



The Daily Dish

August 3rd Edition

DOUGLAS HOLTZ-EAKIN | AUGUST 3, 2015

Is federal aid for higher education contributing to the quick rise in tuition costs? According to the [Wall Street Journal](#), “A new study from the New York Federal Reserve faults these policies for enabling college institutions to aggressively raise tuitions.” The study found that for every dollar spent on Pell Grants, tuition increased by 55 cents. For the subsidized-loan cap, it was as much as 65 cents per dollar spent.

Today President Obama will unveil the final version of his “Clean Power Plan.” [According to reports](#), the plan will go above and beyond the proposed rule, cutting carbon emissions by forcing the share of renewable energy used in the U.S. to be 28 percent by 2030. To do this, coal and natural gas power plants will be forced to close. When analyzing the proposed rule, [AAF found that 93 power plants would be forced to close, costing 296,000 jobs](#). Additionally the smaller proposed rule could have raised energy costs for consumers by 6.5 percent. [Click here](#) for four graphs that show the effect of the administration’s environmental rules on coal jobs.

Eakinomics: The Politics of Medicare Reform

The old politics of Medicare reform were to demagogue any proposed reform as an attempt to “throw granny off the cliff” for political gain, base motives, or both. These politics were on full display in President Obama’s recent assertion: “Today, we’re often told that Medicare and Medicaid are in crisis. But that’s usually a political excuse to cut their funding, privatize them, or phase them out entirely — all of which would undermine their core guarantee.” They were comparably on display in recent [attacks](#) on candidate Jeb Bush for his comments on entitlement reform.

This will change — both because it is emphatically not true that it is politically motivated and because it will be better politics to reform and save the entitlement system. First, it is important to recognize the challenges facing the program. The most recent Medicare Trustees [report](#) lays out the reality: in 2014, Medicare spent \$309 billion more than it took in via payroll taxes and premiums. (For perspective, the entire 2014 deficit was \$485 billion; Medicare is 64 percent of the deficit problem and 120 percent of the non-interest deficit.) So, despite the cuts in the Affordable Care Act (ACA) and despite the tax increases in the ACA, Medicare is in financial trouble. As 10,000 new beneficiaries join each day, the red ink will continue to mount at ever-increasing rates.

The Medicare red ink feeds overall budgetary red ink. Despite repeated claims by the administration that the deficit situation has improved, the reality is that nothing has been done to tame the voracious appetite of the entitlement programs that feeds ever-larger deficits — both in absolute size and relative to the economy’s ability to pay (as measured by Gross Domestic Product. See the daunting outlook [here](#).)

Even more distressing is the fact that despite spending all this money, risking the nation’s fiscal future, and endangering the future standard of living, Medicare is not a high-quality program. It costs too much for the type of health outcomes it delivers, misses opportunities for preventive care, and does too poor a job of coordinating the care of seniors. In short, it needs reform because:

- Seniors deserve better, coordinated care that accounts for multiple chronic conditions and other maladies that

were simply not present when the current system was designed in 2015.

- Seniors deserve a system that will not fall under its own financial weight as the baby boomers retire; the succeeding generations deserve one even more. (Notice that the ACA's approach to dealing with costs and coordination — Accountable Care Organizations — have already been diagnosed as a [failure](#) by one of the ACA's architects Zeke Emanuel.
- America needs a higher-quality and lower-cost health care system. Medicare reforms are the quickest and most effective way to change for the better how every nurse, doctor, physician assistant, hospital, pharmaceutical company, medical device manufacturer and other participants and providers behave. Medicare reform is health care reform.

All true, but all have been true for some time. How do the politics change? Let's return to the fiscal outlook. The Congressional Budget Office projects that in 2024 there will be a deficit of \$899 billion (and rising) and that \$759 billion will be due to interest on previous borrowing. Put simply, the U.S. will be borrowing to pay off previous borrowing. As a matter of arithmetic, every candidate for president in 2016 hopes to be governing in 2024; none wishes to preside over the financial meltdown that would ensue if this course was left unchecked. Instead, the best politics will be to get the spending situation under better control. The best politics will be to provide presidential leadership in favor of entitlement reforms.

In short, in 2016 and increasingly as time passes, the best presidential politics of entitlements will no longer be demagoguery to stop reforms. Instead, the best politics will be the same as the best policy: sensible reforms to finally bend the cost curve, improve quality, and put Medicare on a firmer financial footing for the decades to come.

From the Forum

[Week in Regulation](#) by Sam Batkins, AAF Director of Regulator Policy

Fact of the Day

[The president's proposal for "free" community college is estimated to cost \\$60 billion, or roughly one-fifth of all spending on the Pell Grant program over the next decade.](#)