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Why Ryan-Rivlin Beats ObamaCare on Costs — *and* Spending

Posted By [Michael F. Cannon](#) On February 10, 2011 @ 12:21 pm In [Cato Publications, Government and Politics, Health, Welfare & Entitlements, Regulatory Studies](#) | [Comments Disabled](#)

Washington Post blogger Ezra Klein [asks](#) ^[1] of Rep. Paul Ryan's (R-Wisc.) Medicare voucher proposal (co-authored with former Congressional Budget Office director Alice Rivlin):

Why are the cost savings in his bill possible, while the cost savings in the Affordable Care Act aren't?...when it comes to the ACA, Ryan firmly believes that seniors will quickly and successfully force Congress to reverse any reforms that degrade their Medicare experience. That's a fair enough concern, of course. What's confusing is why it isn't doubly devastating when applied to Ryan-Rivlin.

Set aside that Klein violates [Cannon's First Rule of Economic Literacy](#) ^[2]: Never say *costs* when you mean *spending*. And that he uses the word "affordable" to describe [ObamaCare](#) ^[3].

There are two reasons why the Medicare *spending* restraints in the Ryan-Rivlin proposal are more likely to hold than those in ObamaCare.

First, ObamaCare's restraints amount to nothing more than ratcheting down the price controls that traditional Medicare uses to pay health care providers. Structuring Medicare subsidies in this way -- setting the prices that Medicare pays specific providers -- makes it very difficult to lower those prices, because the system itself creates huge incentives for providers to organize and lobby to undo those restraints. As I explain more fully in [this op-ed](#) ^[4] from September 2010, Medicare vouchers would change that lobbying game by reducing the incentives for provider groups to expend resources in the pursuit of higher Medicare spending. That gives the Ryan-Rivlin restraints a much better shot at surviving. (Seriously, it's a pretty cool feature.)

Second, Klein predicts a backlash against Medicare vouchers because he says it amounts to "giving seniors less money to purchase more expensive private insurance." The notion that Medicare is less *costly* than private insurance is [pure](#) ^[5], [uninformed](#) ^[6] [nonsense](#) ^[7]. Medicare and a "[public option](#) ^[8]" are attractive to the Left precisely because such programs hide the full cost of their operations from enrollees and taxpayers. It is a *virtue* of vouchers that they would reveal to Medicare enrollees the actual prices of the coverage and services they demand, because that information will spur enrollees to be more cost-conscious when selecting a health plan and consuming medical services. That, in turn, will force insurers and providers to compete on the basis of cost to a degree never before seen in this nation, competition that will generate the sort of cost-saving innovations that Jim Capretta discusses [here](#) ^[9].

Both of these reasons boil down to the truism that [nobody spends other people's money as carefully as they spend their own](#) ^[10]. We'll make a lot of progress in this country when the Left realizes how much damage they've done by ignoring that truism.

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URLs in this post:

[1] asks: http://voices.washingtonpost.com/ezra-klein/2011/02/why_makes_paul_ryan_confident.html

[2] Cannon's First Rule of Economic Literacy: <http://www.cato-at-liberty.org/paul-ryans-roadmap-and-the-difference-between-costs-and-spending/>

[3] ObamaCare: <http://www.cato.org/pubs/wtpapers/BadMedicineWP.pdf>

[4] this op-ed: http://www.cato.org/pub_display.php?pub_id=12182

[5] pure: <http://www.nejm.org/doi/pdf/10.1056/NEJMe030091>

[6] uninformed: <http://content.healthaffairs.org/content/11/1/21.full.pdf>

[7] nonsense: http://www.manhattan-institute.org/html/mpr_05.htm

[8] public option: <http://www.cato.org/pubs/pas/pa642.pdf>

[9] here: <http://www.nationalreview.com/articles/259427/obama-ryan-and-medicare-costs-james-c-capretta>

[10] nobody spends other people's money as carefully as they spend their own:

<http://www.thepublicinterest.com/archives/2001winter/article1.html>

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