



The Daily Dish

21st Century Entitlements

DOUGLAS HOLTZ-EAKIN, PATRICK HEFFLINGER | OCTOBER 17, 2016

On Saturday 200 nations agreed to a climate deal aimed at cutting greenhouse gas emissions worldwide. The new agreement aims to cut hydrocarbons and avoid an increase of global warming of 0.9 degrees by the year 2100. The agreement focuses on refrigeration and air conditioning units. Unlike the Paris climate change agreement, the hydrocarbon agreement is binding.

On Friday the administration implemented provisions of a bipartisan law that changes the way doctors are paid through Medicare from a fee based system to a system focused on improving patient healthcare. Senate Finance Committee Chairman Orrin Hatch (R-Utah) praised the new policies stating the new policy “demonstrates CMS’s continued commitment to working with American health care providers and reflects the shared goal of allowing doctors and medical centers to shift to the new payment system by participating in the reforms at their own pace.”

Eakinomics: 21st Century Entitlements

The Hillary Clinton policy platform contains a plethora of new entitlements to cover the expenses of pre-kindergarten education, paid family leave, out-of-pocket health costs, child care, college education and more. Donald Trump has also proposed covering child care expenses and paid family leave with taxpayer dollars. These developments suggest an underlying desire for greater subsidized benefits. This coincides with the ability of both political parties to do the electoral math and find a way to appeal to female voters, in general, and mothers, in particular that are a majority of the population.

Unfortunately, these interests run directly into budgetary reality. As repeated Congressional Budget Office reports highlight, the growth in existing entitlements — Medicare, Medicaid, Affordable Care Act, Social Security, and others — will fuel rising budget deficits that will reach \$1 trillion by the end of the second term of whoever emerges on November 8. Bluntly, there is no money for significant spending expansions, and any new tax revenue will be needed to simply shore up the existing programs. The proposals also are in conflict with labor market trends. They rely on employers to be the vehicle for those benefits at a time when independent contractors and the “gig economy” are becoming more important elements of the labor market.

How does one square these conflicts? First, recognize the real problem: the existing entitlements have so consumed budgetary resources that it makes it too difficult to address new policy challenges. It is simply wrong for the legacy of decisions made 30 to 50 years ago to stifle innovation in a democracy. Second, emphasize efficiency by reworking existing benefit programs to meet new needs.

I proposed one example of this a few months back: continue the practice of permitting some employer benefits (e.g., health insurance) to be tax-exempt compensation, but permit the worker to select the mix of benefits (health care, paid leave, child care; for example) — up to a limit — that best suits her needs. This could be expanded to permit the same amount of tax-deductible benefit spending by the self-employed and gig workers, thereby leveling the labor market playing field. A second possibility would be to reform Head Start — a pre-K and child care entitlement — to be controlled by eligible parents. This would provide the benefit directly to

those who want it, and would place competitive pressure on providers to more effectively provide the services.

It has gone relatively unnoticed that the election has begun an important policy debate. Solving it will raise a host of complications.