Dangerous Remedy

By Virginia Postrel

The other problem with extending Medicare

Bill Clinton has done some incredibly reckless, irresponsible things as president. But his campaign to expand Medicare entitlements has to rank among the worst.

Unexpectedly large tax revenues are burning a hole in Clinton's pocket. He doesn't want to return the overcharge to taxpayers—that would be "irresponsible," since we might spend the money on the wrong things. But neither is Clinton content to do the sort of one-time spending that might qualify as "responsible": fixing some roads and bridges, replacing the cruise missiles he's depleted over the past few years, sending a $1,000 check to every American baby born in 2000, buying everyone in Mississippi a computer, offering a $15 billion prize to anyone who can take people back and forth to Mars. You may find such ideas wasteful, but they have one big advantage: They're finite.

Not so Clinton's Medicare plan. Imagining that Washington will be awash in extra tax dollars for at least the next 15 years, he plans to stick a new entitlement into the budget bill: coverage of prescription drugs for Medicare recipients. This plan is not the sort of one-time discretionary expenditure that matches windfall revenue with windfall spending. It is an open-ended obligation designed to keep expanding federal spending well into Chelsea and Monica's middle age.

Clinton's drug entitlement would cover half of up to $5,000 in annual prescription expenses, with no deductible. To get the coverage, retirees would pay a monthly premium of $44. The plan also includes price controls by the back door, stipulating that Medicare recipients must get their drugs at the best prices negotiated by private insurers or large public employers.

The administration fantasizes that this open-ended commitment will be "responsibly" financed "mostly by savings from competition and efficiency," plus $45.5 billion in presumed budget surplus over the next 10 years. The wonks in the White House couldn't possibly believe this nonsense—while we're at it, let's add a few Army divisions financed by cutting back on Pentagon "waste, fraud, and abuse"—but they know that once an entitlement is law, money will be found, one way or another, to keep funding it.

Anyone who thinks the plan will stay even this modest hasn't boned up on the history of Medicare. Back in 1965, when the program was new, expert projections were that it would cost $12 billion in 1990, after adjusting for inflation. It actually cost almost 10 times that much: $110 billion. If you offer people something for free, they have a tendency to demand more and more of it. As Robert Helms of the American Enterprise Institute has aptly commented, "If there is a lesson to be learned from the history of Medicare, it is that although government-financed health care has enormous appeal to most politicians, the popularity of a program does not repeal the laws of economics." (For more on the unheeded warnings of 1965, see "The Medicare Monster," January 1993, available at www.reason.com/9301fe.sh.the.html.)

Clinton knows all this. As far back as his pre-inaugural Little Rock economic conference, he has repeatedly said that exploding medical entitlements are the biggest problem facing the federal budget. His ill-conceived, ill-fated national health insurance plan was in part an attempt to rein in Medicare. It involved not just universal coverage but price controls and rationing mechanisms.

That was then. This is now.

There's nothing left to the Clinton administration but pure political calculation. Unlike the recession years of 1991 and '92, when there was some genuine public demand for national health care, no one is screaming for new Medicare handouts. Rather, this campaign has been cooked up by smart political operatives to help Democratic congressional candidates bash Republicans and buy votes. The "greatest generation" of World War II believes in government largess as a matter of New Deal principle and personal interest—and votes in much larger numbers than its cynical children and grandchildren. So the House Democratic Caucus is ginning up "studies" of prescription drug prices in district after district, all designed to create discontent among Medicare recipients and make Democratic representatives look good when they promise half-price drugs and price controls to boot.

The administration calculates that the Republicans will be too afraid to say no to this new entitlement, especially if it means giving up their tax-cutting plans. So it's going to bargain hard at budget time, trading a short-term tax cut (aren't they all?) for an infinite commitment to socialized pharmaceuticals.

For the sake of our future health care, we can only hope that the Republicans don't blink—despite the significant political dangers. Runaway spending is the least troubling part of expanding Medicare.

Medicare is a monopoly, a central-planning bureaucracy grafted onto American health care. It exercises a stranglehold on the health care of all Americans over 65, and on the medical practices of almost all physicians. Medicare decides what is legitimate and what is not: which prices may be charged and which services may be rendered.

The 110,000 pages of Medicare regulations and paperwork—more than a quarter of them added since 1994—make the income tax system look simple. The system sets reimbursement prices according to a quasi-Marxian theory of value, the "resource-based relative value scale," that has nothing to do with supply and demand. Medicare is immune from the competitive pressures that force private insurers to pay attention to what patients and doctors want.

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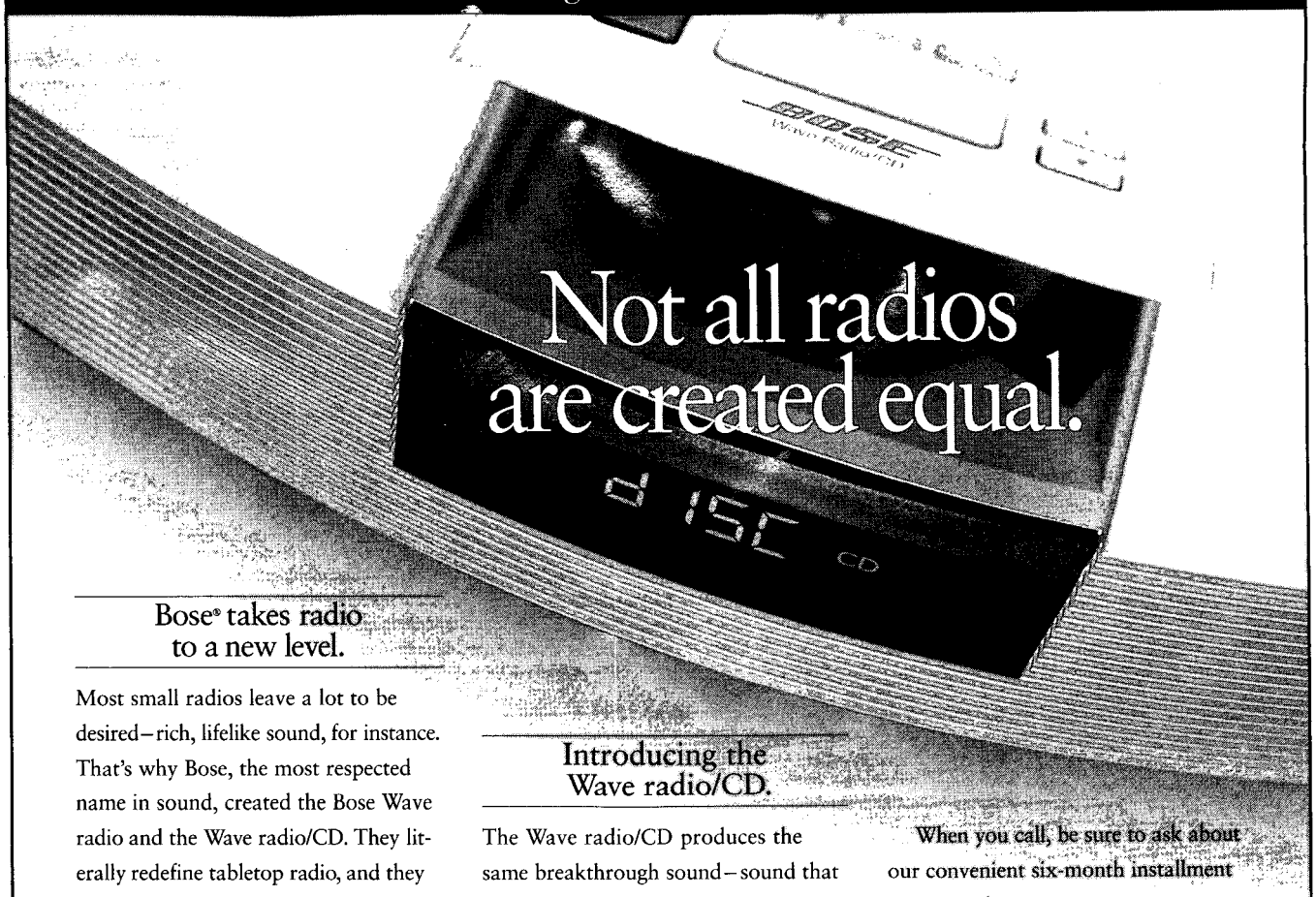

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The Clinton administration boasts of its crackdown on "fraud and waste," and it plans to apply the savings to its new drug goodies. But what's "waste" to Medicare planners includes a lot of services that physicians recommend; nearly 20 percent of the physician and supplier claims denied in 1997 were for services that Medicare considered "medically unnecessary." Someone had prescribed those services. Maybe the treatments were necessary, maybe they weren't—but seniors have no alternative insurer to go to. And when Medicare denies a hospital claim, it takes nearly a year for a patient to get an appeal processed. The public and politicians scream about private managed care, while Medicare's equally cost-driven decisions get a free pass. The media ignore Medicare's operating details.

Meanwhile, doctors who regularly recommend services that Medicare won't cover—but that patients pay for themselves—can wind up in trouble with the law. The government can tell physicians to cut back on such "unnecessary" services, under the threat of imposing civil fines or kicking the offending doctors out of Medicare (and thus out of serving most patients over 65).

In short, Medicare not only is a monopoly. It acts like one—with high-handed disregard for the patients it serves. "It is doubtful that private-sector managed care plans, faced with even minimal free-market competition, could have imposed most of [the Medicare oversight agency] HCFA's highly aggressive cost-containment measures without hearing a resounding public and political outcry," writes Dr. Sandra Mahkorn in a report for the Heritage Foundation. "Medicare's large and growing captive membership provides effective immunity from the consumer pressures regularly experienced by private-sector plans."

Instead of finding ways to check this monopoly power (or to get patients to take more financial responsibility for their own insurance), the Clinton administration is trying to expand it—to warp drug markets as it has warped physician services. This is scary. It threatens to curtail pharmaceutical development, not just through the inevitable price controls but also by deciding which medications are "necessary." It replaces the competitive interplay of medical supply and patient demand with the pressures of politics and bureaucracy. This is particularly disturbing because drug innovation worldwide depends on the existence of relatively free pharmaceutical markets in the United States.

Taking medicine out of the marketplace sounds humane to many people. Health care, they feel, is too important to be a matter of dollars and cents. We ought to be entitled to it. That feeling is what Medicare is all about.

But the alternative to marketplace medicine isn't infinite quantities of top-flight health care for everyone. It's political rationing: letting a monopoly decide which treatments are truly necessary and which patients worthy of them.

The Clinton plan calls for a test run covering smoking cessation programs, no doubt a worthwhile treatment for many patients. But how hard is it to imagine Medicare making such treatments mandatory, as a condition for future cancer coverage? How hard is it to envision a world in which certain cancer treatments are not deemed necessary, or worthwhile, for smokers—who, after all, brought their problems on themselves? If we can make young people wear motorcycle helmets because we just might have to pick up the medical costs of an accident, why not deny high-tech treatments to old people whose actions have made them sick? These questions are not going to get any easier as medical care advances in amazing directions over the next few decades.

The science fiction writer Bruce Sterling is haunted by fears of gerontocracy. He fears that as science extends longevity, old people will hold all the cultural, political, and economic power, crushing the aspirations and creativity of the young. It is a grim vision of what many people would see as a promising future—the longer life for which humanity has always yearned. To make it work in his novel *Holy Fire*, Sterling has to add another ingredient: No one can buy medicine in the marketplace. It is allocated by wise bureaucrats who reward those who take no chances with their health—or with anything else.

A risk-prohibiting world would be a strange legacy indeed for a man as reckless as Bill Clinton. But expanding Medicare is a step in that direction.

Hillary's Generation Gap

Why Social Security reform withers on the Beltway

By Nick Gillespie

Hillary Rodham Clinton may not win her bid for a U.S. Senate seat from New York (in fact, according to some, she still may not run). As the decidedly mixed reactions to her psychobabble-filled comments in the inaugural issue of *Talk*—not to mention her disastrous tryout as national health care czarina—suggest her political instincts are far from perfect. But there's no question that she understands why Social Security and Medicare are popular, and why there will likely be no serious reform of those programs until they actually collapse under their own fiscal contradictions.

In a March speech at the National Education Association's Women's Equality Summit, Clinton laid bare why old-age entitlements remain inviolable despite widespread acknowledgment that they are both inefficient and unsustainable. Social Security, she said, is a "family protection system" that keeps families together by keeping generations apart.

"Were it not for Social Security," she elaborated, "many of us would be supporting our parents. We would take them in, we would do what we needed to do to try to provide the resources they required to stay above poverty, to live as comfortably as we could afford."

While one might think this is precisely the sort of extended family situation the author of *It Takes A Village* would valorize, nothing could be further from the truth. "That would cause a lot of difficult decisions in our lives, wouldn't it?" she observed. "There would be many families who would have to choose between supporting a parent—an elderly parent—and sending a child to college. It becomes even more pronounced if we add Medicare into that equation....[Supporting parents or grandparents] would mean an economic responsibility and an economic burden that we would feel required to shoulder."

No one, Clinton implies, wants that: not seniors, not their middle-aged children, and not their grandchildren. In suggesting this, she is playing generational politics at its most brazen—and its most effective. She explicitly pits college hopefuls against retirees in a sort of death match, with the baby boom generation standing in as the beleaguered yet altruistic referee (a scant 15 years or so from retirement themselves, boomers have more reason than not to maintain the status quo). After conjuring images of resentful teens and needy elders fighting over the remote —if not food, clothing, and shelter—in family rooms across the country, she offers up a rationale that everyone can not only live with but feel good about:

"In a very real sense, Medicare and Social Security say to our older people: We're going to help you remain independent ...because of what you've done for our country—the families you've raised, the jobs you've held, the incomes that you've contributed to the United States, the wars you've fought—we're going to help, as a nation, to support you. And by doing so, we're going to free up the resources that might otherwise have to come directly to you from your family, so that they can do what you did—raise the next generation, send their children to college, hold down the jobs that enable them to move forward."

Clinton's scenario is, of course, simply mumbo-jumbo. The money to "free up" those "resources" comes from the very people to whom she's pandering. It comes from the 15.4 percent payroll tax, split between employee and employer, on the first $72,600 of every individual's wages. Had "older people," whom she seems to assume have no savings or retirement benefits apart from Social Security, not been forced to pay into a system that produces negative returns compared to private-sector pension plans, it's unclear how much largess they would require from their children or grandchildren. If "younger people" were allowed to invest their FICA taxes, they might throw off enough wealth to comfortably support Grandpa. True to her boomer roots, Clinton's encomium to senior citizens is undercut by her barely concealed hostility at the thought of "shouldering" responsibility for them, even as she lays the groundwork for today's youth to support her cohort in its old age.

But Clinton offers each group—the young, the middle-aged, and the elderly—good reason not to mess with whatever programs deliver such "independence," however fictive that autonomy might be. And in so doing, she helps explain why, precisely at a moment when the country is flush with cash and might seriously reform programs set to start imploding within a decade or so, that conversation seems to have lapsed into silence.

Indeed, the ongoing legislative fight over what to do with part of the federal budget surplus—the GOP-controlled Congress has proposed a 10-year, $792 billion tax-cut plan, while the Clinton administration wants to draw the line at a figure closer to $250 billion—underscores that Social Security and Medicare enjoy deep and abiding support. While Republicans and Democrats dicker over the size and scope of modest tax reform, they are in absolute agreement when it comes to preserving the "fiscal integrity" of the country's old-age programs. In fact, Republicans, who not so long ago spoke loudly about privatizing at least part of Social Security, have lately been crowing instead that the president, who "originally proposed protecting only 62% of Social Security receipts [has] bowed to GOP demands to protect 100%" of all contributions.

By articulating the reasons why Social Security and Medicare are so appealing, Hillary Clinton helps to explain why the reform talk has been replaced with something else altogether. And why it will be nearly impossible to do the same with Social Security and Medicare.