

This newsletter is generously underwritten by:

Thomas Financial

Health insurance and the Economics of the Individual Mandate continued on page 3

adverse selection because most individuals—even the healthy—would consider such an insurance policy a necessity.

While HSAs have been available for over a decade, the market for these plans has become increasingly popular in the past few years. The presence of workers with employee-based insurance who enrolled in these kinds of plans increased from 8 to 17 percent between 2008 and 2011. A likely reason for such a dramatic swing is the increasing cost of traditional plans, although this, unfortunately, seems to be revealing a serious limitation of HSAs. Recent studies indicate a tendency for those kinds of plans to lead to financial hardship, particularly for individuals and families with chronic conditions who, even with the availability of health savings accounts, may not be able to save enough to cover their high expenses. In fact, this is another example of adverse selection. When HSAs first became available, they immediately attracted the relatively healthy, which increased the cost of traditional plans. As the process became evident over time, even the less healthy have been attracted (or forced; enrol in HSA-style plans, despite the fact these plans may offer insufficient coverage.

Thus, while there are alternatives to the individual mandate, they come with their own drawbacks. The main drawback of any alternatives that would not compel individuals to carry health insurance, HSAs included, is adverse selection. There is, therefore, an economic rationale for the individual mandate.

The question is whether that rationale overrides another important idea, particularly in the United States, which is economic freedom. As such, the question of the individual mandate is worthy of a Supreme Court decision.

Write to Professor Smith at

This newsletter is generously underwritten by:

Thomas Financial

Health insurance and the Economics of the Individual Mandate continued on page 3

adverse selection because most individuals—even the healthy—would consider such an insurance policy a necessity.

While HSAs have been available for over a decade, the market for these plans has become increasingly popular in the past few years. The presence of workers with employee-based insurance who enrolled in these kinds of plans increased from 8 to 17 percent between 2008 and 2011. A likely reason for such a dramatic swing is the increasing cost of traditional plans, although this, unfortunately, seems to be revealing a serious limitation of HSAs. Recent studies indicate a tendency for those kinds of plans to lead to financial hardship, particularly for individuals and families with chronic conditions who, even with the availability of health savings accounts, may not be able to save enough to cover their high expenses. In fact, this is another example of adverse selection. When HSAs first became available, they immediately attracted the relatively healthy, which increased the cost of traditional plans. As the process became evident over time, even the less healthy have been attracted (or forced; enrol in HSA-style plans, despite the fact these plans may offer insufficient coverage.

Thus, while there are alternatives to the individual mandate, they come with their own drawbacks. The main drawback of any alternatives that would not compel individuals to carry health insurance, HSAs included, is adverse selection. There is, therefore, an economic rationale for the individual mandate.

The question is whether that rationale overrides another important idea, particularly in the United States, which is economic freedom. As such, the question of the individual mandate is worthy of a Supreme Court decision.

Write to Professor Smith at