

COUNTERPUNCH

Cost Disease Socialism: the Niskanen Center's Unnecessary Fight

Dean Baker

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Bill Niskanen was the long-time head of the Cato Institute. He was the rarest of all creatures in Washington, an honest libertarian. While I disagreed with him on most issues, I came to realize that if I shut up and listened to what he had to say, I might learn something.

In particular, I remember once debating him on tax policy. He referred to the 90 percent top marginal income tax rate in the 1940s and 1950s, and then added in some other taxes and came up with a number close to, or even above, 100 percent. I shot back something to the effect of “no one paid that.” Niskanen calmly responded that, if you have a tax that no one is paying, it’s probably not a very good tax. I had to acknowledge that he had a point.

I should also mention that Niskanen was a genuine anti-imperialist. Under his leadership, Cato regularly put out papers that called for cutting the military budget by 50 percent. You didn’t see anything like this from most of the liberal think tanks. He also was a staunch opponent of the Iraq War, a position that apparently lost Cato some big contributions.

I mention this as background because I have high expectations from the center that carries his name. As with Niskanen, I don’t expect to agree with everything they put out, but I do expect serious arguments.

For this reason, I am disappointed in their new paper, “Cost Disease Socialism,” written by Steven Teles, Samuel Hammond, and Daniel Takash (THT). It’s not so much that I disagree with the substance of the piece, I would probably back 80-90 percent of their proposals, it’s more the framing that I object to.

The essence of the piece is that we have large sectors of the economy, health care, college education, child care, and housing, where costs are rising far more rapidly than in other sectors of the economy. While this is largely true, the odd part is that THT are blaming this on socialism. The reason this is strange is that of course we don't have socialism in the United States. Countries that might more accurately be said to be socialist, or at least social-democratic, for the most part, have costs in these sectors much better controlled than in the United States.

To take the most obvious example, the countries in Europe that have national health care systems all spend a far smaller share of their GDP on health care than the United States. The UK, where the government actually directly provides health care, spends less than half as much as a share of its GDP on health care. That hardly fits the story of cost disease socialism.

But socialism is really not the villain in THT, it's actually regulations that restrict supply and raise costs. These regulations were not put in place and perpetuated by socialists, but rather by the powerful interest groups that benefit from them.

To take one of the most straightforward examples, we severely restrict the supply of doctors in the United States, both by limiting med school enrollments and also the number of foreign-trained doctors who can practice in the United States. We also limit the extent to which nurse practitioners and other health care professionals can perform tasks for which they are fully qualified. Restricting supply in this way allows our doctors to earn more than twice as much as their counterparts in other wealthy countries. THT are very much on the mark in calling attention to this issue, but what does it have to do with socialism?

There is a similar story with college education. Our universities cost far more to educate students than schools in other wealthy countries. THT identify the main culprit as excessive layers of bureaucracy. I'm sure there is considerable truth to this story, but I would also say that university presidents getting seven-figure salaries, along with high six-figure salaries for other top officials, are also part of the problem. But that aside, where is socialism in this story?

It's also worth noting that tuition costs have slowed sharply in recent years. It will be interesting to see how the increased use of online instruction will affect costs in the years ahead, but in any case, it's hard to find the fingerprints of socialism.

THT also discuss how zoning restrictions and other regulations have raised housing costs in major cities by limiting construction. This point is largely right, but the perps here are hardly

socialists. Rather, these restrictions are kept in place largely by upper-middle-class and wealthy homeowners who are determined to protect their property values.

I will add that I think some of the anti-regulation folks go too far. To steal a line from Yogi Berra, if San Francisco were as dense as New York City, no one would want to live there. An important part of limiting housing costs will be making smaller cities more attractive, something which seems to be happening with the explosion of remote work in the pandemic. In any case, the story really has nothing to do with socialism.

To sum up the story, THT make many useful points in this piece, that progressives should take seriously. It is unfortunate that they frame it in a way that seeks to make enemies of those on the left. I doubt Bill Niskanen would approve.