



## Hard Choices Still Must be Made

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In a recent essay in the *Washington Post*, EJ Dionne argued that we had no choice but to accept that government would grow larger in the future “because the private economy will not offer the same security it once did through employer-provided health and pension plans.” It’s a viewpoint that is often repeated by others on the left of the political spectrum, who complain about corporations curtailing the benefits on which households had come to rely. Without businesses financing health care and retirement, Dionne believes the choice is between a larger government to fill that role or widespread illness and poverty.

The interesting aspect of this theory – which is hardly unique to Dionne – is the view that the government is some entirely disconnected entity that is able to finance obligations too weighty for households. If one assumes that government’s budget capacity comes entirely from the taxes it imposes on households – Dionne’s framework is unintelligible. If outlays are too great for the household sector to bear, how could these outlays be any more affordable for an entity entirely financed by the same households? The cash flow *out* to support households’ pension and health care expenditures has to be matched with an equal and opposite cash flow in from household taxes (including corporate taxes, which reduce the cash flow of households that are shareholders, employees, and consumers).

Representative Paul Ryan recognizes the one-for-one relationship between government promises and future household obligations and has proposed a plan, called the “Roadmap for America’s Future,” to rationalize revenues and expenditures. Not

surprisingly, the plan has been vehemently criticized by those, like Dionne, who believe that “the government” has a moral obligation to commit resources it does not possess. Moreover, the rationalization proposed by Ryan is in no way a “cut” to benefits. This isn’t simply the age-old Washington question of whether reductions in growth rates qualify as “cuts” if they result in future outlays that are higher than today’s. The fact is that expensive advances in medical technology and the longer retirements they make possible are entirely new costs that did not before exist. The Roadmap is one of the first plans to recognize this and plan accordingly.

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The growth of entirely new, unanticipated costs is reflected in the supposed decline in the typical worker’s compensation package. Households have not been mistreated by the “private economy’s reduction” in retirement and health benefits. In fact, the labor share of national income has remained remarkably constant since World War II. What has changed is the share of labor compensation going to wages relative to the share going towards pensions and health care. This was not a conscious choice of employees, but rather the product of explosive cost growth driven by advances in medical technology and longer life expectancy.

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since daily compensation, or take-home pay, appears to be the same. For example, a one year increase in life expectancy may cost \$15,000, but does nothing to change the employee's retirement plans or allow him or her to retire a year earlier; new diagnostic technology made available through an employer's health plan may help to save lives through better detection of cancer, but the best case scenario for the employee would be to never get sick enough to (even) be made aware of the development.

The collapse of defined-benefit pension plans and open-ended "Cadillac" health insurance was a reflection of their cost, not irresponsible corporate behavior. Maintaining the "same level" of benefits required households to forgo more current, non-health care consumption than they desired. This is the same decision required today of opponents of Ryan's Roadmap. Those who wish to avoid Ryan's reduction in promised benefits must take steps now to reduce consumption and government outlays to generate the savings necessary to finance future benefit levels. The choice is not between more government and fewer benefits, but between less current non-health care consumption and fewer benefits. Imagining an exogenous government account to which these costs can be transferred with no impact on current spending is pure fantasy.

The idea of government as an entity entirely separate from the households that fund it is not only silly, but also exceedingly harmful, because it distracts from the serious business of confronting trade-offs and establishing realistic expectations. President Obama's health care reform initiative depends, in part, on this fallacy. It expects people to believe that the interposition of government will allow for the same quality of care to be provided to a much expanded universe of beneficiaries at lower average cost for households. The problem is

that households will end up paying for health care irrespective of the intermediary; the only way the government could reduce costs is if it does a better job rationing households' access to care than private insurers and their anemic profit margins (The Obama Administration actually takes this fallacy a step further by claiming that it would "shrink the deficit by providing the world's most expensive health care to 31 million *additional* people").

If something is too expensive for American households, it is too expensive for the government whose budget is financed by those same households. Paul Ryan's Roadmap recognizes this fact and provides a blueprint to bring promised expenditures in line with reality. Many critics of Ryan's plan choose to evade this reality and move us further from confronting the real long-run fiscal choices and the difficult trade-offs they present.