The Government We Deserve

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April 25, 2011

Does Constraining Health Cost Growth Require Choosing between Obama and Ryan?

President Barack Obama and House Budget Committee Chairman Paul Ryan (R) have laid out different approaches for curbing growth in health care costs. One would empower government-appointed officials to constrain health prices and services by, for instance, strengthening the power of the Independent Payment Advisory Board (IPAB) created in 2010's health-reform legislation. The other would provide Americans with premium support up to some dollar limit to cover their health insurance purchases. Both count on efficiency improvements as well. The political debates have quickly centered over whether Obama is heading toward ever-more cumbersome government regulation and price-setting and whether Ryan is opening up unregulated markets that would deprive many of needed health care.

It's not that simple, though. Three questions are actually at issue:

(1) How should budget constraints be applied?

(2) Should automatic budget growth for health care programs (particularly, Medicare) finally be reined in?

(3) Should government health program budgets be limited even if neither side gets its way?

The president and the House Budget Committee chair disagree on the answer to the vital first question (which I'm not going to address). But President Obama and Chairman Ryan have more in common than first meets the eye. They face similar hostile fire and essentially jump into the same foxhole by answering, "Yes" to question 2. And, I conclude that until question 3 is answered with a firm "Yes," they'll probably never get out of the foxhole, obtain real budget discipline in health care, and achieve the efficiencies in health care delivery they are seeking.

Why are the president and the chairman coming to similar conclusions on getting health care into a budget? Unlike most government programs, government health programs—notably Medicare for the elderly and tax subsidies for the nonelderly—typically have squishy open-ended budgets. You and I and our doctors basically decide what everyone else should contribute to our well-being. In a sense, every time we mutually agree to some procedure or decide to try some drug, we're voting to increase others' taxes or premiums—often, to the benefit of providers and at no marginal cost to us. (This original sin of health insurance design also distorts decisions within the health care sector by, for instance, favoring chronic care over cures and specialization over general practice.)

Absolving that original sin requires operating alternative health care programs within a limited budget. Keep in mind that such budgets can be increased, but then they have to compete with other budget priorities. But if you simply compare a higher open-ended budget with a lower limited budget, the first will always look richer—providing more services to patients and compensating providers better. That's the simplest explanation for why *New York Times* reporter Robert Pear finds that many Democrats *and* Republicans oppose President Obama's effort to strengthen an independent board. And it's the simplest explanation for why many Democrats oppose Congressman Ryan's plan. Both approaches create losers relative to current law, and politicians hate picking the losers.

Yet, each approach could have exactly the same budget. In other words, the choice between approaches has nothing to do with which one reduces spending growth rates the most.

This takes us to question 3. While we squabble over which approach to take, the open-ended health budget is partly responsible for the potential downgrading of U.S. government debt, excessive borrowing from China and other countries, and the scheduled starvation of education, transportation, children's programs and other public goods that don't have open-ended, automatic growth built into them. As health care's share of total spending or revenues goes up, other shares must go down: *essentially, our current health policy depends on either robbing Peter to pay Paul or borrowing from Wen Jiabao.*

What's more, neither side will probably ever prevail entirely. More likely, we'll to continue to have a hybrid system, as we have had for over half a century. We're not suddenly going to figure out some perfect government-run set of subsidies for channeling or regulating close to one-fifth of the U.S. economy. Even if we did, that system would

probably be wrong for the very different health economy of the next decade and the one after that—changing technology and the fickleness of voters aren't going to go away. In today's economic environment, getting one's political way— whether it's Obama's or Ryan's—can no longer be allowed to hold sound budget policy hostage.

So let President Obama's supporters win elections and rein in Medicare accordingly. Or let Ryan's supporters win elections and have their way. But whoever prevails should be held accountable for setting limited or capped budgets. Limited or capped budgets can be increased, but only through votes that require formal decisions that these programs deserve priority. That applies not only to Medicare, but also to all health subsidies, including tax subsidies, Medicaid, and the new exchange subsidies.

Budget constraints for health will chafe politically, especially compared to today's open-ended health budget that simply shunts the natural frictions of competing for limited resources onto the nonhealth budget and the deficit. But good budget policy entails a side advantage for health policy. Many of the efficiency improvements that might give us more bang for each health-care-buck will be implemented more readily if providers and consumers must live within a budget.

Yes, let's have the worthy debate over premium support versus greater regulation using the federal government's market power—while admitting that a regulated system can be made to resemble a premium support system and that a premium support system requires regulation. But here's the bottom line: let's apply normal budget principles and constraints whether one side wins the debate or neither triumphs and the result is political compromise and the continuation of a hybrid health care system.

This column was originally posted in the American Square. The American Square is rooted in the belief that our country needs to engage in vigorous, honest, and civil political debate to address the enormous challenges we face. On the site, ordinary citizens of all political, economic, ethnic, and geographic backgrounds discuss government and politics, learn from experts and peers, and find areas of agreement and disagreement through respectful dialogue. We are kicking off the discussion with a focus on fiscal issues. To get started, sign up at TheAmericanSquare.org.

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