

BAD MEDICINE:

Why the Ryan-Rivlin Proposals for Medicare and Medicaid Would Harm the American Economy

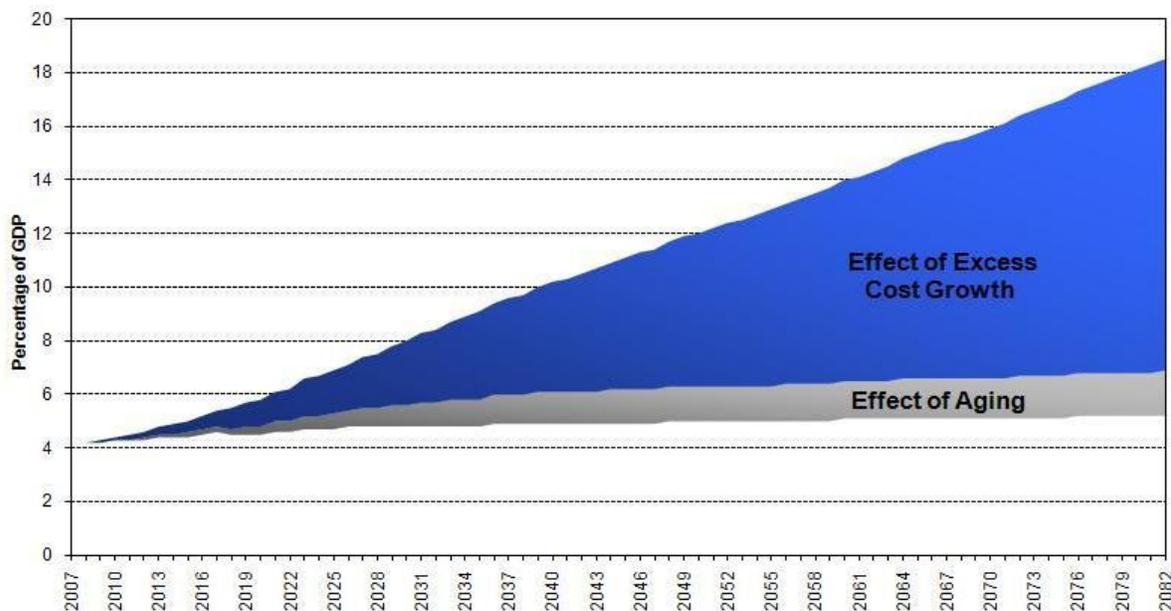
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APRIL 2011

On Tuesday, April 5, the House Budget Committee issued a [plan](#) to reduce the growth of the federal deficit in the future by destroying Medicare and Medicaid in their present forms. The plan is based on one published in November 2010 by Representative Paul Ryan (R-WI) and Alice Rivlin, former director of the Congressional Budget Office and the Office of Management and Budget. In the [Ryan-Rivlin plan](#), Medicare would be replaced by vouchers given to the elderly to buy private health insurance. Medicaid would be turned into a system of federal block grants to the states. Ryan and Rivlin propose to make both the vouchers and the block grants grow more slowly than health care costs, ensuring that their value would dwindle over time.

The Ryan-Rivlin plan ignores the real problems facing Medicare and Medicaid and would make them worse, to the detriment of the long-term health of the U.S. economy. The skyrocketing growth of Medicare spending in the U.S. is driven primarily by excessive costs in the U.S. health care delivery system, not by aging or excessive demand. Instead of rationing access to overpriced health care, as Ryan and Rivlin propose to do, intelligent reform would reduce overall costs by avoiding excessive prices of medical goods and services, as most other democracies have done successfully.

Medicare and Medicaid: Source of Cost Increases



Source: CBO Long Term Budget Outlook on Health Care, 2008

Many countries hold health care delivery costs down in part by taking advantage of the monopsony power of government as a large purchaser able to bargain with many producers. The Ryan-Rivlin plan would replace the federal government as a purchaser of many health care goods and services with smaller, private health insurance corporations with far less bargaining power relative to health care providers.

The U.S. economy as a whole would also be damaged by the equally misguided Ryan-Rivlin proposal to replace Medicaid with block grants to the states. Most economists and policy experts recognize the importance of social insurance programs as automatic stabilizers that maintain aggregate demand during crises like wars, depressions and today's Great Recession. It is easier for the federal government to borrow in order to engage in deficit spending in emergencies than it is for states, many of which are forced by their constitutions to balance their budgets. During severe economic crises, completely federal social insurance programs like Social Security and Medicare have a greater stabilizing effect on the macroeconomy than partly-federal, partly-state-based social insurance programs like Medicaid and unemployment insurance.

President Ronald Reagan in 1982 proposed to completely federalize Medicaid, a proposal supported today by progressives like [Greg Anrig](#) and [Ezra Klein](#) and by conservatives like [Reihan Salam](#). As [Tyler Cowen](#) has observed, "The real fiscal problem is spending contraction at the state level (expanding and contracting spending are not symmetric in their effects; contracting spend hurts more than expanding spending helps). The correct fiscal policy move would have been, and still is, to take Medicaid away from the states and make it fully federal." Unfortunately, Ryan and Rivlin propose to do the opposite, by gradually shrinking the federal contribution to a block-granted Medicaid program, while increasing the much more volatile state contributions.

The solution to the escalating costs of Medicare must be found in cost-reducing reforms in the American health care delivery system—reforms that may include increasing, not reducing, Medicare's role in bargaining with private producers for lower prices. Medicaid should be turned into a purely federal program, as President Reagan suggested three decades ago, rather than further Balkanized into fifty inefficient state programs with dwindling federal contributions. Any plan for Medicare and Medicaid reform that is not based on these principles is not a real cure for their problems; it is dangerous snake oil.

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