

ALUMNI NEWS

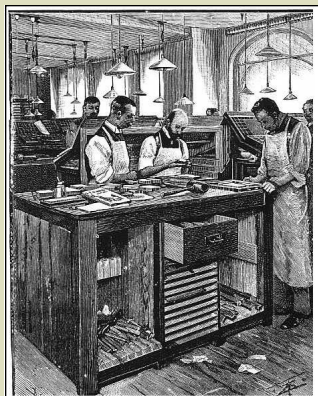
DEPARTMENT OF ECONOMICS

INDIANA UNIVERSITY OF PENNSYLVANIA ☞ INDIANA, PA 15705-1087

Issue 46, Fall 2009

HOW SHOULD HEALTH CARE BE REFORMED?

BY DR. SARAH JACKSON



To summarize the previous article (Alumni News, Issue 45, Spring 2009), the problems that were discussed were poor information regarding price and quality, distorted incentives that lead consumers to minimize price considerations and over-consume health care, the public good aspect of medical research and the positive externalities associated with some medical treatments, limits on competition, and the fact that insurance is tied to employment.

To these, I would like to add distorted incentives that are created for health care providers by the current reimbursement scheme. Since doctors and hospitals are reimbursed for individual services, they have little incentive to minimize quantity. For example, if a patient checks into a hospital for an appendectomy and contracts a minor infection which requires he stay an extra night and receive additional treatment, the hospital does not suffer because it simply charges the insurance company for the extra services. If providers received payment for overall goals, rather than for individual services, then they would have an incentive to achieve the goal while minimizing costs.

What should be done to fix these problems? To answer this, it is important to note that all the problems except the public good and positive externalities issues stem from the involvement of health insur-

ance. Perhaps the most straightforward fix would be to outlaw health insurance. Without health insurance, individuals would carefully consider the price and quality of potential care and avoid providers who don't provide high quality services for low prices. Individuals could "self insure" by setting money aside specifically for medical care. The government could encourage this with tax incentives or simply require certain levels of savings. The public good aspect of medical research and the treatments associated with positive externalities could be subsidized to encourage those activities.

The "no insurance" plan would probably be very attractive to many people if they knew how much their health insurance actually costs. The average cost of a family health insurance policy is currently just over \$13,300. This means that, on average, a family is spending more than \$13,000 per year on health insurance plus whatever it spends on deductibles, co-payments, and services that are not covered. This plan would also reduce health care expenditures by eliminating all the costs associated with health insurance administration and billing.

A few concerns with this plan will probably arise. What about people who have significant medical problems before they have the chance to establish a sufficient

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FACULTY VIEW

HEALTH CARE REFORM

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balance in their health savings plan? The government could allow for deficit spending from health savings accounts. What about necessary treatments that cost hundreds of thousands of dollars? The government could maintain a fund for catastrophic expenses and dispense the funds via the federal tax code, or allow for insurance which only kicks in after a family pays more than a certain amount in medical costs in a year. Key to maintaining price incentives is to have co-pays be a percentage of cost so patients would still look for the lowest cost, highest quality treatment.

Given political realities, however, I doubt such a plan would ever be approved. Instead, perhaps we should take advantage of the presence of health insurance companies to allow for very detailed manipulation of incentives.

Decouple Insurance from Employment

The first change I propose is the largest, most necessary, and perhaps the most complex to enact. Currently, health insurance is tied to employment primarily as a result of tax policy. Since employer-provided health insurance is not taxed, providing a health insurance policy worth \$13,000 costs the employer less than providing \$13,000 in wages and benefits the employee more than receiving \$13,000 in wages. Just as we used tax policy to tie insurance to employment, we can use it to untie it. We should simultaneously begin taxing employer-provided health insurance and begin offering a tax credit for individually-purchased health insurance. The tax credit should be set so that a middle-income earner who currently has an averagely generous employer-provided insurance plan could switch to a similar individually-purchased plan and end up with the same out-of-pocket expense (net of changes in wages and taxes). This would have the result that people with "Cadillac plans" will end up paying more and people who currently pay for their own insurance will end up paying less. In addition to leveling the playing field between those who currently are likely to find jobs with insurance and those who are not, it would also increase our labor force mobility, decrease the uncertainty of insurance (since it is no longer going to disappear as soon as you lose your job or get too sick to work), and make the cost of insurance transparent. Transparency in the cost of insurance will put additional pressure on providers to keep prices low. Another significant benefit would be that, by removing all the complexities associated with providing insurance and conforming to legal requirements regarding insurance, we would make it easier for businesses to hire, thus making it more likely that businesses will hire.

Politically Attractive Features

Offering tax credits for individually-purchased insurance plans offers the government a grand opportunity. By offering these tax credits only for "approved" plans, the government provides an incentive for insurance companies to enact favored policies without the political resistance or cost of oversight that comes with regulation. Insurance companies could still offer plans that do not conform to the government requirements for approved plans, but they would want to also offer plans that do conform in order to have access to the millions of consumers who will be shopping for insurance plans which would qualify them for the federal tax credit.

Approved plans could be required to conform to those conditions for which the government is currently pushing.

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Dr. Sarah Jackson, Assistant Professor

FACULTY NOTES

Dr. James J. Jozefowicz was elected President–Designate and **Dr. Stephanie M. Brewer Jozefowicz** was elected Secretary of the Pennsylvania Economic Association at the Annual Conference held at the West Chester University of Pennsylvania in June 2009.

Dr. Sarah E. Jackson presented “Assessing the Impact of Family Aid on College Persistence” at the 2009 Pennsylvania Economic Association Meeting held at the West Chester University of Pennsylvania in June 2009.

Dr. Todd B. Potts spent four weeks this past summer participating in the Visiting Scholar Program at Kyungpook National University (KNU) in Daegu, South Korea. (See story on page 5.)



Dr. Jack D. Julian was granted tenure effective with the Fall 2009 semester.

Dr. James J. Jozefowicz was promoted to Professor effective with the Fall 2009 semester.

Dr. Yaya Sissoko presented a research paper entitled “Current Account Sustainability of ECOWAS Countries,” co-authored with Niloufer Sohrabji, at the 68th International Atlantic Economic Society (IAES) Annual Conference held in Boston, MA, October 8 – 11, 2009.

Dr. Stephanie M. Brewer Jozefowicz and **Dr. James J. Jozefowicz**, Co-Directors of the IUP Center for Economic Education, attended the Council for Economic Education Annual Conference in Washington, DC, in October 2009. Stephanie serves as secretary of the Executive Committee of the National Association of Economic Educators (NAEE). Jim serves as Co-Chair of the NAEE Professional Development Committee.

Dr. Yaya Sissoko presented a research paper entitled “The Sources of Real Exchange Rate Fluctuations in Sub-Saharan Africa” at the 32nd Annual Meeting of the Northeastern Association of Business, Economics and Technology (NABET) held in State College, PA, October 29 & 30, 2009.

“West Africa’s Evolving Competitive Exposure in U.S. Import Markets,” co-authored by **Dr. David B. Yerger** and **Dr. Yaya Sissoko**, was accepted for publication in the *International Advances in Economic Research*.

Dr. Jack D. Julian presented “Using Children’s Literature to Teach Economics for Early Learners” at the 2009 Annual Conference of the National Council for the Social Studies held in Atlanta, GA, November 13–15. (Co-authored with Ann Marie Rushanan, an elementary school teacher with Akron (Ohio) Public Schools.)

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ALUMNI INTERVIEW

STEVE MIHALACKI

In September, Steve Mihalacki ('01) returned to IUP as a guest speaker for the Economics Department Alumni Speaker Series. Mihalacki graduated from the Robert E. Cook Honors College with a degree in economics. The following is an interview of Mihalacki by Antonio Ayllon, current president of the Economics Club at IUP. The interview covers some of the same material Mihalacki shared during his discussion with the Economics Club in October.



Antonio Ayllon: What have you been up to since you've left IUP?

Steve Mihalacki: After graduating IUP in 2001, I was commissioned as an infantry officer in the U.S. Army. I spent 4 years on active duty stationed in Schweinfurt, Germany, serving in both the Infantry and Finance Corps. In 2005, after completing tours in both Kosovo and Iraq, I decided to go back to school for my MBA at Pitt (Katz Graduate School of Business). During grad school, I was an accounting intern at U.S. Steel Corp in Pittsburgh and actually worked there full-time as a management associate during my last few semesters at grad school. After finishing my MBA, I was hired by FedEx as a Strategic Marketing Analyst (where I currently work now). My job is to monitor shipping trends among various US markets and work with several sales teams to try to create unique and customized marketing proposals to help win new business and possibly lure business away from our competitors. Last August (2008), I was recalled back to active duty, and went on my second tour to Iraq as an infantry operations officer. I just finished this latest tour in September, and am heading back to FedEx.

Ayllon: In what ways, if any, have your studies in economics helped you in your current vocation?

Mihalacki: I can remember Dr. Jozefowicz telling me the other night that students who major in economics sometimes feel that they are destined to stay in that type of career path forever. He also told me that most economics majors typically go on to do something outside of the traditional realm of economics. I am proof of that. Since graduating, my career path has focused on the military, accounting, and marketing – not too much in pure economics. But studying economics really made me feel well-balanced and well-prepared for the working world. Granted, I do not typically use all of the knowledge I learned during my undergraduate studies on a daily basis, but I tend to always draw on some of the more basic economic principles, such as trying to satisfy unlimited wants with limited resources, supply and demand, etc. Having an awareness of this really helped me when I was a young lieutenant in the Army. The bottom line is that having an understanding of economics means that you have an understanding of the world around you. I am hard-pressed to find

another major that encompasses so many other disciplines such as business, politics, philosophy, sports, etc.

Ayllon: In what ways, if any, have your studies in economics helped you in your life choices since IUP?

Mihalacki: I think my life choices, of which choosing to major in economics was one of the big ones, are made usually after a good deal of heavy analysis and war-gaming. It drives my wife



Steve Mihalacki (center) with students from the Economics Club.

nuts, but I need facts! I'm not sure if that type of decision-making was inherent or as a result of majoring in economics, but I certainly credit economics with giving me some good tools for decision-making.

Ayllon: What skills did you gain, by studying economics, that have proved and you consider valuable in your life/job?

Mihalacki: Same as in the previous question really. I often call economics the "ultimate major" because it forces students to be keyed into the rest of the world (i.e. business, politics, etc). I think majoring in economics makes one extremely well-rounded and well-adapted for any career.

Ayllon: What particular courses would you recommend an econ

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FACULTY SPOTLIGHT

BY DR. TODD POTTS

This summer I was fortunate enough to be selected to participate in a Visiting Scholar Program at Kyungpook National University (KNU) in Daegu, South Korea. KNU is one of ten Flagship Korean National Universities and its undergraduate enrollment of over 20,000 makes it one of the largest and most recognized universities in South Korea. Daegu is located in the south-central part of the Korean peninsula and is the fourth largest city in South Korea, with a population of over 2.5 million people. The program lasted for four weeks from mid-June to mid-July and I was joined by roughly a dozen other scholars from various fields who teach in countries from all over the world (Russia, Finland, Hungary, and Poland, to name a few).



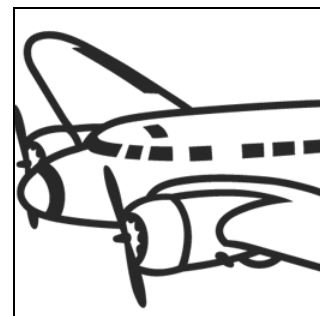
Todd Potts at Haeinsa, an important Buddhist temple founded in the 9th century.

AMERICAN PROFESSOR IN SOUTH KOREA

The purpose of the program is to enhance learning by exposing KNU students to professors from around the globe with different perspectives and to explore and promote potential research partnerships between the visiting scholars and KNU faculty. The program has a competitive selection process and I am certainly honored to have been chosen to participate.

During my four weeks at KNU I taught microeconomics to a class of approximately 25 undergraduate students who were among the most diligent, respectful, and hard-working students I have ever had the pleasure of teaching. Also, my host Department of Economics could not have been more gracious and the faculty went out of their way to make my time at work as comfortable and enjoyable as possible. I would certainly welcome the opportunity to work with them again.

The Office of International Affairs at KNU had multiple organized trips planned for the visiting scholars that took us to some of the most beautiful places I have ever been and taught us a great deal about the rich history and wonderful culture of South Korea. Our excursions included: a trip to Hahoe Folk Village, which was founded in the 16th century and has preserved many of its original structures and customs; a professional baseball game (complete with cheerleaders) where we witnessed the Samsung Lions defeat the KIA Tigers; a day in the historical city of Gyeongju, which was the capital of the Silla Dynasty, which reigned for 992 years; visits to Bulguksa and Haeinsa, two of the foremost Buddhist temples in South Korea; as well as a weekend trip to the capital city of Seoul and north to the infamous and misnamed Demilitarized Zone, which marks the border between North and South Korea. To say I learned a great deal would be a gross understatement.



Another highlight of my time in South Korea was the food. I loved it. Korean dishes are often quite spicy and the main dish is typically accompanied by numerous side dishes for the entire table to share, making meal time a festive event which I looked forward to throughout the day. My favorite dishes were bibimbap (mixed rice and vegetables) and dak galbi (a spicy chicken stir-fry dish) and of course

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AMERICAN PROFESSOR IN SOUTH KOREA, CONTINUED

(Continued from page 5)

the ubiquitous side-dish of spicy fermented cabbage: kimchi. Ordering in restaurants in Daegu could be a challenge due to the language barrier, but luckily KNU gave us each an assistant to help with such matters and mine (the great Hyeonjo Kim) was a life saver. Finally, if you find yourself dining in South Korea for the first time, be prepared to have your chopstick skills put to the test: South Koreans use metal chopsticks, which are appreciably more difficult to use than the wooden ones!

In closing, the Visiting Scholar Program at KNU was simply outstanding. My host department was very accommodating, my students were a joy to teach, and South Korea is a beautiful country with a storied past whose people are some of the warmest and friendliest I have met. I am thankful that IUP's Office of International Affairs made our department aware of such an outstanding program, and I hope that either one of my colleagues or myself have the chance to participate again in the future. ♦



Dr. Potts enjoys a traditional Korean dinner with members from the KNU department of economics and two other visiting scholars.



Dr. Todd Potts (left) won WIUP- FM's *Dancing with the Professors* contest at IUP on November 12, 2009. In the photo, Dr. Potts and his partner dance to "Teach Me How to Jerk" by Audio Push. *(Editor's Note: This astonishing feat clearly merits a front page article, but the unfortunate timing allowed just enough time to slip this note in before the edition goes to print.)*

STUDENT NOTES

At the 2009 Pennsylvania Economic Association Conference at West Chester University held in June 2009, the following students presented their research papers:

- ♦ **Antonio Ayllon:** "A Cross-Section Analysis of Variation in Crime Rates in the Counties of Pennsylvania."
- ♦ **Stephanie Bearjar:** "Income Inequality and Population Growth Rates: An Analysis of Post-Industrial Europe."
- ♦ **Aleta Haflett:** "In Poor Health: An Analysis of Infant and Maternal Mortality Rates in Pennsylvania Counties."

Raymond G. Edwards, Jr., has been appointed Student Trustee effective June 2009. He will serve in that position until his graduation in 2011. Members of the Council of Trustees are community volunteers appointed by the governor to be responsible for financial oversight and ensuring compliance of university policies with state law. The Department of Economics congratulates Mr. Edwards on this honor.

ALUMNI INTERVIEW WITH STEVE MIHALACKI, CONTINUED

(Continued from page 4)

major to definitely take?

Mihalacki: Top of the list is Econometrics (you will be doing yourself a disservice as an econ major if you don't take this course). I wished I didn't wait for my senior year on this one. I highly recommend it as it is one of the most influential classes I have taken (grad or undergrad). It really helped me in graduate school in my management and statistics classes. I would also recommend Micro and Macro Analysis, Corporate Decision-Making, and the Economics of Sports (great way to get a new perspective on some of the world's favorite sports). As I said the other night too, I recommend that students try to take as many different professors as possible in the department. Where else will you have the opportunity to get so many different views from so many accomplished economists?

Ayllon: What do you miss most about IUP? What do you miss most about the Department of Economics?

Mihalacki: What I miss most about IUP is probably the friendships I had with classmates and other ROTC cadets. I think all IUP students love the Oak Grove and I was glad to see it again. I think the campus looks great today also. As far as the Econ Department, I actually miss being



Steve Mihalacki and Dr. Jim Jozefowicz, pose outside Dr. J's door. Steve is pointing out an infamous piece of artwork he designed to commemorate his study of econometrics with Dr. Jozefowicz. (You may recall seeing this on his door in 202-E McElhane Hall.)

part of the Econ Club myself. Seeing the large turnout the other night really made me remember some of the great times I had when the club was smaller and building.

Ayllon: Any advice for current undergraduate econ majors?

Mihalacki: I gave some advice to the club the other night including tips on networking, handling rejection in interviews, etc. The job market is pretty tough these days (trust me, I know). Rest assured that majoring in economics is a wise decision that will serve you well. Don't be afraid to pursue alternatives such as entrepreneurship, grad school, or the military!!

Ayllon: Any advice for current undergraduate students in the ROTC program?

Mihalacki: For the ROTC students—I want to thank you. I know it is not the easiest decision to sign up for ROTC especially when there are two wars going on. I know I always struggled a bit wearing my uniform to classes or seeing my friends get internships while I had to go away for summer training. But please know that it will be worth it on graduation day when you become an Army officer. I'm proud of you!

If you are willing to share your experiences since graduating with an economics degree from IUP, please contact Jim Jozefowicz at James.Jozefowicz@iup.edu.

ECONOMICS CLUB NEWS

So far this semester, the Economics Club has hosted the following alumni speakers:

**Steve Mihalacki ('01) and
Wallace Putt ('69)**

If you plan to be in the area or live in the area and would be interested in speaking to the Economics Club, please contact Jim Jozefowicz at James.Jozefowicz@iup.edu

Wallace Putt ('69) (pictured in the photo on the right) met with students of the Economic Club in November. Putt is a licensed real estate broker, real estate appraiser, and owner of Putt Real Estate in Indiana, PA. He is also the Broker of Record for AIREs, an international relocation company headquartered in Pittsburgh.



HEALTH CARE REFORM, CONTINUED

(Continued from page 2)

Plans could not have coverage caps nor restrict coverage or charge higher premiums based on pre-existing conditions. To minimize the adverse selections issue (individuals getting insurance only after they are diagnosed with a medical problem), the government could allow the insurance companies to charge individuals who have not been covered by an approved plan in the previous year higher premiums for, say, three years. Individuals would be free to move between insurance plans or to choose to self insure and go without insurance, but would pay a price for opting out of insurance if they eventually decided to opt in.

Correcting Incentives

Requirements for approved plans could be formulated to deal with the current incentive problems. Deductibles could be set high and/or co-pays would be large and based on a percentage (rather than a constant dollar amount) so that consumers would more carefully weigh prices against the potential benefits. However, because preventative care is something we generally want to encourage, the government could require approved plans to cover the cost of recommended vaccines, an annual check-up with routine diagnostic tests, and perhaps certain medications. Plans could be required to base reimbursement on goal-achievement rather than fee-for-service so that providers have the incentive to minimize the costs.

Increase Competition

The government could also require insurance companies to reimburse all qualified providers under identical rules and not cover services provided by non-qualified providers. "Qualified" providers could be required to post price and quality information on a central site. Jointly, these provisions would increase competition and reinforce the price incentive by enabling consumers to easily access information that is comparable between providers.

A central site listing the approved plans would increase competition among insurance providers as well. Each approved plan could be listed with the price and coverage specifics so that consumers could easily compare all their choices. Since individuals will be able to easily move between insurance plans (rather than being locked into the plan(s) their employer has chosen to offer), insurers will have to continually evaluate and compete against each

other to maintain customers. (To keep administrative costs down and simplify coverage verification, there could be a window each year during which consumers can change plans and prices would be fixed for the year.)

Coverage

Since prices, of both health care and health insurance, should come down, more individuals should be able to afford coverage. If the government wants to further increase coverage, they could adjust the size of the health insurance tax credit for those who need additional help affording coverage. For many this would be an attractive plan because it encourages and enables coverage, but does not impose a requirement which some find intrusive.

The Transition

How we get from our current system to the new one? An abrupt transition would cause confusion which could result in coverage gaps. An abrupt transition would likely also be more costly since a dramatic increase in demand for some services and decrease for others would result in some resources being strained while others go unused.

The most straightforward way to transition would be to hash out all the details of the plan so that everyone would know what is coming and be able to plan out their response. At least a year after all the details of the new system are known, a period of perhaps 5 years would begin during which both systems would operate simultaneously. During this time insurance companies should be forbidden from eliminating current plans or dramatically raising current rates. Employers could choose to switch over to the new system at any time during this period and individuals would only start to qualify for the tax credit once their employer plan was ended. The new market would start with just individuals currently without insurance and grow gradually as employers switched over.

Clearly, not everyone will agree with my proposal for health care reform. However, I hope that as you evaluate various proposals you ask some important questions: Will it reduce costs? Does it increase the reliability of coverage? Does it increase the flexibility of our labor force? Does it make running a business easier? Though health care reform may require a series of steps rather than one large leap, we want to make sure that each of those steps is in the right direction. ♦

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ALUMNI NEWS

FALL 2009

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