

IAS 107 Lecture: Government Budgets II

J. Bradford DeLong
U.C. Berkeley
IAS107 Lecture Notes

http://delong.typepad.com/berkeley_econ_101b_spring/

April 14, 2011

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Logistics

- Office hours this week on Thursday after class...
- Lecture reading: DeLong and Olney, chapters 6, 7...
- Assigned section reading: CBO Long-Term Budget Outlook: <http://www.cbo.gov/ftpdocs/115xx/doc11579/06-30-LTBO.pdf>
- Next week's readings: DeLong and Olney, chapters 13 and 14...
- April 14 take-home assignment at http://delong.typepad.com/berkeley_econ_101b_spring/2011/04/takehome.html or <http://tinyurl.com/dl20T10414a>
 - Due April 19 at start of class

Problems to Solve

- Growth: production function
- Growth: balanced growth path
- Growth: forecasting
- Depression: NIPA
- Depression: income-expenditure
- Depression: investment-savings
- Depression: real interest rate movements
- Inflation: quantity theory of money
- Inflation: Phillips Curve
- Inflation: MPRF
- Inflation: Expectationally-consistent equilibrium
- Budget: sustainability
- Budget: burden of debt
- Budget: crowding out
- Data: pace of long-term growth
- Data: world real GDP
- Data: spread of world GDP
- Data: unemployment rate
- Data: employment-to-population ratio
- Data: inflation rate
- Data: government spending
- Data: government deficits

IAS 107 Lecture: Medical Care Financing in America

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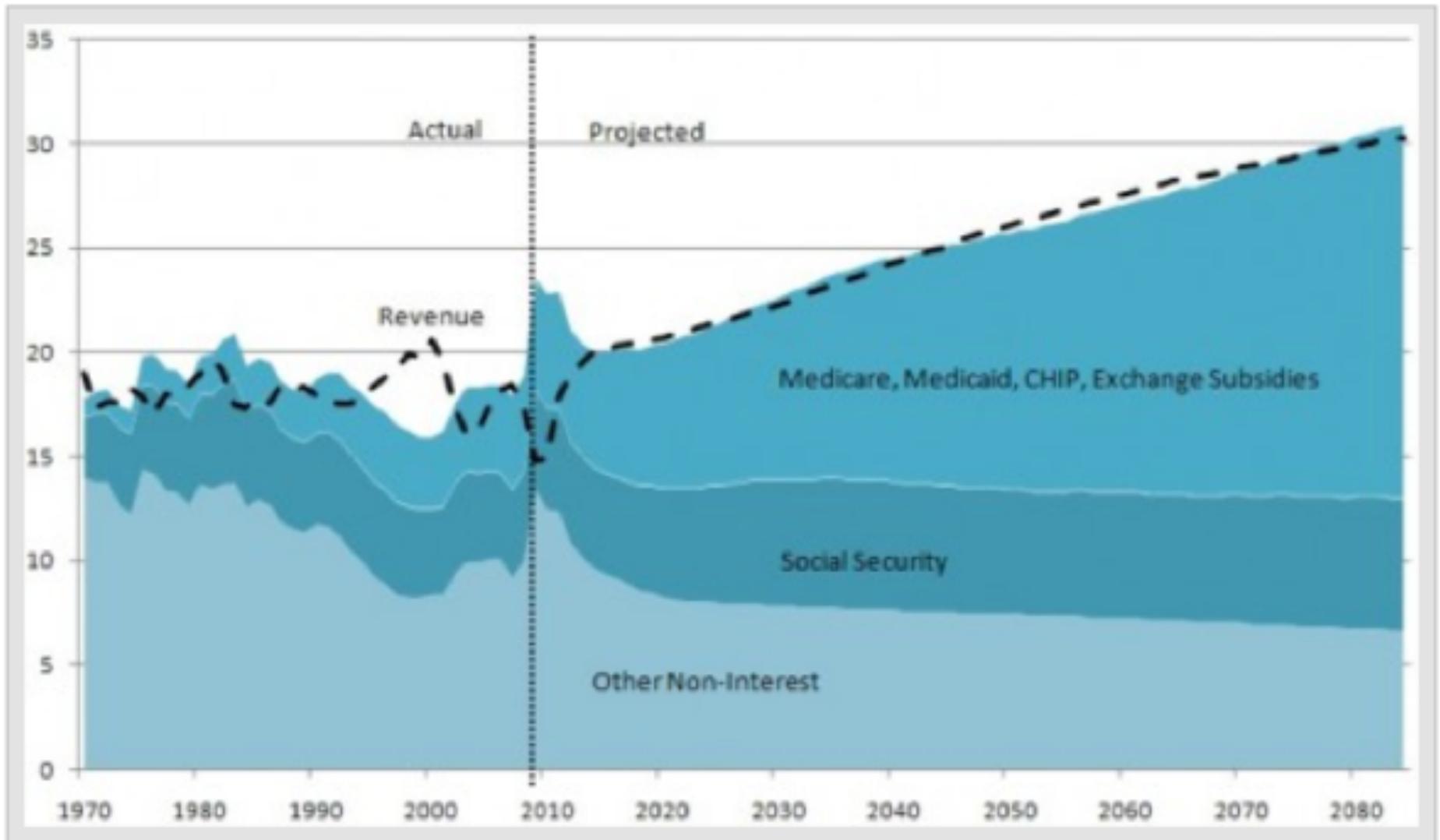
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But There Will Come a Time When the Economy Will Return to Normal

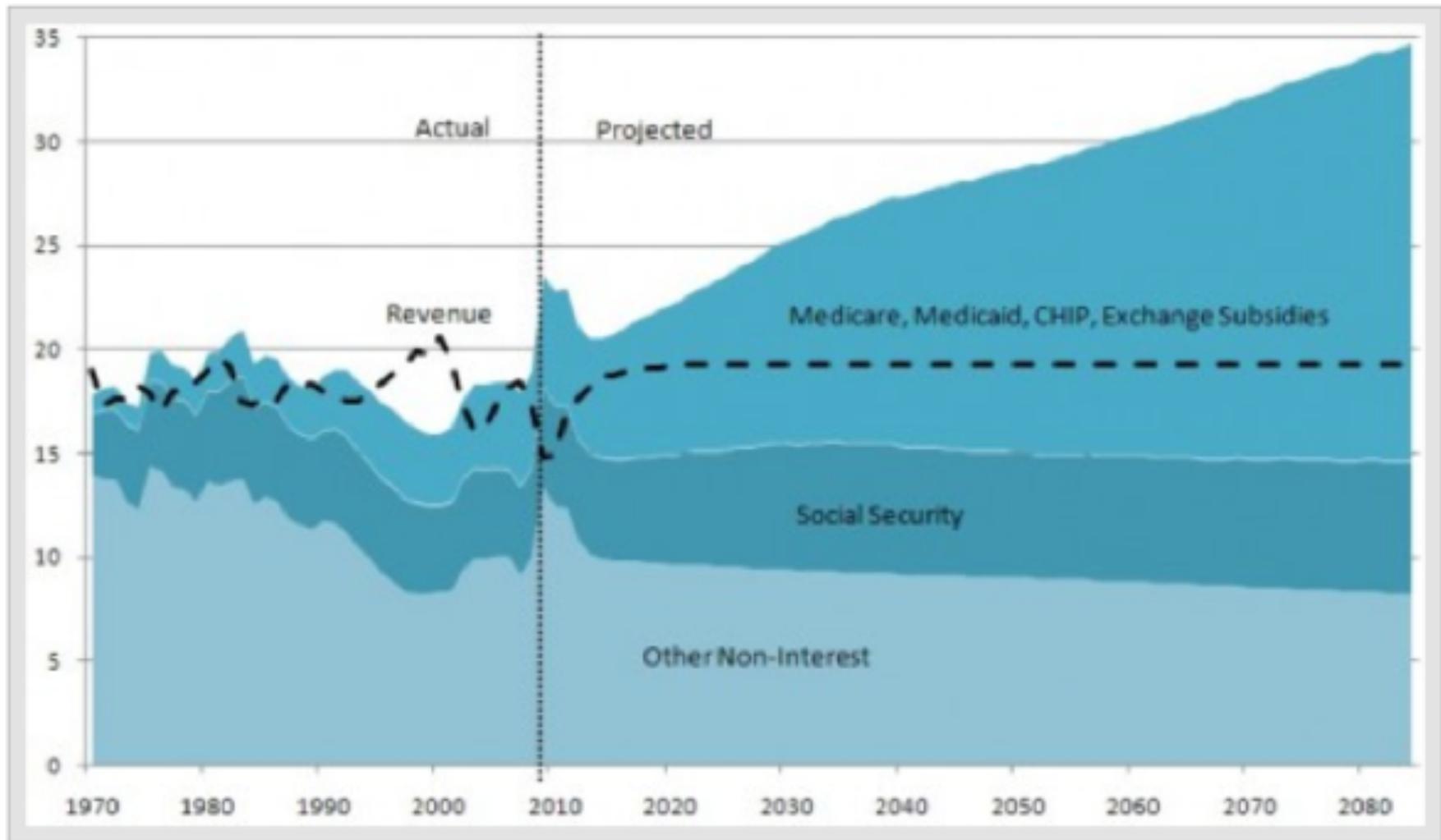
- Unemployment will decline to normal levels
- Output will return to its long-run growth trend
- Interest rates on Treasury Bills will return to their normal values as well
- And then the argument that, other things being equal, you want a low deficit—a government surplus—to crowd in investment is an argument that will have force.

Call This Date 2015. What Will the World Look Like in 2015? “Baseline”



Call This Date 2015. What Will the World Look Like in 2015?

“Alternative”



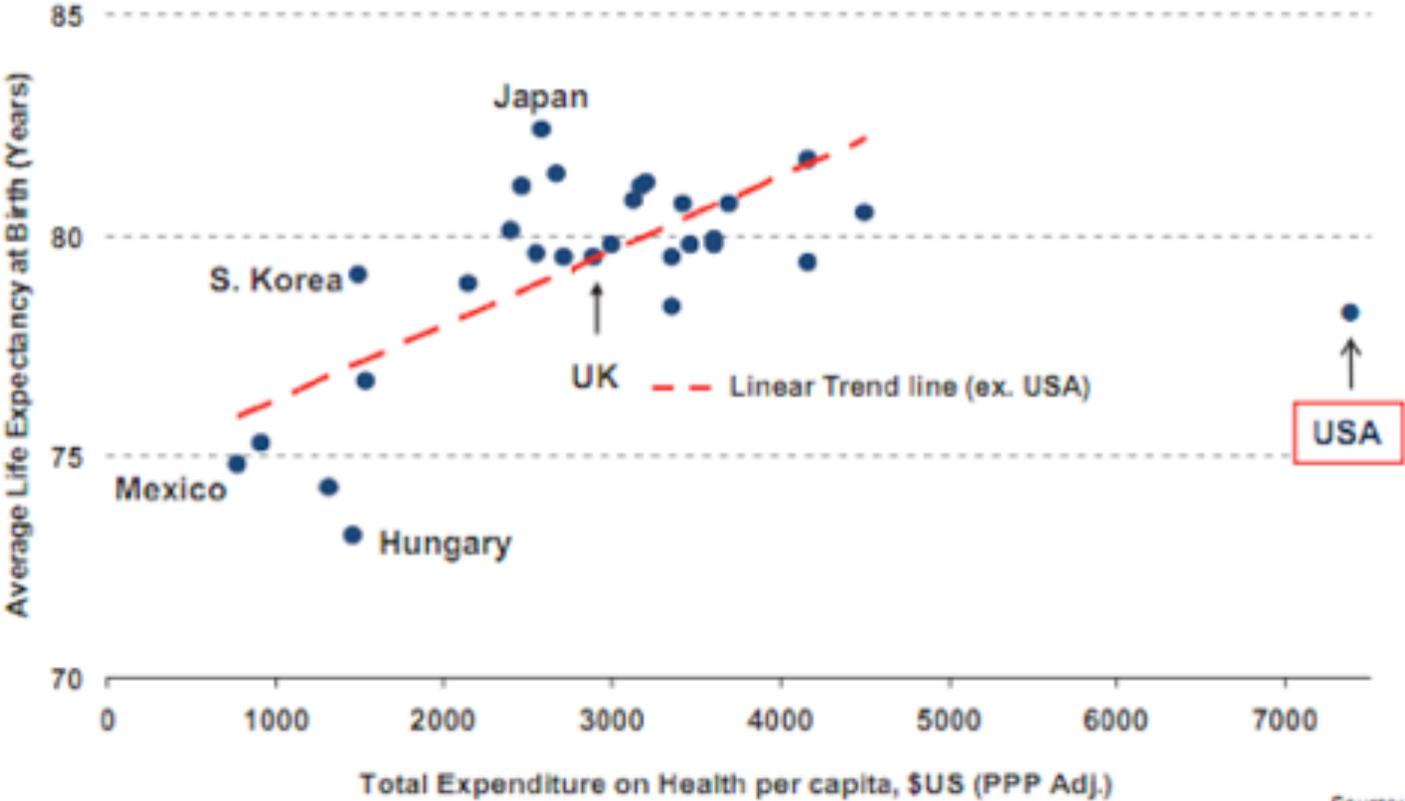
What Is the Difference Between “Baseline” and “Alternative”?

- Alternative Minimum Tax: 15%
 - Instituted to avoid those nasty headlines about millionaires paying no taxes
 - Rest of tax code indexed to inflation; AMT not; every year a fix
- R&D and other tax credits: 5%
 - Now a fundraising tool
- “Doc fix”: 5%
 - Now a fundraising tool
- Affordable Care Act Provisions
 - The tax on “high cost” health plans: 35%
 - The IPAB: 40%

Medical Care Across Countries

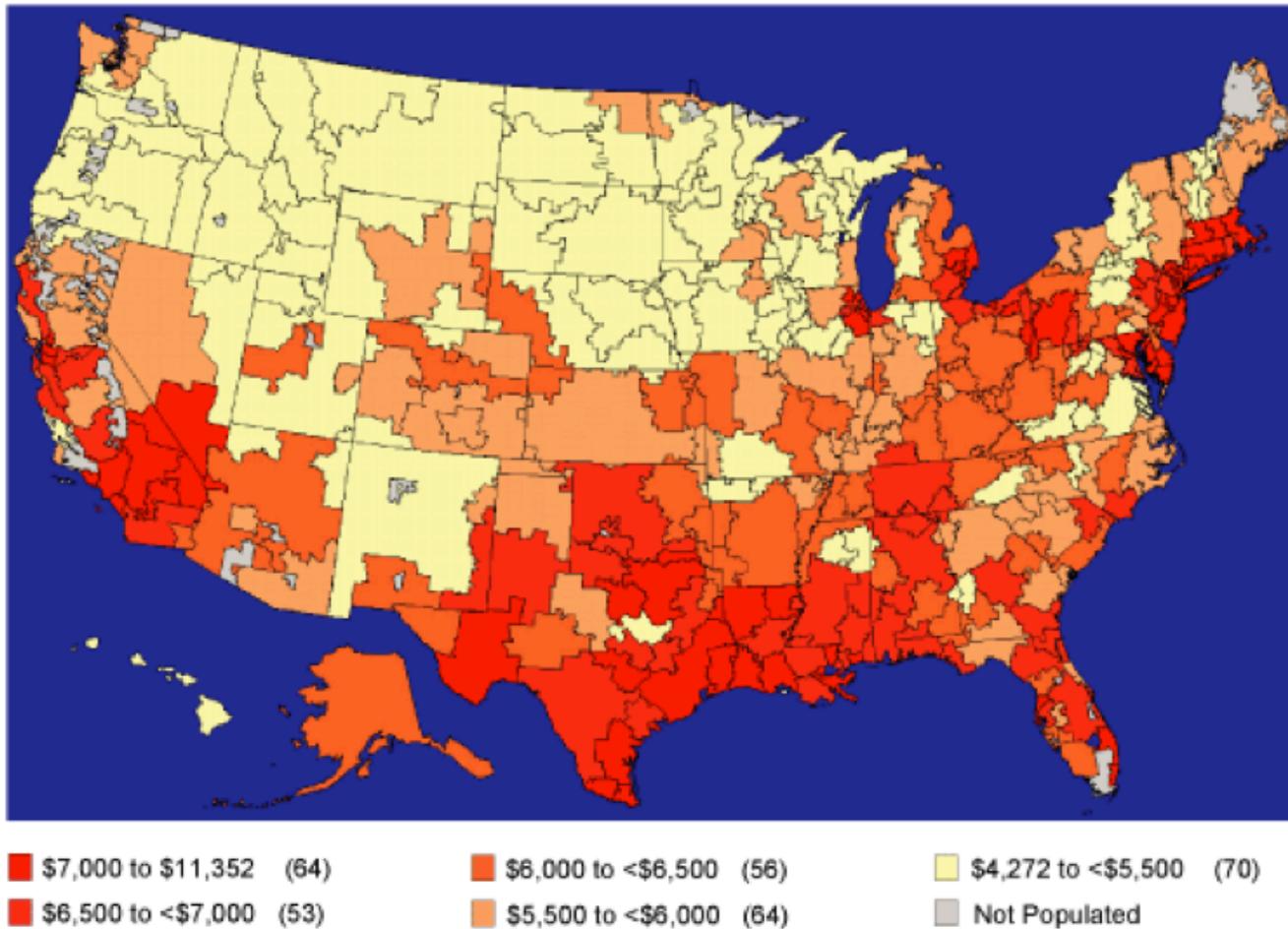
USA Healthcare Outcome (based on Life Expectancy) Have Room For Improvement Relative to Other Countries

Healthcare Spending per capita vs. Average Life Expectancy Among OECD Countries, 2007



Medicare Spending by District

Medicare Spending per Capita in the United States, by Hospital Referral Region, 2003



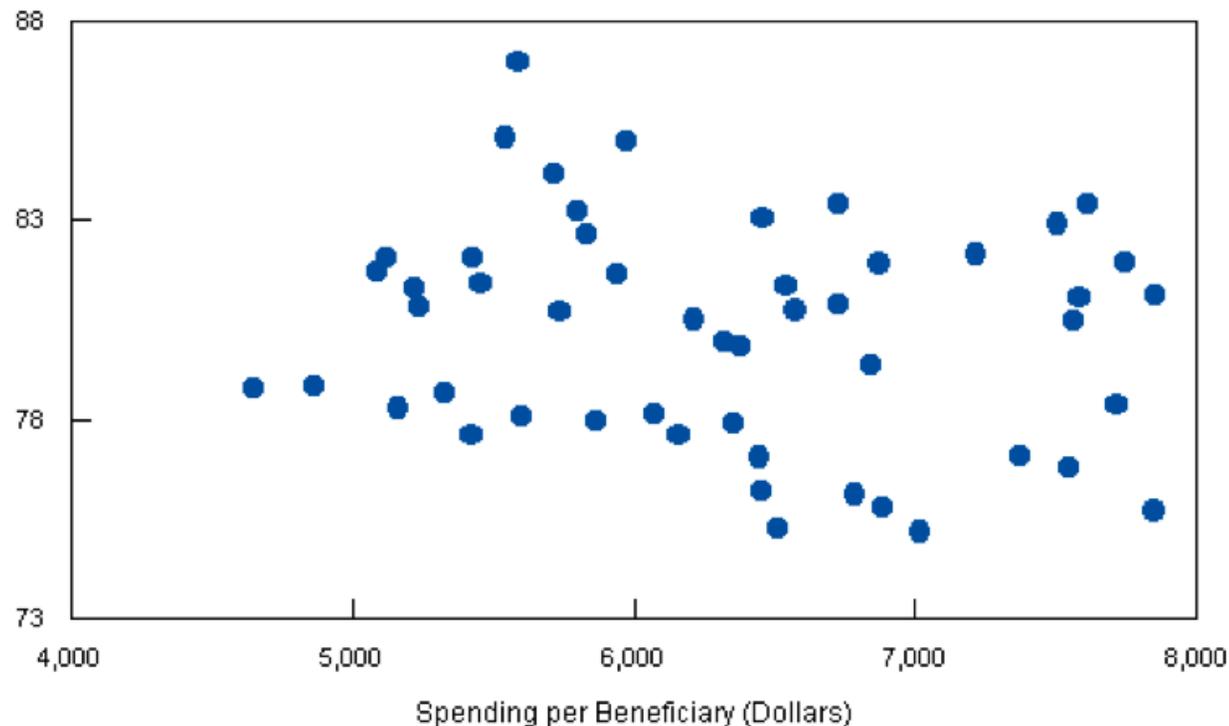
Source: *The Dartmouth Atlas of Health Care*.

Note: Numbers in parentheses refer to the number of hospital referral regions with per capita spending in each interval.

What Are These Differences Buying Us?

The Relationship Between Quality and Medicare Spending, by State, 2004

(Composite measure of quality of care)



Source: Congressional Budget Office based on data from Agency for Healthcare Research and Quality, *National Healthcare Quality Report, 2005*, Appendix: Data Tables, available at www.ahrq.gov/qual/nhqr05/index.html, and data from the Centers for Medicare and Medicaid Services' Continuous Medicare History Sample.

Note: The composite measure of the quality of care, based on Medicare beneficiaries in the fee-for-service program who were hospitalized in 2004, conveys the percentage who received recommended care for myocardial infarction, heart failure, and pneumonia.

Spending figures convey average amounts by state.

Four Big Questions

- Why is U.S. health care spending so much higher than spending in other countries?
- Why is U.S. health care spending projected to grow at such a rapid rate?
- Why is there so little correlation between excess U.S. health care spending and health outcomes?
- What should the federal government do about the forthcoming health-care cost explosion?

Differences with Other Countries

- Huge numbers of administrators...
 - Pass the hot potato
- Much larger pharmaceutical profits...
 - Price \neq marginal cost
 - Free-riding by foreigners
- Higher doctors' earnings...
 - But doctors are not terribly happy
- More and better-paid specialists...
 - Control of the DRGs
- Defensive medicine
 - Malpractice
- Market concentration
 - Antitrust

General Drivers of High and Rising Health Care Costs

- Patients are ignorant
- Patients care a lot
- Technological progress is expensive
 - LASIK
- Uncompensated care
- The knotted role of insurance
- Gatekeepers and “death panels”

Little Correlation Between Costs and Outcomes

- Hand washing and checklists
- Regional differences in customary payments
- Evidence-based medicine?

Components of U.S. Health Care Financing

- Medicaid
 - For the poor
 - For the disabled
 - For the old and newly poor
- Medicare
- Private large-firm employer-sponsored insurance
- Private small-firm and individual insurance
- Out of pocket

What Is to Be Done?

- The Obama Plan
 - Cadillac Plan tax, IPAB, evidence-based medicine, exchanges
- The Ryan Plan
 - Repeal ObamaCare
 - “Skin in the game”
 - Cap on government payments
 - Starting in 2022, turn Medicare into ObamaCare which is really RomneyCare
 - Plus \$4 trillion of spending reductions and \$4 trillion of tax cuts over the next decade
- Single-payer
- Backstop catastrophic
- These are the biggest decisions the government is going to make over my and probably your lifetimes