

HOW DEMOCRATS AND REPUBLICANS UNITE BEHIND UNSUSTAINABLE MEDICARE COST GROWTH

Should Medicare set prices for what it covers? Should it determine what services it will cover? During the health reform debate, these questions have dogged attempts to reduce unsustainable Medicare cost growth.

At the most basic level, the questions are silly. Of course Medicare sets prices. Of course it determines what services it will cover. It just doesn't do it very well—for reasons ranging from limited administrative power to constant political interference. Consider: it doesn't pay \$1 million for every new drug that is invented, so some limits are in effect. It doesn't usually pay for gym memberships, even though many health researchers believe that that service is more cost effective than are many medications. But every single service a doctor or hospital might provide either is covered or not covered and has a set fee.

For decades now, Republicans and Democrats have united to prevent Medicare from setting prices or covered services within an overall budget. Republicans argue against government controls. They're messy, often unfair, and can stifle growth. Democrats have long averred—though less prominently in the current health debate—that government shouldn't be controlling only Medicare costs. Then recipients of Medicare might get lower-priced services than those with private insurance.

Behind these arguments are Republicans' tendency to favor free-market solutions and Democrats' penchant to favor Medicare (and equal health care) for all. Never mind that insurance markets are highly regulated and unequal amounts of health care can always be purchased on the private market!

Between two simple and politically unobtainable extremes—no government control and total control of health care—lies reality. Any progress toward health reform requires the debate to rest there as well.

But Democrats and Republicans act like two parents letting their kid play in traffic while they debate what activity the kid should pursue indoors. See <http://www.urban.org/url.cfm?ID=901183>.

Basic budget principles require that every government program should operate within a budget. That budget constraints are always impure and arbitrary is no excuse to avoid them. Housing subsidies go to the first in line. Food stamps are limited in amount and not closely keyed to recipients' varying dietary needs. Earned income tax credits are generally not available to low-wage workers without kids. Spending on roads and schools can differ wildly from the true costs of what's needed. These programs must compete with each other for scarce dollars, while current voters and legislators must choose which gets more money and which do not.

Medicare dodges the budget constraints that most programs face simply by giving everyone—patients, doctors, patients, drug companies, and other providers—much of what they want without considering the consequences for the broader society. I say "much" because some very weak constraints are in force. But

Medicare mostly operates as an open-ended system, continually accommodating our natural desire for more and better health care and providers' desire for more income and profits. Compared with most government programs, only in Medicare and a few other government-run health programs can we, the customers and providers, bust the budget by simply demanding or providing more and more.

My preferred solution? Give Medicare recipients something like vouchers. By their nature, vouchers are for a set amount that's then adjusted annually like other programs adhering to basic budget principles. But whether you alternatively advocate Medicare for all or getting government out of the health care business, all of us must recognize that 'til kingdom come we'll be moving from compromise to compromise in health care, just as we do in education and transportation or most other government domains. There simply is no one right answer for all time.

Given continual changes in political power, what we must agree upon is that whatever options are chosen must be budgeted. Waiting for our own ideal reforms is no excuse for an unprincipled budgetary approach to whatever Medicare we've got. Congress is still free to change the budget. And setting and sticking to a budget doesn't preclude major reform. What a budget does do is remove the current unaffordable default of letting consumers or providers decide for themselves to add to the health budget and thus force education and other government programs to compete for the leftovers.

One of the real reforms aimed at "bending the cost curve" in the current health debate was to empower a Medicare commission or other body to limit some prices and make recommendations that would be given priority in the congressional legislative process. But Congress has already decided that for this round it will limit severely the power of any commission for fear that the elderly would then oppose the expansion of insurance coverage for the nonelderly. As a result, the basic Democratic-Republican alliance for uncontrollable Medicare cost growth remains alive, and the debate over real Medicare reform has been deferred, but not for very long, to the soon-to-come struggle over getting the overall government budget under control.

The Government We Deserve is a periodic column on public policy by Eugene Steuerle, an Institute fellow and the Richard B. Fisher Chair at the nonpartisan Urban Institute. Steuerle is also a former deputy assistant secretary of the Treasury. The opinions are those of the author and do not necessarily reflect those of the Urban Institute, its trustees, or its sponsors.

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