

# CHAPTER 1

## Eldercare Fraud

**A**t *some point* in the future, American society *may* have to decide to devote *somewhat more* of its collective resources to the care of the elderly, or else it will have to require the elderly to get along with *somewhat less*. But, as Bush himself has now admitted, this is not a problem that *privatization* [of Social Security] can solve.”<sup>1</sup>

It was hard to say, on reading this, which part was more disturbing: the casual dismissal of the frightening cost of elderly entitlements; the apparent assumption that these costs strictly involved Social Security; or the fact that these inadvertent confessions of ignorance were made by *New Yorker* Editorial Director Hendrik Hertzberg. Bush had just been quoted as having “admitted” that his “privatization” plan for Social Security could not “solve” the solvency problem of Social Security. He had said nothing about solving the problem of *caring for the elderly*, most of which was accounted for by the Medicare and Medicaid programs.

Hertzberg’s main focus in this March 28, 2005, editorial was on the more limited question of the Social Security trust fund. President Bush had recently declared that Social Security had no trust fund as part of his failed attempt to sell his privatization plan. Counterarguments had been

appearing in the *New York Times*, *Boston Globe*, *St. Louis Post-Dispatch*, and *Washington Post*. Hertzberg's particular denial of "the trust-fund-as-myth contention, . . . of Bush's echo chamber of conservative op-edders and think-tankers"<sup>2</sup> happened to be more detailed than most, while also outdoing the others for unintended humor.

If Hertzberg was a minor player in this saga of denial, *New York Times* columnist Paul Krugman was a plot mover. Both had difficulty separating the facts involved from their obvious disgust with the policies and proposals of President Bush, and both even improvised certain facts to better support their arguments. But while Hertzberg's breach was relatively innocuous—and inadvertently funny—Krugman's involved misrepresenting an informative article on the soaring cost of eldercare that had appeared in his own newspaper. Krugman's own line of argument often took the form of bait-and-switch: bait the reader with the problem of rising eldercare costs while switching to the Bush tax cuts, the Bush spending increases, or the Bush privatization plan for Social Security.

The whole story would be amusing, in fact, if it weren't ultimately so serious. Contrary to Hertzberg's denial, "American society" is already devoting an ever-increasing share of its "collective resources to the care of the elderly" in the form of Social Security, Medicare, and Medicaid. And unless something is done, these programs will either be as large as the federal budget itself, or the elderly will have to "get along with" *considerably* less.

That's the premise of this chapter. In the course of reviewing the record, I further argue that no form of bait-and-switch is justified: elderly entitlements would be a source of urgent concern no matter how you feel about President Bush's other policies and proposals, and no matter what your views are on the long-term solution to the healthcare crisis.

## THE PREMISE DEFENDED

The best source on the subject of elderly entitlements is the bipartisan Congressional Budget Office (CBO). The CBO has released projections for the share of gross domestic product claimed by federal spending on these three programs with no major change in policy. But instead of merely extrapolating past trends, CBO analysts make an optimistic assumption about the future. The per capita cost of Medicare and Medic-

aid has been rising faster than per capita gross domestic product ever since these programs were first created. Following the lead of the Medicare trustees, they assume an incremental growth of only 1%—by far the slowest on record.<sup>3</sup>

Even so, by 2050 the combined cost of Medicare, Medicaid, and Social Security will claim 19% gross domestic product (GDP), compared with about 8% today. The first two would be the fastest growing. But Social Security will still account for an estimated 6.4 percentage points of that 19%, or about a third.<sup>4</sup> The December 2005 CBO on “The Long-Term Budget Outlook” also points out that “Federal revenues have averaged 18.7% of GDP for the past 10 years and 18.3% for both the past 20 and past 30 years.”<sup>5</sup> If that continues, then at 19% of GDP, the cost of those three programs alone will eventually push the federal budget into deficit. All other spending by the federal government claims about 12% of GDP; and outlays by states and localities, another 10%. Assuming those shares hold, we’re looking at a rise in government spending between now and 2050, from about 30% of GDP (12+8+10) to 41% (12+19+10).<sup>6</sup>

Beyond 2050, the same assumptions would cause that 19% to continue to climb.

Some might say that’s okay. Others might ask whether we have a right to impose that burden on future generations. In any case, this outlook is a far cry from the *New Yorker’s* “somewhat more, somewhat less” way of putting it.

Bear in mind that the problem will not go away with the passing of the baby boomers. Even with respect to Social Security, the role played by demographics has been much exaggerated. According to a CBO Policy Brief called “The Future Growth of Social Security: It’s Not Just Society’s Aging,” 45% of the projected increase in costs is due to an “increase in the *real value* of . . . benefit checks.”<sup>7</sup> The reason is that payments to beneficiaries are determined by their wages and salaries, which tend to reflect increases in living standards.

Hence the proposal of Concord Coalition president Peter Peterson that new Social Security benefits be indexed to prices. That would mean the next generation of retirees get the same value as the current generation, but not any more.<sup>8</sup>

While I prefer to cite the latest research on this looming crisis, the essentials have been known for years. We can at least wonder if the

December 2003 Medicare drug bill would have passed in its present form if these scary scenarios had been widely understood. But then *New Yorker* readers were being told as late as March 2005 that “at some point in the future,” the elderly “may” have to make do with “somewhat less” if they aren’t given “somewhat more.”

Let’s begin this saga of denial with Hertzberg’s defense of the Social Security trust fund, before turning to Krugman.

## TRUSTING THE TRUST FUND

The fact that George W. Bush might have some personal knowledge of trust funds would be one good way to highlight the irony that as President Bush, he recognized the fraudulence of the Social Security trust fund. He could tell the difference between trust funds for rich folks like him and the one his government had palmed off on the taxpayer. And yet Hertzberg boldly begins on that very note, speaking of “this ingenious financial tool, through which part of a family fortune can be protected for its intended beneficiaries,” including “George W. among other Bushes.”<sup>9</sup>

The key point Hertzberg manages to ignore is that the “family fortune” can only be “protected” through investment in assets—securities like stocks and bonds that are claims on the wealth and income of those *outside the Bush family*. Imagine how the Bush offspring would have felt upon discovering that their trust funds contained nothing more than I.O.U.’s signed by the dad. To the Bush family as a whole, there would be no trust fund, because there would be no assets. Or to put it in a more roundabout way, the sons would be free to think of the dad’s I.O.U.’s (presumably, made out to them) as assets. The dad, on the other hand—the guy who owes the money—would have no choice but to think of the I.O.U.’s as liabilities. To the Bush family as a whole, then—both father *and* sons—the assets are canceled out by the liabilities. The effect is a wash. There are no assets on net.

Now imagine that, instead of being flush with cash in his own right, the dad himself were deep in debt, and you’ve come very close to conjuring up the Social Security trust fund. In this case, the Social Security system is the son and the U.S. Treasury is the dad. To Social Security, there is a trust fund, with real assets. But these assets are claims

on the income of the U.S. Treasury. So from the Treasury's standpoint they are liabilities. To the U.S. government as a whole, then, the effect is also a wash. Social Security's assets are offset dollar for dollar by the Treasury's liabilities. If the assets belong to the U.S. taxpayer, then so too do the liabilities. George W. Bush was merely telling us that if we think our government has treated us the way his dad treated him, we should all think again.

Yet, Hertzberg and others defend the use of the term with all the zeal of government flaks. They should try reading a CBO policy brief called "Comparing Budgetary and Trust Fund Measures of the Outlook for Social Security" where the CBO analysts remark (in the second paragraph): "[The Social Security Trustees] treat transfers from the government's general fund to the trust funds and the reserves of the funds as resources to pay benefits. However, those transfers and fund reserves are *simply* the result of *credits exchanged* between Treasury accounts—and thus reflect the *government's commitment* to pay the benefits but *not necessarily the means* to do so."<sup>10</sup>

How could this "commitment to pay" be backed by the "means to do so"? Simple: treat Medicare, Medicaid, and Social Security like any other health-coverage-and-pension program by funding the liabilities with stocks and bonds—just as states, municipalities, other national governments (and, of course, private corporations and insurance companies) routinely do. Wherever the liabilities are "fully funded," taxpayers do not have to worry about paying them. The commitments are backed by real assets—claims on the income of others. The U.S. taxpayer, by contrast, faces financial commitments that are backed by U.S. Treasury bonds, which are claims on the taxpayer's income.

Notice how the foregoing sentence can read, "The U.S. taxpayer, by contrast, faces financial commitments"—and stop there, and still mean the same thing as the longer version.

When a *New York Times* editorial observed that "if the [Social Security] trust fund is a joke. So is the full faith and credit of the United States,"<sup>11</sup> the editors had it backward. The fact that the full faith and credit of the United States is no joke is the very reason the joke is on those who take the trust fund seriously. The U.S. Treasury will fully and faithfully pay those debts, which makes them liabilities to the U.S. taxpayer.

Hertzberg brings the *Times'* argument to a new level. Here's the whole paragraph:

The trust-fund-as-myth contention is a staple of Bush's echo chamber of conservative op-edders and think-tankers. Whether there is any truth to it is an interesting, as he might say, question. (It's worth noting, by the way, that, if the trust fund is a myth, then its prospective shortfall is a myth too.) The trust fund, which has close to two trillion dollars in it at the moment, is frequently derided as an accounting fiction. *In fact*, it consists of a growing pile of U.S. Treasury bonds of a special type, *embossed* and *beribboned* and *neatly stacked in a vault* in West Virginia. Unlike standard Treasury bonds, these do not fluctuate in value. By the same token, they cannot be traded on the open market, which is why many of Bush's ideological allies dismiss them as mere pieces of paper, without inherent worth.<sup>12</sup>

Social Security's "prospective shortfall" is indeed a myth which myths like the trust fund help create. The prospective *cost* of programs like Social Security, Medicare, and Medicaid is the only reality worth dealing with. And those "ideological allies" seem to be ignoring the fact that there are plenty of legitimate assets that cannot be traded on the open market.

But is Hertzberg really saying the bonds are assets because they're "embossed and beribboned and neatly stacked in a vault"? Perhaps the *New-Yorker*-ish resort to vivid imagery explains why these factual claims were left to stand in a magazine with a world-class reputation for fact checking. It turns out that Hertzberg got the "West Virginia" part right, but nothing else.

According to an Associated Press story (confirmed by Bureau of Public Debt spokesman Pete Hollenbach), the bonds are in the bottom drawer of a file cabinet "in a pair of white loose-leaf notebooks" with "plastic page covers." Hollenbach adds that this paper has no legal status anyway: the bonds legally consist of electronic book entries, like all Treasury securities. But the file cabinet is definitely in West Virginia.<sup>13</sup>

"It is theoretically true," continues Hertzberg, "that the Treasury, with Congress's permission, could refuse to redeem these bonds when the time came. . . . Of course, the Treasury could also refuse to honor the bonds held by foreigners. These, too, are pieces of paper. . . . The entire economy runs on promises—that is, trust—which is why paranoid survivalists convert their assets to guns and cans of tuna fish."<sup>14</sup>

Hertzberg is right. When the Social Security Administration (SSA) starts redeeming the bonds (in about 15 years), the Treasury will have to

pay up. But taxpayers will ultimately have to be trusted, since the “trust fund” is in any case expected to run dry some time in the 2040s. And benefits could still be cut: the SSA would simply redeem the bonds in return for new bonds (rolling them over), in effect redeeming them at a slower rate.

Testifying before the House Budget Committee on “The Economic Costs of Long-Term Federal Obligations,” CBO Director Douglas Holtz-Eakin remarked, “*Every dollar of federal spending has a cost. It makes no difference if the payment is charged to the general fund, a trust fund, or an enterprise fund.*”<sup>15</sup>

## MISREPRESENTING A SOURCE

The trust-fund fallacy played a key role in Krugman’s first bout of denial on the soaring cost of eldercare in general. It was also a clear case of misrepresenting a source—although the source being misrepresented turned out to be flawed in its own right.

Krugman’s March 20, 2003, column at least began by framing the discussion in what seemed to be fair terms:

Many commentators are reluctant to blame George W. Bush for [the] grim [fiscal] outlook, preferring instead to say something like this: “Sure, you can criticize those *tax cuts*, but the real problem is the *long-run deficits of Social Security and Medicare*, and the unwillingness of either party to reform those programs.”<sup>16</sup>

But, he continued, while “it seems more reasonable to blame long-standing problems for our fiscal troubles than to attribute them to just two years of bad policy decisions . . . there’s only one problem with this reasonable, balanced, non-shrill position: it’s *completely wrong*. The Bush tax cuts, not the retirement programs, are the *main reason* why our fiscal future suddenly looks so bleak.”<sup>17</sup>

He bases that statement “on a new study” from the Center on Budget and Policy Priorities “that compares the size of the Bush tax cuts with that of the prospective deficits of Social Security and Medicare. The results are startling.”<sup>18</sup>

In the age of Internet, the study is easily retrieved. And what truly startles is that it does not do what Krugman claims. It compares the

“prospective deficits” of Social Security and *part* of Medicare to the “size of the Bush tax cuts.” It does not attribute even so much as a dollar’s worth of costs to either Medicare Part B (physician’s care) or to the new drug benefit (Part D), then a near certainty to pass Congress in some version. It includes only the “prospective deficit” of Medicare Part A (hospital care). If it had covered “the prospective deficits of Social Security and Medicare,” as Krugman claimed, the “results” would have swung the other way.

To justify the omission, the authors of the study—Peter Orszag of the Brookings Institution, and Richard Kogan and Robert Greenstein of the Center on Budget and Policy Priorities—try, in effect, to turn a fault into a virtue. They restricted the choice to Social Security and Medicare Part A because these are the only programs that have “dedicated trust funds.” The “prospective deficits” they calculated are based on future costs, but only after each program was duly credited with the value of the assets in its trust fund. Since Medicare Part B has no trust fund, they could not follow that same procedure.<sup>19</sup>

But so far, how that could be an excuse for ignoring Medicare Part B? As we have already seen, if the trust funds are assets to the programs to which they are “dedicated,” they are liabilities to the U.S. Treasury itself. So to credit these programs with their trust funds already amounts to rigging the results, since the cost of the Bush tax cuts and the cost of these programs will both be fully borne by the Treasury. In other words, the use of a faulty procedure for Social Security and Medicare Part A can hardly justify not following a more valid procedure for Medicare Part B. Why can’t its prospective deficit be calculated without benefit of a trust fund?

The answer, according to the authors, is that similar deficits would then have to be figured for all other federal programs!

As they explain in a long footnote [*italics theirs*]:

Under federal law, Medicare Part B, like most government programs, is supported primarily by general revenues rather than by a dedicated trust fund. Calculating an *actuarial deficit* in Part B thus is akin to computing a “deficit” in the Defense Department or in other parts of government that are supported by general revenues; such a “deficit” has little meaning unless it is calculated for *all* federal programs taken together, relative to all projected general revenues.<sup>20</sup>



In other words, you can't project the long-term costs of entitlement programs for the elderly until you've done a similar job on farm subsidies and the future cost of the Iraq war!

Orszag, Kogan, and Greenstein are surely being disingenuous. They must know full well that budget analysts routinely use terms like "mandatory" and "discretionary" to categorize different kinds of federal spending, and they don't need to guess where Social Security and Medicare are filed. To be consistent, they ought to propose that such terms be abolished forthwith, lest anyone get the impression that some programs are more discretionary or mandatory than others.

They should also object to the following remark by Holtz-Eakin of the CBO in congressional testimony on the "Economic Costs of Long-Term Federal Obligations" when the prescription drug benefit for Medicare was about to become law: "While five- or 10-year projection horizons may be *adequate* for some budget decisions, they are *especially deficient* when evaluating the implications of changes in entitlement programs."<sup>21</sup>

The whole point about entitlements is that, once the promises are made, they are difficult to back out of, especially when the beneficiaries are the elderly. When Director Holtz-Eakin informed congress that "CBO is developing the capacity to provide long-term projections for Social Security and Medicare to more accurately estimate future commitments under those programs,"<sup>22</sup> no one thought to ask him why he singled those out to the exclusion of all the others. Nor did anyone doubt that he meant all of Medicare, not just Part A.

And as for "dedicated trust funds" being the touchstone for what you do and do not include—well, I haven't met Orszag, Kogan, or Greenstein, but I find it hard to imagine them suggesting this to the CBO director with a straight face.

The authors at least made it clear that they had excluded a large part of Medicare. Krugman, for his part, had misrepresented their findings. When an economics columnist writes about the "deficits of Social Security and Medicare," he can only be referring to all of Medicare, especially if he later declares, "Without those tax cuts, the *problems of an aging population* might well have been manageable."<sup>23</sup>

Finally, Orszag, Kogan, and Greenstein are ambivalent enough about their findings to begin with a statement that sounds faintly like the one Krugman just called "completely wrong": "The Administration," they

write, “is *correct to identify* the projected deficits in Social Security and Medicare as important problems requiring attention from policy-makers. But it is a mistake to exclude the Administration’s own tax cuts from discussions of the projected long-term fiscal imbalances that face the nation.”<sup>24</sup>

## BRAZEN MISREPRESENTATIONS

A year after misrepresenting a source that was itself rather suspect, Krugman misrepresented a story that appeared in his own newspaper.

The March 2, 2004, story by *Times*’ reporter Edmund Andrews performed a valuable service by presenting key facts and figures on “the looming shortfalls” of Social Security and Medicare. The story provoked an immediate response from Krugman, who cited it specifically in his March 5, 2004, column, so we have to assume he had read it. Those who had not read it but read Krugman’s version would have gotten a very different impression of those same facts and figures. Those who read both Krugman and Andrews might have been shocked by Krugman’s distortions.

What motivated Krugman? Well, first, he obviously did not like the frightening “\$44 trillion” estimate of those “looming shortfalls,” so he pretended it came from the “ideologically driven” U.S. Treasury.<sup>25</sup> But Andrews had made it painstakingly clear that the U.S. Treasury had “disavowed” the figure.<sup>26</sup> Second, Krugman must have felt that by making it seem that it took “great care” to discern which part of the \$44 trillion came from Social Security—as though he were thwarting a subtle effort at dissembling—he could make a smoother transition to the Bush tax cuts. This time, no part of Medicare got placed on the other side of the ledger: the Bush tax cuts were compared only with Social Security.

Andrews’ account of the genesis of the \$44 trillion figure is worth quoting:

In 2002, two senior economists at the Treasury Department were asked by Paul H. O’Neill, then the Treasury Secretary, to come up with a comprehensive estimate of the federal government’s long-term fiscal problems. The total, calculated by Kent Smetters . . . and Jagadeesh Gokhale . . . was an *almost unthinkable \$44 trillion*.

That projection was *swiftly disavowed by the administration*. Rob Nichols, a *spokesman for the Treasury Department*, said the White House never intended to use the study in its official budget forecast. “They were doing what they called an *independent paper*,” he said.

Mr. Gokhale, now a senior fellow at the Cato Institute, *recalled matters differently*. “At some point, late in the game, it was decided that it *wouldn’t be in the budget*,” he said. “In my opinion, if they had reported these numbers, they would have gotten a lot of credit.”<sup>27</sup>

In fact, this story about the Treasury’s suppression of the \$44 trillion was already stale news. Economists Jagadeesh Gokhale and Kent Smetters had published an op-ed article in the July 17, 2003, *Wall Street Journal* that specifically indicted the Bush administration for ignoring their figures.<sup>28</sup> The article had been timed to accompany the publication of their book on the subject, *Fiscal and Generational Imbalances*.

The \$44 trillion had also been mentioned in *The Price of Loyalty*, Ron Suskind’s account of former Treasury Secretary Paul O’Neill’s travails,<sup>29</sup> which Krugman himself had written about sympathetically in a January 2004 column.<sup>30</sup> O’Neill, in fact, had sided with Gokhale and Smetters. So not only did Krugman have ample opportunity to know the circumstances—both from reading Andrews’ story and Suskind’s book—one might even think he would make common cause with Gokhale and Smetters against the Bush administration.

The whole dispute turned on whether a 75-year projection was long enough. Gokhale and Smetters had run afoul of the Treasury by insisting that the cut-off was arbitrary and irresponsible: it implied that the problem would go away in the 76th year, when it actually got worse. Thus they were telling a kind of grisly bad news/good news joke. The bad news: The current tab is \$44 trillion. The good news: To cover the next 75 years, only \$17 trillion need be left on the table.

The numbers would have been even greater if Social Security and Medicare had not been credited with their share of the payroll tax. The method also caused Social Security to be a disproportionately smaller share of the total than the CBO’s more straightforward method. Gokhale and Smetters had no desire to hide this fact, stating in the “Introduction” to their book that all but \$7 trillion of the \$44 trillion

came from Medicare.<sup>31</sup> And in his own story, *Times* reporter Andrews had written that “Most experts say the problems of Social Security are much smaller” and later, that “Medicare’s condition is more ominous.”<sup>32</sup>

Now get ready for Krugman’s version. Its tone seems odd. Gokhale and Smetters were never mentioned, or even vaguely referred to. Leading off with the statement that Social Security is “in pretty good financial shape,” he suddenly declared that:

Other reports, however, appear to portray a system in deep financial trouble. For example, a 2002 U.S. Treasury study described on Tuesday in the *New York Times*, claims that Social Security and Medicare are \$44 trillion in the red. What’s the truth?<sup>33</sup>

Here’s a hint: While even right-wing politicians insist in public that they want to save Social Security, the ideologues shaping their views are itching for an excuse to dismantle the system. So you have to read alarming reports generated by people who work at ideologically driven institutions—a list that now, alas, includes the U.S. Treasury—with great care.

First, two words—“and Medicare”—make a huge difference. According to the *Treasury study*, only 16% of that \$44 trillion shortfall comes from Social Security. Second, the *supposed shortfall* in both programs.<sup>34</sup>

We’ll resume quoting Krugman in a minute. But notice that he portrays himself as penetrating a subtle plot to suppress the fact that Social Security is “only 16%” of the \$44 trillion, and that he attributes the figure to the “ideologically driven” U.S. Treasury—the very same institution that, in the *Times*’ story, had “swiftly disavowed” it! This made it possible to brand the \$44 trillion the “supposed shortfall.”

To pick up the quote where we left off:

Second, the supposed shortfall in both programs comes mainly from projections about the distant future; 62% of the combined shortfall comes after 2077.

So does the *Treasury report* show a looming Social Security crisis? No.<sup>35</sup>

Again, no one had spoken of a Social Security crisis, looming or otherwise. Andrews had spoken only of “the looming shortfalls of the *two* retirement programs,” making it clear that Medicare was by far the more costly. But the false note of melodrama helps set the stage for Krugman to declare in the next paragraph, “The Bush tax cuts are a much bigger problem for the nation’s fiscal future than the Social Security shortfall.”<sup>36</sup>

But now rewind: If “62%” of that \$44 trillion occurs “after 2077,” doesn’t that mean 38% comes earlier? Since 38% of \$44 trillion is nearly \$17 billion, and since most of that must come from Medicare, isn’t that \$17 billion rather a worry? But Krugman manages to ignore it (in astonishing fashion) by focusing only on the post-2077 portion. “Medicare,” he writes:

though often lumped in with Social Security, is a different program facing different problems. The projected rise in Medicare expenses is mainly driven not by demography but by the rising cost of medical care, which in turn mainly reflects medical progress, which allows doctors to treat a wider range of conditions.

If this trend continues—which is by no means certain when we are considering the *very long run*—we may face a real *long-term* dilemma that involves all medical care, not just care for retirees, and is as much moral as economic. It may *eventually be the case* that providing all Americans with the full advantages of modern medicine will force the government to raise much more money than it now does. *Yet* not providing that care will mean watching poor and middle-class Americans die early or suffer a greatly reduced quality of life because they can’t afford full medical treatment.

*But* this dilemma will be there regardless of what we do to *Social Security*. It’s not even clear that we should try to resolve the dilemma *now*. I’m all for taking the *long view*; when the administration makes budget projections for only five years to hide known costs just a few years out, that’s an outrage. By all means, let’s *plan ahead*. *But* let’s set *some limits*. When people issue ominous warnings about the *cost of Medicare after 2077*, my question is, Why should fiscal decisions today reflect the possible cost of providing generations *not yet born* with medical treatments *not yet invented*?<sup>37</sup>

Fine, but what about pre-2077?

This odd exercise in denial appeared in somewhat different form in a January 2005 on-line article of Krugman's that he referenced in one of his columns. Here again, he made statements like, "In 2100 Medicare may be paying for rejuvenation techniques"; and "What do you think the world will look like in 2105?" and, "I doubt that anyone really believes that it's important to look beyond the traditional 75-year window."<sup>38</sup>

All in the service of not looking through it.

## WAYS TO DESCRIBE THE TRUTH

By the time Krugman published a long article in the March 10, 2005, *New York Review of Books*<sup>39</sup>—ostensibly a review of a thoughtful book by Laurence Kotlikoff and Scott Burns called *The Coming Generational Storm*—he had evolved to another position. Based on an earlier version of the CBO's projections, he did indeed call the prospective costs of Medicaid and Medicare a source of real concern.<sup>40</sup>

But, he insisted, when it came to dealing with this problem, Social Security dollars were off the table. Why that should be the case when Social Security accounts for half the cost of elderly entitlements now, and will still account for about a third 45 years from now, is never made clear.

"One way to describe the truth," he writes, "is to say that there is no program called Socialsecuritymedicareandmedicaid: these are separate programs with separate problems."<sup>41</sup> Krugman gives three main reasons for describing "the truth" in this way, and while all are overstated, none is entirely wrong. First, he maintains that rising Social Security costs are driven by "the aging of the population," while never mentioning the CBO report, which revealed that to be only about half true ("The Future Growth of Social Security: It's Not Just Society's Aging"). Second, he points out that the "scary" projections of Medicare and Medicaid are not based on demographics, but on the assumption that healthcare spending would continue to rise faster than GDP, while never mentioning that the figures also make the optimistic assumption that the trend will slow considerably.

Finally, he points out that most of the rising cost is accounted for by Medicare and Medicaid. But not only is that statement exaggerated—as

we have seen, Social Security will still account for one-third of the total costs by 2050—it's even somewhat arbitrary. To see why, just ask what would have happened to Social Security costs if Medicare and Medicaid had not been created. Social Security, which preceded these other two programs by nearly three decades, was surely conceived to help cover all living costs of retired folks, healthcare included. Without these two programs, Social Security's present and future obligations would be much larger. In fact, Medicaid even pays most of the living costs of seniors who cannot take care of themselves, with Social Security picking up a relatively small part, as anyone with a parent in a nursing home (like me) knows firsthand.

But if Krugman's is "one way to describe the truth," there are other ways, such as: there is a program called Social Security Medicare and Medicaid. That way can become useful when we consider that the soaring cost of all three parts will mainly go to entitlement programs for the elderly; that the total cost threatens to swallow up the federal budget; that whatever savings can be realized by one part could provide relief to another; and that there might be ways to realize nontrivial savings in the part called Social Security.

Instead, Krugman gets back to his real concern—Bush and his privatization plan. "The administration's rationale for privatization," he writes, "is that it is needed because Social Security is in crisis. As we've seen, that's a huge exaggeration, and many of the things President Bush says—such as his assertions that the system will be 'flat broke, bust' when the trust fund runs out—are just plain false."<sup>42</sup>

But of course, if privatization will detract from the system's ability to pay on its promises, it would only be worse if Social Security really is in danger of going "flat broke, bust"—just as it would be worse if Social Security Medicare and Medicaid were in similar danger.

In response to a letter from authors Kotlikoff and Burns—who rightly complained that their book had been ignored—Krugman wrote: "I stand by what I said in the review. Nobody should ignore the demographic *problem*, which is real and substantial. But exaggerating it, and pretending that the quite different health care *problem* is part of the same syndrome, only distorts the policy debate."<sup>43</sup>

I'll give him this: While his own role in distorting the policy debate persisted, it had certainly diminished. After all, he had just used the word

“problem” twice in the same paragraph. But how seriously he took the problem was not quite clear.

Not until a year later.

## ***Closing the Door***

The March 23, 2006, issue of the *New York Review of Books* ran another long article by Krugman (co-authored with his wife and Princeton colleague Robin Wells) called, “The Health Care Crisis and What to Do About It.” On certain aspects of what not to do, the article was also explicit: do nothing—at least, “not today”—about the soaring cost of elderly entitlements.

What Krugman *would* do is to replace our “current complex mix of health insurance systems” with a “single-payer system” similar to that found in Taiwan and Canada.<sup>44</sup> He would even go beyond that model to the “next step”—“honest-to-God socialized medicine, in which government employees provide the care as well as the money,” similar to the Veteran’s Health Administration in the United States. If we go that route, “the savings would be so large that we could cover all those currently uninsured, yet end up spending less overall.”<sup>45</sup>

While I don’t find that last part convincing, to explain why would go beyond the scope of this chapter—and indeed, of this book (see final chapter). But even assuming we should do what he proposes, why do nothing about elderly entitlements? He again declares that “there is no program called Social Security Medicare and Medicaid,” with the same objective of getting Social Security dollars off the table. And as for making Medicare and Medicaid “tomorrow’s issue, not today’s,”<sup>46</sup> a certain element of denial still remains.

While Krugman does acknowledge the “crushing burden” of “excess cost growth”—per capita costs of Medicare and Medicaid rising faster than per capita GDP—he points out that “without this excess cost growth,” the rise would be “significant . . . but not overwhelming, and could be addressed with moderate tax increases and possibly benefit cuts.”<sup>47</sup> True, but nowhere does he mention the hopeful assumptions on which that excess cost growth is based.

According to the CBO figures on Medicare, “costs per enrollee . . . rose 2.9 percentage points faster than per capita GDP over the 1970–2004 period.”<sup>48</sup> More recently, from 1990 through 2004, this excess cost growth slowed to 1.9 percentage points. (The Medicaid



figures are distorted by demographic factors.) One might expect the forecast would be based on that slowed rate of 1.9 percentage points. But as the CBO makes clear, the “crushing burden” of which Krugman speaks assumes a near halving of that figure to just 1 percentage point a year on a sustained basis. That’s how the CBO projects that Social Security, Medicare, and Medicaid will account for 19% of GDP by 2050, more than swallowing up federal revenues as we know them. Should anything less fortuitous happen, the crushing burden would be even more crushing.

These grim realities, of which Krugman says nothing, seem to conflict with the vision of Medicare set forth in his article. “The core of the system” they want, write Krugman and Wells, “would be government insurance—‘*Medicare for all*,’ as Ted Kennedy puts it.” They go on to explain:

Although it’s rarely described this way, Medicare is a *single-payer system* covering many of the health costs of older Americans. (Canada’s universal single-payer system is, in fact, also called Medicare.) And it has some though not all the advantages of the broader single-payer systems, notably low administrative costs.<sup>49</sup>

With Medicare thus anointed as a less costly system, why rush to rein in its costs?<sup>50</sup>

The CBO, by contrast, which apparently lacks Krugman vision, keeps counseling against delay. Regarding “changes to the Social Security and Medicare programs,” the CBO declares at one point, “*sooner is better than enacting them later* because future beneficiaries would have longer to prepare, because the revisions could be less drastic, and because the changes could enhance economic growth.”<sup>51</sup>

Meanwhile, Krugman’s tendency to deny goes beyond his work on elderly entitlements. It has spilled over into narrower disputes about the use of data, as we’ll see in Chapter 2.