

ISSUES IN PERSPECTIVE

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Is the Welfare Model Dead?

Since the administration of Dwight D. Eisenhower, both Republicans and Democrats have accepted the basic model of the New Deal Welfare State. Many Republicans under Eisenhower sought to unravel the welfare state programs begun during the New Deal, especially Social Security, but Eisenhower made the decision to keep the basic model of a moderate welfare state. Under President George W. Bush, the Republicans continued to basically support the moderate welfare state, especially with his addition of the prescription drug program to Medicare as a benefit. [Bush did so without adding any additional revenue to pay for it.] But today, many Republicans have reached the conclusion that the Welfare State model is unsustainable and has failed. Indeed, Yuval Levin recently wrote in the *Weekly Standard* that “We have a sense that the economic order we knew in the second half of the 20th century may not be coming back at all—that we have entered a new era for which we have not been well prepared. . . We are, rather, on the cusp of the fiscal and institutional collapse of our welfare state, which threatens not only the future of government finances but also the future of American capitalism.” Evidence for this proposition is quite compelling. Consider Spain, Greece and Italy—declining and restricted economies, unsustainable debt, rising unemployment and falling living standards. What is occurring in the US is much more gradual. David Brooks writes that “In the decades after World War II, the US economy grew well over 3% a year, on average. But, since then, it has failed to keep pace with changing realities. The average growth was a paltry 1.7% annually between 2000 and 2009. It averaged 0.6% growth between 2009 and 2011. Wages have failed to keep up with productivity. Family net worth is back to the same level it was at 20 years ago.” Consequently, the welfare state is failing to provide the security or protection it promised when its various parts were enacted. The welfare safety net is becoming so expensive that it cannot be sustained for future generations. Brooks concludes: “Meanwhile, the current model shifts resources away from the innovative sectors of the economy and into the bloated state-supported ones, like health care and education. Successive presidents have layered on regulations and loopholes, creating a form of state capitalism in which big businesses thrive because they have political connections and small businesses struggle.”

In so many ways, the presidential contest just beginning is about this very issue: Is the Welfare State Model dying and therefore unsustainable or can it be tweaked a bit in order to sustain it? President Obama is clear that he believes in the Welfare State Model and believes minor adjustments can save it. It is unclear what candidate Romney believes. He talks of reforming the tax code, of transforming entitlements and dealing with health care issues in a totally different manner. But he has yet to articulate how he would do all this and whether he believes that the basic Welfare State Model is sustainable. Quite frankly, what happens in Europe may provide the answer. But there is simply no way the Welfare State Model in the US will continue to function. It is a totally unsustainable model for providing care and safety for American citizens.

For these reasons, I believe there are two primary issues that need addressing:

- First is the health care act President Obama supported and Congress enacted. Economist Robert Samuelson suggests several important reasons why this massive feat of social engineering weakens the economic recovery and actually antagonizes millions of Americans. (1) It increases uncertainty and decreases confidence when recovery from the Great Recession requires more confidence and less uncertainty. Until 2014, people cannot know where they will get insurance and what it will cost. Uncovered people must buy insurance or face a penalty (“the individual mandate”) but the US government will subsidize households up to four times the poverty level (that is \$92,200 for a family of four). (2) The health care law discourages job creation by raising the price of hiring. No matter how you view this act, the cost of labor increases and that means companies will hire fewer people because of it. Because the employer mandate exempts companies with fewer than 50 employees, that is a major incentive to stop at 49 employees! (3) Uncontrolled health spending is the US system’s main problem and the health care act makes it worse. Spiraling health care costs crowd out other government programs and squeeze wage increases by diverting compensation dollars into employer-paid insurance. Because insured people use more health care services, the new law increases health care spending and even its advocates agree that total health care spending rises from 17.9% of gdp to 19.6% of gdp by 2021. (4) Obama’s program also worsens the federal budget problem. Driven by Medicare and Medicaid, health care is already 1/4th of the federal budget. With this new law it will be nearly 1/3rd. From 2012 to 2022, this law increases federal spending by \$1.76 trillion. Obama contends that this is offset by tax increases and assumed cuts in Medicare, assuming Congress does not repeal them! (5) The law actually discriminates against the young in favor of the old. Samuelson shows that the law compounds the effect of the young, who already subsidize Social Security and Medicare benefits for the old, by forcing the young to buy insurance at artificially high premiums that would pay for the care of a sicker, older population. For these reasons, let us hope that the Supreme Court strikes down this very bad law, which does not solve the health care crisis in America but actually adds to both our debt and the entitlement mentality of the welfare state; a Model which is already dying.
- Second, this new law fosters greater centralization of power and authority in the federal government. The law compels people to enter into an activity (the individual mandate) so that the federal government can then regulate it. As David Brooks concludes, “This new ability to compel activity opens up vast new powers.” The law also centralizes Medicare decisions and the power of life and death within an unelected Independent Payment Advisory Board. It will also continue to centralize the nation’s resources by absorbing an estimated \$1.76 trillion (see above) over the next ten years. Finally, it will in effect make health care a political responsibility. Brooks: “Once voters assume that national politicians are responsible for their health care, national politicians become more active in running the health system.” Obama has not only centralized the goals of health care for Americans, he has centralized the cost-control elements and the power to make it all happen. This is a recipe for disaster and further gives encouragement to the paternalistic, nanny view of the state. The Welfare State Model is a dying model (witness Greece, Spain, Italy, et al), but

Barack Obama wants to keep it on life support. His health care law is not only unworkable; it promises to the American people what it cannot deliver.

See David Brooks in the *New York Times* (27 March 2012 and 15 June 2012) and Robert L. Samuelson in the *Washington Post* (18 June 2012).