

BOOK REVIEWS

Medicare Policy Analysis As Dismal Science

by Bruce C. Vladeck

Who Should Pay for Medicare?

by Daniel Shaviro

(University of Chicago Press, 2004), 169 pp., \$25

Originally, the notion of applying the social sciences to the analysis of complicated problems of public policy was a utopian vision. A century ago, everyone from Progressive American municipal reformers to British Fabians used the term “social engineering”—without its modern connotations of opprobrium—to convey the hopeful analogy that the applied social sciences would bring to government and society the kinds of benefits that the applied natural sciences had recently wrought in the advent of electrical power, the telegraph and telephone, and the internal combustion engine.

Yet for at least the past generation, at least in the United States, as public policy has tilted increasingly in favor of the privileged and powerful, social scientists and policy analysts have often been in the vanguard. This space—and forum—do not permit consideration of why that might be so, but given the intellectual hegemony of neoclassical economics in the public policy debate, it is at least historically appropriate to refer to the “dismal science” as a major contributor to the currently dismal, dystopian state of affairs, not least in our health care system.

This is the context in which Daniel Shaviro has written *Who Should Pay for Medicare?*, which the author himself describes as an attempt to

apply a “public economics perspective” to an analysis of Medicare policy. In fairness to Shaviro (a professor at New York University Law School), it must be noted at the outset that as these sorts of exercises go, his analysis is remarkably careful, full of appropriate qualifications and cautions, and skeptical about right-wing as well as left-wing panaceas. He deserves special credit for recognizing that the long-term problems of Medicare will require policy change on the revenue as well as the expenditure side. Indeed, in Shaviro’s own analysis, most of the dollars needed to close Medicare’s fiscal gap are revenues, not savings, although the great bulk of his discussion involves the latter, not the former. His policy prescriptions, although I would certainly disagree with many of them, are similarly cautious, carefully hedged, and judiciously described.

But most of the book consists of a relatively abstract, straightforward (if highly sophisticated) application of the assumptions of neoclassical economic theory to a relatively sketchy caricature of Medicare. In this approach, health care is a discretionary consumer expenditure, and moral hazard is thus the major engine of health care inflation. Permitting seniors to purchase Medigap policies is like giving your teenagers a credit card. And the increasingly well-documented adverse health impacts of increased copayments and deductibles, at least for those with low to middle incomes, are ignored, while the thirty-year-old RAND Health Insurance Experiment (which, as Shaviro notes, included no one over

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age sixty-five) is adduced as definitive evidence. Within a given age cohort, differences in income are attributable primarily to differences in talent and work effort (thus, presumably, the income differences between corporate executives and dishwashers must be solely due to the greater talents of the former).

The past decade's collapse of the Russian economy is discussed as an illustration of where we might be headed, but there is no reference at all to the more than twenty nations, all less rich than we, that have somehow managed to provide more generous health care benefits than we do to their larger older populations (not to mention to their entire citizenry). As Stuart Altman used to remind us, there are more health economists in Boston than in all of the European Union, but whether or not that is a good thing (for society, as opposed to health economists), or indeed whether it is an effect or a cause, are at least debatable propositions.

More insidiously, the subtext throughout *Who Should Pay for Medicare?* is that the principal obstacle to more "rational" policy is politics. Presumably, everyone would be better off (at least in terms of aggregate consumer utility) in a world of philosopher-kings with PhDs in economics. But the fundamental contradiction between mass democracy and unfettered free-market economics, which so preoccupied Madison and Hamilton and which was for so long taken for granted in the social sciences, is now largely forgotten or ignored—by politicians as well as by social scientists.

There are real problems with Medicare, in both its current design and its long-term financing, and Shaviro tries to think systematically about some of them. Critiquing his core methodology, as I know from direct personal experience, opens the critic to charges of "anti-intellectualism." But the public economics approach that Shaviro so explicitly applies itself embodies a whole set of assumptions, value judgments, and erroneous (if necessary) epistemological assumptions about value and meaning. And, not coincidentally, it just so happens to be an approach that is systematically biased against public action, redistrib-

utive policies, and social insurance. The problem with Shaviro's approach is not that it's too "intellectual"; it's not intellectual enough.