The Hoax of Entitlement Reform

By Robert Reich, Robert Reich's Blog

07 January 13

It has become accepted economic wisdom, uttered with deadpan certainty by policy pundits and budget scolds on both sides of the aisle, that the only way to get control over America's looming deficits is to "reform entitlements."

But the accepted wisdom is wrong.

Start with the statistics Republicans trot out at the slightest provocation - federal budget data showing a huge spike in direct payments to individuals since the start of 2009, shooting up by almost $600 billion, a 32 percent increase.

And Census data showing 49 percent of Americans living in homes where at least one person is collecting a federal benefit - food stamps, unemployment insurance, worker's compensation, or subsidized housing - up from 44 percent in 2008.

But these expenditures aren't driving the federal budget deficit in future years. They're temporary. The reason for the spike is Americans got clobbered in 2008 with the worst economic catastrophe since the Great Depression. They and their families have needed whatever helping hands they could get.

If anything, America's safety nets have been too small and shot through with holes. That's why the number and percentage of Americans in poverty has increased dramatically, including 22 percent of our children.

What about Social Security and Medicare (along with Medicare's poor step-child, Medicaid)?

Social Security won't contribute to future budget deficits. By law, it can only spend money from the Social Security trust fund.

That fund has been in surplus for the better part of two decades, as boomers contributed to it during their working lives. As boomers begin to retire, those current surpluses are disappearing.

But this only means the trust fund will be collecting from the rest of the federal government the IOUs on the surpluses it lent to the rest of the government.

This still leaves a problem for the trust fund about two decades from now.

Yet the way to deal with this isn't to raise the eligibility age for receiving Social Security benefits, as many entitlement reformers are urging. That would put an unfair burden on most laboring people, whose bodies begin wearing out about the same age they did decades ago even though they live longer.

And it's not to reduce cost-of-living adjustments for inflation, as even the White House seemed ready to propose in recent months. Benefits are already meager for most recipients. The median income of Americans over 65 is less than $20,000 a year. Nearly 70 percent of them depend on Social Security for more than half of this. The average Social Security benefit is less than $15,000 a year.

Besides, Social Security's current inflation adjustment actually understates the true impact of inflation on elderly recipients - who spend far more than anyone else on health care, the costs of which have been rising faster than overall inflation.

That leaves two possibilities that "entitlement reformers" rarely if ever suggest, but are the only fair alternatives: raising the ceiling on income subject to Social Security taxes (in 2013 that ceiling is $113,700), and means-testing benefits so wealthy retirees receive less. Both should be considered.

What's left to reform? Medicare and Medicaid costs are projected to soar. But here again, look closely and you'll see neither is really the problem.

The underlying problem is the soaring costs of health care - as evidenced by soaring premiums, co-payments, and deductibles that all of us are bearing - combined with the aging of the boomer generation.

The solution isn't to reduce Medicare benefits. It's for the nation to contain overall healthcare costs and get more for its healthcare dollars.

We're already spending nearly 18 percent of our entire economy on health care, compared to an average of 9.6 percent in all other rich countries.

Yet we're no healthier than their citizens are. In fact, our life expectancy at birth (78.2 years) is shorter than theirs (averaging 79.5 years), and our infant mortality (6.5 deaths per 1000 live births) is higher (theirs is 4.4).

Why? Doctors and hospitals in the U.S. have every incentive to spend on unnecessary tests, drugs, and procedures.

For example, almost 95 percent of cases of lower back pain are best relieved by physical therapy. But American doctors and hospitals routinely do expensive MRI's, and then refer patients to orthopedic surgeons who often do even more costly surgery. There's not much money in physical therapy.

Another example: American doctors typically hospitalize people whose diabetes, asthma, or heart conditions act up. Twenty percent of these people are hospitalized again within a month. In other rich nations nurses make home visits to ensure that people with such problems are taking their medications. Nurses don't make home visits to Americans with acute conditions because hospitals aren't paid for such visits.

An estimated 30 percent of all healthcare spending in the United States is pure waste, according to the Institute of Medicine.

We keep patient records on computers that can't share data, requiring that they be continuously rewritten on pieces of paper and then reentered on different computers, resulting in costly errors.

And our balkanized healthcare system spends huge sums collecting money from different pieces of itself: Doctors collect from hospitals and insurers, hospitals collect from insurers, insurers collect from companies or from policy holders.

A major occupational category at most hospitals is "billing clerk." A third of nursing hours are devoted to documenting what's happened so insurers have proof.

Cutting or limiting Medicare and Medicaid costs, as entitlement reformers want to do, won't reform any of this. It would just result in less care.

In fact, we'd do better to open Medicare to everyone. Medicare's administrative costs are in the range of 3 percent.

That's well below the 5 to 10 percent costs borne by large companies that self-insure. It's even further below the administrative costs of companies in the small-group market (amounting to 25 to 27 percent of premiums). And it's way, way lower than the administrative costs of individual insurance (40 percent). It's even far below the 11 percent costs of private plans under Medicare Advantage, the current private-insurance option under Medicare.

Healthcare costs would be further contained if Medicare and Medicaid could use their huge bargaining leverage over healthcare providers to shift away from a "fee-for-the-most-costly-service" system to a system focused on achieving healthy outcomes.

Medicare isn't the problem. It may be the solution.

"Entitlement reform" sounds like a noble endeavor. But it has little or nothing to do with reducing future budget deficits.

Taming future deficits requires three steps having nothing to do with entitlements: Limiting the growth of overall healthcare costs, cutting our bloated military, and ending corporate welfare (tax breaks and subsidies targeted to particular firms and industries).

Obsessing about "entitlement reform" only serves to distract us from these more important endeavors.