

New York

The Facts Are In and Paul Ryan Is Wrong

By Jonathan Chait



Changes in the way we think about the world are not “news” in the classic sense — they occur gradually, without discrete events to signal them. But they matter. Two such developments have come together recently, both reported in the *New York Times*. The first is the collapse of intellectual support for the notion that immediate austerity can boost economic growth. The second is a growing consensus that health-care-cost inflation is slowing for deep structural reasons, rather than having undergone a mere temporary dip from the recession. These trends have something in common: They blow to smithereens the intellectual foundations of the Obama-era Republican policy agenda.

During the last four years, the hoary Republican nostrums of lower taxes, spending, and regulation have cohered into a specific view of the world. Paul Ryan has been the leading figure in defining this view and persuading the entire party, almost without exception, to fall in line behind it. The Ryan worldview is that the United States is heading toward a massive debt crisis,

that the crisis is driven primarily by rising health-care costs, and only his plan stands any chance of alleviating it. Ryan has expounded this view over and over:

Paul Ryan The Path to Prosperity

http://www.youtube.com/watch?feature=player_embedded&v=IUCxDufMrGY#

It is of course unfair to judge the merits of an analysis solely by the rhetoric of its politicians; politicians have to sand off the rough and complicated edges of their ideas to appeal to a majority. The deeper expression of the Ryan worldview comes from Yuval Levin, a close adviser to Ryan, probably the most influential conservative intellectual of the Obama era (and who was recently recognized as such and granted a \$250,000 Bradley Prize).

The fullest expression of Levin's view came in a widely cited essay he wrote for National Affairs, "Beyond the Welfare State," which came out right about when Republicans took control of the House of Representatives, and has served as their blueprint ever since. The most striking thing about the essay is its Marxian grandiloquence. Just as Marx believed of capitalism, Levin insisted the welfare state was utterly doomed, that the ailments he identified would necessarily continue indefinitely unless his chosen remedy was adopted.

Levin hinged his view upon two specific contentions. The first was that the debt crisis was not merely a long-term fear but an existing reality, responsible for the present crisis:

This conflation of short- and medium-term problems — of annual deficits with retirement liabilities, of sluggish growth with the burden of debt, of the Obama agenda with the broader social-democratic project — is in one sense an error, of course. But it is not ultimately an error. Indeed, it is a powerfully clarifying synthesis, which has given us a vision of our future: The fiscal crisis we face is an extended and expanded version of our deficit problem; the recession from which we are emerging was a preview of life under suffocating debt; the Obama agenda does seek incrementally to advance the larger social-democratic vision — especially on the health-care front, where that vision has seen its greatest fiscal failures.

This became the basis for the Republican view that deficit reduction could not be delayed and must be undertaken immediately, and that radical new tactics, like threatening financial chaos through defaulting on the debt, were a justified response to an emergency that did not lay over the horizon but was already upon us.

Levin's second argument was a fanatical hatred for the Affordable Care Act. No supporter of the law could muster an enthusiasm that could match Levin's revulsion for the law — the "false hope that the dream [of the welfare state] may yet be saved through clever tinkering at the edges." It was bound to fail in absolutely every respect, especially in its claim that it could limit

health care cost inflation. Far from it, argued Levin. Obamacare “will exacerbate the cost problem,” he wrote in 2010. Under the new law, he was certain, “cost cutting can only be achieved at the expense of quality care —and even so it rarely happens.”

Levin’s arguments were hyperbolic versions of the critique of Obama that resonated among respectable centrists. The trillion-dollar deficits were shocking, dangerous; Obamacare didn’t do anything to limit the continuous rise of health-care costs. These propositions maintained enough political respectability that Republicans could turn (hyperbolized) versions of them into the premise for their domestic policy and be treated as sagacious guardians of fiscal responsibility.

The doctrine of expansionary austerity — the premise that we must cut deficits not just eventually but immediately — has suffered a series of disastrous reversals. It has failed repeatedly in Europe, and its most prestigious academic basis, a paper by Harvard’s Carmen Reinhart and Kenneth Rogoff, was exposed for a series of fundamental errors. A *New York Times* article this week represented a watershed, baldly stating in its headline, as the entire macroeconomic forecasting field has understood all along, that the short-term deficit was too low, no longer a counterintuitive dissent but a clear and barely contested reality.

Less visible, and possibly more interesting, is the growing mass of evidence that the health-care-cost inflation problem is indeed solvable. Both Republicans and Democrats agree that health-care costs, which have historically risen far faster than general inflation, pose the central threat to long-term fiscal stability. The Affordable Care Act attempted to control it at the same time as it expanded coverage to the uninsured.

Levin, and Republicans like Ryan, like to say that Obamacare’s cost control’s consist only of the Independent Payment Advisory Board — “unelected, unaccountable bureaucrats,” as Ryan calls them. In fact, the law created a wide slew of reforms intended to attack health-care inflation from every possible angle. The law created bundled payments, so that Medicare would pay hospitals or groups of doctors based on quality, not quantity, of care. It penalized hospitals that have to readmit patients owing to shoddy work (they previously would enjoy a second payday for doing so), taxed high-cost health-insurance plans, encouraged electronic medical records and research on effective treatments, and many other things. Nobody believed every one of these experiments would work perfectly. The idea was to try as many promising reforms as possible, and health-care wonks expressed cautious optimism that the law contained a wide breadth of them.

Over the last few years, health-care inflation has indeed decelerated — far more deeply than even the most optimistic backers of the law dare hoped. The federal budget for Medicare and Medicaid in 2020 is now projected to be 15 percent lower than forecasters expected a few years ago.

At first, the sharp slowdown in health-care costs was assumed to have happened because the recession is making people cut back on their medical care. Levin has clung stubbornly to this interpretation. But as the trend has persisted, and undergone deeper study, a consensus is emerging that this is not the case at all. Several studies have found that the recession does not account for all, and possibly not even most, of the slowdown.

The trend precedes Obamacare, too. But the law can't be cleanly separated from the broad sentiment that the medical industry needed to overhaul its practices. As Matthew Yglesias argues, "If forward-looking investors think that future increases in health care spending will be met with legislative efforts to curb health care spending, then investments that rely on future high levels of health care spending won't be made and the system will lack the capacity to deliver ever-growing levels of services." In keeping with Yglesias's premise, construction on hospitals cratered since 2009 and has not recovered.

Even with the data on their side, none of the advocates of Obamacare is nearly as certain the law will succeed as conservatives like Levin are that it will fail. That is a testament only to the overweening ideological certainty that pervades the right.

The slowdown in health-care costs is provisional. Perhaps it will peter out, and Obamacare will require massive revisions. Perhaps, too, the interest rate spike Ryan has been warning of will suddenly appear.

But the key thing is that the conservative program since 2009 has hinged on the absolute truth of both these provisions. The certainty of the imminent debt crisis, and the certainty that Obamacare would worsen rather than ameliorate it, undergirded the party's entire strategy. It is not merely the ideological extremism but Levin's dialectical certainty that the welfare state will collapse upon itself that has driven the party's refusal to compromise. Why not meet Obama halfway, see what we have learned in a few years' time? Because, he wrote, half-measures "would make real reforms less likely, by letting our leaders persuade themselves they have dealt with entitlements when in fact they would have only bought a little time." There is no point in buying time to learn more about the nature and scale of the problem when your ideology has already furnished the answer.

And yet the canon of Levin and Ryan has undergone no revision whatsoever. The debt crisis is "irrefutably happening," Ryan insisted recently. Obamacare, he said yesterday, will "collapse under its own weight." Ryan and his party are so certain of these foundations his worldview rests upon that he can't even be bothered to look down at the rubble all around his feet.
