The Future of Social Security and Medical Care in the U. S.

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One is Simple and the other is Difficult

- Social Security is Simple in the U. S.
  - Other Nations should envy our population growth
  - Our official projections are incredibly pessimistic
  - The required “fixes” are very minor
  - The political battle: are personal accounts worth the transition cost?

- Medical care is complex and difficult, many self-inflicted wounds
Population Growth per annum, 2000-2004

- United States
- Canada
- France
- UK
- Japan
- Italy
- Germany
Why Should the U. S. Have a Problem?

- Not quite “pay as you go”
- 1983 Reforms built up quite a head start on the baby boom problem
  - 1983 reforms together with Reagan and Bush tax cuts => subtle exercise in class warfare
- Will peak in 2012-15, then decline until zero in ~2045
  - The “exhaustion date” depends on assumptions, particularly
    - Productivity growth
    - Population growth (fertility, mortality, immigration)
The Trust Fund: Peak Date and Exhaustion Date

OASI Trust Fund Ratio

Percent

Present

Projected

With Optimistic Assumptions there is no Exhaustion Date
Caution on what “Exhaustion” Means

- After the trust fund is gone, revenues will still cover 81% of benefits
- Increase in tax rate from 12 to 15 or 16 percent will keep system solvent forever
- These numbers must look very low to French eyes!
How the Assumptions Matter

- **Productivity:**
  - Current system raises benefits by real wage through retirement, then only inflation

- **Population growth**
  - Fertility = 2.0 (compare to Europe!)
  - Mortality ignores medicare effect (explain)
  - Immigration!
    - Will the population in 2080 be 415m or 600m??
Immigration: the Shining Light

- Immigration / Population ratio grew at 3.5 percent per year 1970-2002
- Ratio currently at $1.4/300 = 0.46\%$
- Official projections based on constant 1.2 million forever, so ratio declines to 0.29% by 2080
- Allowing ratio to taper off to a constant 0.5% implies 2080 population of 600 million, not 415
- Implies permanent population growth of 1.0%, not 0.2%
Solutions are Easy

- Faster Productivity Growth puts off crisis
- Faster population growth puts off crisis
- How to solve crisis, whenever it comes
  - Index retirement age to life expectancy
  - Raise ceiling on taxable income (currently $87K)
- Unnecessary to cut benefits or raise tax rates
  - Raising retirement age is an implicit cut in total benefits but not in benefits paid out per year
  - Raising ceiling makes financing system less regressive
Bush Proposal: Personal Accounts

- Divert 2% into personal accounts from existing tax of 12%
- This robs the system of 1/6 of its revenue
- Creates a multi-trillion $ financing hole
- The assumption of a continuing equity premium ignores history
  - Greater macroeconomic stability implies less risk
  - Remaining equity premium, if any, is a reward for risk
America’s Disfunctional Medical Care Non-system

- A multi-part indictment
  - High spending with no payoff in life expectancy
  - Large uninsured population
  - High drug prices subsidize research for the rest of the world
  - Bush proposals would make matters worse
Medical Care Spending Ratios Compared

- U. S. 13.9 percent of GDP
- Germany 10.7
- Canada 9.7
- France 9.5
- Italy 8.4
- Japan 8.0
- U. K. 7.6
Doctors per Capita

- Italy 4.3
- France 3.3
- Germany 3.3
- U. S. 2.7
- Canada 2.1
- U. K. 2.0
- Japan 1.9
Hospital Beds per capita

- Germany 6.3
- Italy 4.3
- France 4.2
- U. K. 3.9
- Canada 3.2
- U. S. 2.9
And that inconvenient fact . . .

- U. S. is in the middle of the league table of rich nations for life expectancy, nowhere near the top
- In a recent survey of 13 countries, U. S. ranks second from bottom for 16 available health indicators
  - Bottom in infant mortality, 10th in life expectancy at age 15
- Poor people line up in emergency rooms and aren’t getting preventive care
Diagnosis

- Compensation is more unequal in U. S., so need to pay more to attract doctors from the talent pool
- Fragmented organization gives more market power to the supply side than the demand side
- Much of the extra expense is soaked up by the administrative complexity
Administrative Complexity

- “Truly bizarre” system with thousands of payers
- Payment systems differ for no socially beneficial reason
- 25% of U.S. expenses go to administrative costs
- Administrative costs for private insurance are 2.5 to 3x higher than public programs
Decentralized Federal System adds more complexity

- “Medicaid” (free health care for the very poor) is administered at the state level
- Individual states differ in who is covered
- Fiscal deficits at state level have resulted in cutbacks of eligibility, coverage
- Federal-financed “medicare” for the elderly is very partial, no coverage for drugs
Pharmaceutical Prices

- Other nations use market power of central government buying to hold down drug prices.
- As a result of lack of regulation in U. S. (explicitly mandated in recent bill) drug buyers in U. S. subsidize research for the rest of the world.
- More than half of U. S. drug revenue goes for administrative costs, sales costs, and net profit.
Policy Solutions: the Bush Approach

- “Health Costs are high because people have too much insurance and purchase too much medical care”
- Solution: health savings accounts with very high deductibles
  - Like all personal tax-deductible accounts, a subsidy to the rich
  - High deductibles reduces preventive care
Kerry’s Approach was too Timid

- Keep present system, have government pay for catastrophic care
- Does not deal with basic flaw: tying medical care to employment
- Makes U. S. firms uncompetitive in international comparisons
  - G. M. has medical costs of $1,400 per auto produced relative to Toyota
  - Pushes firms to offer part-time employment with no medical benefits
  - Helps explain slow growth of employment in this 2001-2004 economic recovery
Solution? Why Can’t the U.S. be more like France?

- Americans hear many complaints about the Canadian system
- We know virtually nothing about medical care financing in Europe or Japan
- Your turn...