

# When Will Americans and Minnesotans Get Serious about the Impending Entitlement Crisis? *A Symposium*



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Laurence D. Cooper  
Tom Kelly  
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Moderated by  
Mitch Pearlstein



Center of the American Experiment is a nonpartisan, tax-exempt, public policy and educational institution that brings conservative and free market ideas to bear on the hardest problems facing Minnesota and the nation.

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### Introduction

At the risk of readers folding into fetal positions and refusing to read any further, projected budget imbalances when it comes to Medicare, Medicaid, and Social Security are larger, lengthier, and scarier than almost anything that may result from current hyper-efforts to stimulate the economy out of recession. Here's just one ugly set of numbers. It was pulled together several years ago by Brian Riedl, a very good analyst with the Heritage Foundation, when the economy was perking along well.

Unless policy-makers someday and somehow, he wrote, take extraordinarily hard but essential steps in regards to the big three entitlements, federal spending will eventually consume 28 percent of GDP – while federal revenues will total a comparatively paltry 18 percent. This 10-percentage-point gap, he said, will lead to budget deficits large enough to increase the national debt from 40 percent of GDP to more than 300 percent.

If this projection sounds familiar, it may be because I've cited it several times over the last few years as part of American Experiment's ongoing project, "*Stopping Boomer Health Care Budgets from Going Bust.*" Previous publications in the series have included *Affording Boomer Long-Term Care in Minnesota and the Nation*, by Peter J. Nelson;

*Consumer-Directed Health Care*, by Grace-Marie Turner; *A Conversation about Canadian and American Health Care with Lee Kurisko, M.D.*; and a symposium, featuring 28 writers from Minnesota and across the country, on the tough question: *Should Medicare be Means-Tested?*

To this roster, my Center colleagues and I are pleased to add *When Will Americans and Minnesotans Get Serious about the Impending Entitlement Crisis?* (Rather quickly, one hopes.) This newest installment is an unusually insightful and sometimes surprising conversation, held in March, among a quartet of smart fellows – "Research Fellows" and "Senior Fellows," actually.

The aforementioned Peter Nelson is an American Experiment Research Fellow on staff, focusing acutely on health care, energy, and the environment. The other three gentlemen – Chuck Chalberg, Laurence D. Cooper, and Tom Kelly – all have day jobs elsewhere, but more to the pertinent point, are all reasonably new American Experiment Senior Fellows. This is their first joint project, and if I do say so, it's first rate.

Dr. Chalberg teaches history at Normandale Community College in Bloomington and is a touring maestro of historical impersonations, including Theodore Roosevelt and G.K. Chesterton. Dr.

Cooper is associate professor of political science at Carleton College in Northfield and author of the 2008 American Experiment essay, “Why are American Jews So Liberal?” Mr. Kelly is a partner in the Minneapolis law firm of Dorsey & Whitney – and in a nice across-town ecumenical touch, he’s also chairman of the Minnesota Free Market Institute. I’m grateful to have all three friends involved with the Center in such intellectually key ways and I look forward to publishing them frequently in coming months and years.

I also look forward to any comments you may have.

**Mitch Pearlstein**  
**Founder & President**

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**Pearlstein:** To get started, let me read something written earlier this year by our friend Stuart Butler at the Heritage Foundation.

[O]ur version of social insurance [he said in a lecture titled “Mutual Obligation and the American Social Contract”] has morphed from a two-way obligation into a one-way legal entitlement to assure a comfortable, long retirement for middle-class Americans – whatever the cost in terms of funding for other social programs or the burden on future generations. Medicare and, to a lesser degree, Social Security now pose a staggering financial threat to the economic security of our children and grandchildren. This is a violation of the social contract and a travesty of the idea of mutual obligation. Those of us who are baby boomers have a lot to apologize for.

What do you think? Does he have it? Agree? Disagree?

**Tom Kelly:** I think it’s hard to disagree with the fiscal realities we’re facing, although the range of

outcomes is substantial, depending on how much economic growth we have over the next 75 years. Clearly, there is going to be a major reckoning, and, no matter how you slice it under the current Social Security program, my children will have an inadequate return on the amount they pay in over the years. Whether that’s a violation of a social contract is a philosophical question.

I don’t think that Americans historically have been very good at facing long-term problems. We have a system of government that is slow to move and easy to stalemate. We tend to let problems fester until a crisis comes.

**Pearlstein:** That is truly the heart and soul of this conversation. Larry, Chuck, Peter: What do you think?

**Larry Cooper:** Butler puts this in very stark, moralistic and, therefore, unsettling terms. My sense is that most people resist acknowledging his claim, which is probably true, because they didn’t actually enact this legislation themselves. They didn’t decide to take a certain amount of money from later generations. They’ve become accustomed to expecting (what seems to them) a reasonable retirement and provision. I think what Butler recognizes is that the matter needs to be cast in these direct terms, in these sorts of moral terms, to make an impression. Otherwise, people will have an easy time evading.

**Chuck Chalberg:** I periodically ask my students if they expect Social Security. Almost to an individual, they don’t. But what’s amazing is there is no sense of outrage. There’s no sense that there’s a problem here. They’re paying into this, and they have no sense they’re going to get anything out of it. I was kind of hoping – maybe it was a ridiculous hope – that maybe the Democrats would come around on this, that this might have been something that they would do. *Clearly*, they’re not. It’s quite depressing to look at what they’re doing. Instead of facing what we’re dealing with, they’re adding to the problem. Until they come around, I don’t see any hope.

**Pearlstein:** Come around on what specifically? Social Security, as a problem to be fixed, is a whole lot easier than Medicare and Medicaid. What I want to do in this conversation is deal with all three, one way or the other.

**Chalberg:** They're not going to deal with any of the three, and they're going to add a fourth: a complete single-payer health care system.

**Kelly:** I think that really goes to the nub of the question, at least as I understand the question: When are people going to get serious – Americans, Minnesotans, whoever? I think Americans and Minnesotans who are involved in the political process are dead serious about these issues. What they're not willing to do is compromise on their underlying philosophical beliefs in order to come up with an actuarially sound resolution.

Liberals believe very firmly that single-payer health care will help fix the problem because it will help control the cost of health care, which it has done in other countries. But it does so through a rationing approach that is antithetical to a lot of what Americans have always believed about our country. That is an approach that works much better for other countries where there's an outlet for those who can afford it, which is to come to America and get the treatment they can't get at home under their own national health insurance programs.

Conservatives are also increasingly serious about the issue. The development of thinking about what it would take to restore some type of market-based health care system since I started looking at this when I was running for attorney general, in 2002, is astounding. There is a much more complete set of ideas in place today.

Am I willing as a conservative to say, "OK, I'm willing to let federal spending go to 50 percent of

GDP because the only way we're going to fix this is to raise taxes to the point where we can afford to pay for that kind of welfare state?" No. Are people on the other side of the aisle willing to say, "I'm willing to accept that the bureaucratic model is not the way to deliver health care"? Or, "I'm willing to accept limitations on benefits in order to make this affordable, because raising taxes is both economically destructive and unfair to the people who have to pay all those taxes?" No, they're not. People are still in their philosophical camps. When are they going to get out of those camps? When a crisis comes; not until then.

**Cooper:** It seems to me that we need to acknowledge the difference between being serious in terms of how one acts, and being serious in terms of how one speaks. I actually have the sense that Democrats are more likely to get serious sooner, not in a way that would please people at this table, but serious in the

*"There's certainly a serious effort underway to reform our health care system. But that doesn't really solve the underlying cost problems we're facing."*

*-Peter Nelson*

sense of enacting legislation that would, in some way, put us on the road to something like a national health service. That doesn't mean they would be serious enough, or that politicians, at least, would be morally serious or honest enough to acknowledge all that's entailed in what they're doing. But it is imaginable to me that policies will be in place within the next year or so that

could effectively ensure our heading toward a governmental administration of health care. Now, I'd be interested to hear more from Tom about the advancement in thinking among conservatives. The fact is that Republicans, at least, had control of the government for several years within recent memory and didn't get serious about it.

**Kelly:** It's easy to be confused between conservatives and Republicans. Unfortunately, at this point, we conservatives are paying a high price for having supported an administration and Congress that did not act on the economic front as a conservative governing force. They spent more than the Clinton administration that preceded them, and they were

completely unwilling, outside of the effort to reform Social Security in 2005, to come to grips with the entitlement problems. In fact, President Bush and the Republican leadership in Congress made the problem significantly worse by instituting prescription drug coverage without reforming the underlying Medicare program. Every time a Republican stands up and says, “We’ve got to control this spending,” the Democrats say, “Look at your record between 2001 and 2006. You’re a hypocrite.” It’s a very tough argument to respond to.

### Numbers Don’t Compute

**Pearlstein:** I’m going to assert that even if – putting aside whether the Obama administration really wants such a system – we had single-payer by next Tuesday, the problems we’re talking about would still exist overwhelmingly, because the numbers just don’t compute over the next several decades, given all the boomers retiring, getting ill, and then dying.

**Peter Nelson:** That’s a point I was just about to make. There’s certainly a serious effort underway to reform our health care system. But that doesn’t really solve the underlying cost problems we’re facing. There are hard choices right now as far as eligibility and means-testing. Those hard choices are reflected in the Medicare system. A lot of people agree that Social Security is not that difficult to fix. It’s the Medicare system that’s confusing and is so far out of balance in the out years. I believe one of the reasons young people just haven’t responded is that they have absolutely no conception of what the numbers mean.

When I look at my pay stub, there is a lot of money taken out for Medicare. The taxes they take out every month are substantial. Right now, it’s really that money that should be accumulating for me, but it’s not. I think you have to put those numbers

in perspective. No one has depicted the Medicare problem in a way that resonates with people and lets people understand the sort of problem we’re having. I know that Stuart Butler and others have been going around the country with their wakeup call. When I look at the numbers, it’s hard even for me to get my head around what we’re actually facing.

**Kelly:** A useful historical analogy is the way the country responded to the rise of Nazi Germany in the 1930s. That was a problem with a much shorter fuse than any of the problems we’re talking about. But the country refused to face the necessity of dealing with the Nazi threat until December 10, 1941 – three days after Pearl Harbor – when Germany declared war on us. If they hadn’t done that, it’s not clear that we would have declared war on Germany.

*“I think the crisis is going to come when investors will no longer buy Treasury notes at risk-free interest rates. I think that’s coming sooner rather than later.”*

-Tom Kelly

The country doesn’t have a great history of looking at such long-term problems and making present sacrifices to address them. You have to accept that as part of the background against which we’ve got to deal with these problems. I think we may have our crisis coming sooner than we’d all like as a result of current financial problems, combined with the effort of the

new administration and Congress to raise spending dramatically without raising taxes to pay for it until later. At the end of the day, what’s going to focus the country on this problem is a crisis. I think the crisis is going to come when investors will no longer buy Treasury notes at risk-free interest rates. I think that’s coming sooner rather than later.

**Cooper:** One thing that worries me is that at least when the crisis is a military threat, when it finally hits, everybody can understand it. When another country declares war on you, you understand that; all right, we have an enemy. The crisis that Tom foresees could arise. There’ll be varying or competing interpretations of the crisis, what the threat is,



what the nature of it is, and what the solution is. I suppose the crisis will drive people to some kind of seriousness, but what kind of seriousness? What direction?

**Pearlstein:** Before we get to that: Is the United States, in its hesitation about acknowledging issues like this, at all rare? Isn't it a part of the human condition: people and nations not acknowledging major problems early on and doing something about them? Or is it a more distinctive American phenomenon?

**Chalberg:** Back to the Bush administration for a minute, you could turn this one around and say that in dealing with the War on Terror, or whatever you want to name it, they did try to get ahead of the curve, and look what's happened to them. They've been vilified.

I've sometimes thought, in regard to your other point about the spend-thriftiness of the Republicans over the past several years, that at some level, Bush tried to make a deal with Democrats on some of these domestic issues with the hope that they would support him on the foreign policy issues, and they didn't.

**Kelly:** I think this hesitation in acknowledging problems is inherent in a democratic government. I think it's probably inherent in all government, but certainly inherent in any government that is answerable to people on a regular basis. I don't think this is a uniquely American problem.

The reason I speak of it in the terms of American history is because that's the way I've thought about it. If you go back and look at the 1850s, how could the country have come to that precipice without seriously considering the consequences? If you go back to the eve of World War II, President Roosevelt clearly

understood the need for American involvement. He had to stop Hitler, but felt he had to pursue it – for political reasons – in a backstairs way, without directly confronting the public about the need.

I think the same thing is going on today. I think if you took a poll, you'd get a very large percentage of people who would say, "This is a very serious long-term problem." Among young people, certainly, you'd get almost 100 percent who'd say that.

## Understanding the Scope of Problems

**Pearlstein:** Do people really understand the scope of the issues we're facing, how the numbers don't get close to working? When it comes to people in public life, do they have an adequate sense? Let's assume for a moment that every one does. Then what will it take for people, particularly in positions of leadership, to actually do something?

**Kelly:** Nobody understands what \$70 trillion is. It's more than all of the goods and services produced in the world in a year. \$70 trillion is sort of the mid-range size of the Medicare, Medicaid, and Social Security problem over a 75-year timeframe. If you go out to the indeterminate future, it's even bigger.

**Chalberg:** Ironically, it seems to me, thinking about this over the last few days, it's probably going to take a foreign crisis. Your discussion of foreign policy is probably not off base at all here. We agree there's a crisis. We agree that people in the know and on the street know there is a crisis. It's probably going to be some international crisis, some war that is going to make this domestic reality unavoidable—that's my guess.

**Cooper:** I think there's a sense in which this is unprecedented, and that there's a paradox here. On the one hand, never has a crisis

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*-Larry Cooper*



been more evident. This is something that is not hard to understand. Anybody can do the math. It's coming. Everyone knows. Everybody in this country knows there's a baby boomer generation. Baby boomers don't let them escape knowledge of it. They're going to retire; we understand.

So, on the one hand, it should be the easiest thing to tackle. On the other hand, it's just money, and it's just a matter of marginal tax rates. We see it coming with certainty, but it doesn't have the same visceral, alarming quality that the rise of a totalitarian regime does.

Somewhere in the next few years, somebody will be repeating President Jimmy Carter's attempt to invoke William James' great phrase, "The moral equivalent of war." The only problem is, there is no moral equivalent of war. People just don't get excited and aroused to fight an enemy that is as amorphous, prosaic, and tedious as this. Maybe it also just means that people aren't worked up because they know that when push comes to shove, when the crisis arises, they'll draw the lines at the right place and solve it.

**Nelson:** I would say, though, that I'm less certain that people on the street recognize the problem. Certainly, if you explain it to them, they'll say, "Oh, yes, that's clearly a problem." But they generally don't dwell on things like these. It's not their job and there isn't a visceral component in this instance. That's what drives politicians, visceral reactions. That's what drives politicians to act. Right now, we don't have that underlying groundswell.

**Kelly:** I think that's why the financial markets are ultimately going to be the way that this gets translated into a political crisis. If you think about \$70 trillion, it's almost a meaningless number. But people who are thinking about whether or not to buy 30-year Treasury bonds at three percent need to think about how a government that has all of these

obligations is going to respond to it. Believing at some level in the rationality of financial markets – although, that's been stretched over the last couple years – at some point people are going to say: "No, I'm not going to buy that 30-year Treasury security at three percent or four percent, because, I'm looking at the government's balance sheet, and there's no way they can pay this other than by means of inflation."

**Nelson:** And we're already hearing that from the Chinese, and they are, right now, the largest holder of our debt. They even have a former official at their central bank who made noises a month or two ago about the fact that we should be giving some sort of guarantee on this, as though the credit of the United States is no longer good enough.

*"Once you have a right, say, to a second heart transplant, you also have a right to a third knee replacement, and to what else? How do we sort all of this stuff out?"*

*-Chuck Chalberg*

**Kelly:** I think one of the things we've seen – we certainly saw it with the real estate market recently – is that sentiments, when they shift, can shift very dramatically and very suddenly. I think that's what will create the crisis which will force us to come to grips with all of this. I used to think that was a 2017-2020 problem, but with the kind of deficits we're running now and the kinds of spending initiatives the Congress and the administration are putting forward, I think it's going to come sooner than that, and probably within the next four years.

## Fixing Social Security

**Pearlstein:** Let me change the angle of attack here and ask a series of more specific questions. Let's start with Social Security. Do you think there's any real interest out there for means testing it, or significantly increasing retirement ages, or curtailing cost-of-living adjustments?

**Kelly:** I'm actually in the middle of reading a book that was written by George Shultz and John Shoven, who also teaches at the Hoover Institution

at Stanford, called *Putting Our House in Order: A Guide to Social Security and Health Care Reform*. The fact is the technical changes required to fix Social Security are not that dramatic. We can deal with the Social Security problem by increasing the retirement age, and I think that's going to be a big part of the solution.

What Shultz and Shoven point out, which is absolutely correct, is that from a social perspective, we can't afford to have our most productive people retiring in their late 50s or early 60s and then living to be 90. We need to figure a way to close that gap. I think that's going to happen. Certainly, in my case, it's going to happen, but that has more to do with my personal debt load than any kind of policy. I think we're going to have to get people to work longer simply to strike a balance between those who are still creating wealth and those who are consuming it. That needs to be part of the solution.

The other question is means testing. In one way or another, we're going to make the system more progressive. There are ways to do that that don't involve explicit means testing. I suspect the solution will ultimately be based on one of those approaches.

**Cooper:** I think the Social Security question, to agree with Tom, is relatively simple, in contrast to Medicare and Medicaid. It's also pretty evident. I have a hard time imagining the majority of Americans not going along with a significant adjustment to the retirement age. And as for means-testing, it strikes me the longer we go with Social Security, the less people will think of it as a pension plan, and the more they will view it like any other government program, which means that maybe they won't have the same fiery principled objection against means-testing, either. I would anticipate some sort of bipartisan commission that will raise the retirement age and will succeed in splitting the differences. Maybe that will ultimately include means testing. I just think this is an issue that's too straightforward; not mysterious like health care costs.

**Pearlstein:** How difficult will it really be for the American people to accept changes in Social Security?

**Chalberg:** I wonder if it is going to be more difficult than we're thinking. There hasn't been much of an interest in raising the age limit. I think that's obviously what has to be done. That's the starting point. It's got to go up to some degree.

**Kelly:** The key to solving a lot of the political problems around Social Security is to make it a more choice-based system in which people can choose to retire at 62 with a relatively small benefit or at 70 with a relatively larger benefit, or anywhere in between that works for their individual circumstances.

## Fixing Medicare and Medicaid

**Pearlstein:** Social Security is easy, as we just agreed. What about Medicare? Medicare is actually already means-tested in a couple of ways. Do you think there's much of a stomach out there to means test it more – putting aside the question whether by doing so you really save an adequate amount of money? Part B is means-tested and will become more so in the next couple of years, and the drug benefit is means-tested.

**Kelly:** Medicare is harder to fix. But I don't think it's harder to fix because it's difficult to get Americans to accept changes. I think it's harder to fix because it is intrinsically bound up with the dysfunctional nature of our health care system and the way we pay for health care in America. There's a *stark* philosophical divide between those of us who believe that markets can and, in fact, would provide better health care for less, and those who believe that health care is a right and needs to be provided by the government regardless of ability to pay. We have created a monster. We've created a hybrid system which has the worst of both worlds, and that's driving health care costs across the board. You can, essentially, have all of the high-end health care you want on somebody else's nickel. This is

pushing health care cost through the roof and has been for 40 years, and we haven't come to grips with that.

**Chalberg:** There is a neat piece by Andrew Busch in the last *Claremont Review*, "Is Health Care a Right?" debunking the whole notion that health care is a right, certainly not a right that the Founders had envisioned, and certainly not a natural right to have to apply today. It's a valid argument. But it's a tough argument.

**Pearlstein:** I'm familiar with the argument against health care as a right. Politically it's an absolute non-starter. As a practical matter, we do view health care as a right. It comes down to who pays for it and where one gets treated—the emergency room or someplace better. I think one of the changes in the last couple of years has been the recognition that universal health care is, indeed, something we need to move towards, but that's not synonymous with having the government do it. It means making certain everyone has access to health care, preferably through private means more often than not. But just on political grounds – never mind moral grounds – it's a problem for politicians not to view health care as right. For conservatives, I would argue, to spend much energy saying, "It's not a right," is not going to be very successful.

**Nelson:** I disagree with that to a degree. What do you consider as a right? When you're looking at it in terms of constitutional rights and natural rights, just the whole history of the word "rights" conjures up certain obligations that just cannot be denied. Stuart Butler makes the point very well that the provision of health care, especially in a society as prosperous as ours, is some sort of moral obligation, especially for certain low-income people. I think it's more an idea of obligations rather than rights.

**Pearlstein:** I'm happy to call it a matter of obligation rather than a matter of rights.

**Cooper:** This kind of gives the game away because Americans are fond of the language and understanding of rights, so when you concede "obligation," it will be heard in terms of "rights." Now, in principle that right can be guaranteed in lots of different ways, but there is a problem. When you call it a right, it sounds like a claim not just to show me, ultimately, how I can be provided for, but show me immediately where this is coming from.

Let's just say the American habit of translating political issues in terms of rights creates a certain momentum in favor of a left-wing system, Against that, of course, is this great American skepticism about government-run anything. So it will probably be incumbent upon conservatives to suggest and stress, "Yes, your rights will

be met," or "Your needs will be met through these market mechanisms." I think that's an argument that would have a chance to win, but it really has to be articulated that people will be provided for and not that some percentage of the population will go without.

*-Peter Nelson*

**Pearlstein:** Absolutely. Put yourself in the following situation: Let's say you're on a panel and another speaker has a child who needs care but can't get it, do you see yourself in a position to say, "Your child doesn't have a right to receive care?" I certainly couldn't and wouldn't do that. So I understand the limitations of using the words like "rights," but everyone deserves health care. How is that?

**Chalberg:** Once you have a right, say, to a second heart transplant, you also have a right to a third knee replacement, and to what else? How do we sort all of this stuff out?

**Kelly:** It goes back really to the underlying point of a market economy. Health care is not a right in the sense that I can have all the health care I want without putting an obligation on somebody to do something for me. So it's really a service. Health care is a service provided by health care professionals, and what's the most effective way to

*"People don't understand their long-term care needs. They don't understand their long-term care risks."*



provide that service? Well, Adam Smith teaches that the market is the most effective way to provide that service, not because the market will produce *all* of everything that everyone wants, but because it provides a mechanism that preserves individual choice and allows people to make choices and set the level of service they receive based on what they're willing to pay, and what the service provider is willing to accept.

You cannot divorce health care from the reality that it's a service which somebody has to provide to the recipient. That's why the language of rights is so misleading when it comes to health care. Do people have a right to be given the best possible treatment in all circumstances regardless of their ability to pay or anything else? No. We don't have a system, and I doubt we ever will have a system, where a Medicaid patient can go down to the Mayo Clinic and demand to get the same treatment as someone who can pay for it.

Once you accept that as the underlying reality, you then have to say, "What's the best way to maximize society's benefit not just in health care but balancing health care against society's other wants and needs?" That's where you get back to a market choice as being the way to do it.

**Cooper:** You put your finger on something that's really interesting and troublesome. I think people are effectively willing to acknowledge, if they're of modest means, that they won't always be able to purchase the best care out there. I say one *could* acknowledge it effectively, but I don't know in principle very many people who are willing to acknowledge it. When it comes up, why should one little girl be denied the health care that the daughter of a wealthy individual is getting? When it gets put on the table explicitly, inevitably it gets harder and harder.

Maybe it is right to resist the language of rights as some folks here are resisting. We have sort of a shame-faced inconsistency here. We tacitly acknowledge that some people – the wealthy – can get more, but when you ask people to explicitly

acknowledge the justice of this, they have a big problem doing it. Health care seems different from ownership of a second home or appliances or vacations.

**Kelly:** The fact of the matter is – I believe this very strongly – if we were to adopt a Canadian-style system in the United States, it would have a tremendous and damaging impact on future developments in medicine. Our system allows pharmaceutical innovators to charge a price sufficiently high to cover the costs of doing experimental treatments and developing new drugs. If you take that out of the equation, and if the only place in the world where you have this kind of market-driven health system is Singapore, you're not going to have the same level of innovation. Thus, the end result would not be that the person who is on Medicaid gets the better treatment; the end result will be that the better treatment doesn't exist. That's the future of single-payer health care if it is a worldwide phenomenon, and if the United States adopts it.

**Cooper:** That's probably true, but it's a delicate argument. I don't say that it's one you can't make, but it has to be made allowing people – how shall I put this? – to be inconsistent with themselves. They'll agree when they look at the matter in a macro sense, but when it comes to the question of "Should a *particular* person be denied something that exists?" they're going to want say, "No, they shouldn't."

## Long-Term Care

**Pearlstein:** One of the ways I frame matters has to do with the pharmaceutical industry. For all of the excesses or mistakes or bad PR or dumb moves that they have made – I'm overstating that – they are one of this nation's great, great industries, and we beat them up at our own peril.

Let's move on to another point: nursing home care, long-term care. Right now, for any number of people, divesting themselves of their wealth,

passing their wealth on to kids and so forth is routine. So by the time they need long-term care, they are technically impoverished and Medicaid picks up the tab. One of the ways of saving money and saving the system is by making certain that that doesn't happen as frequently as it has in the past. Do you think the American people have a stomach for truly picking up their own long-term care by making it much more difficult, to the point of impossible, for them to game the system the way it has been gamed, especially, when long-term care can be, what, \$50,000 a year or more?

**Kelly:** I want to sidestep your question. I don't think the American people should assume that burden – pay those large sums at the end of life – on a non-insured basis. Whether you're going to die of a heart attack at the age of 59 and relieve the Social Security system from almost all benefits, or whether you're going to live to be 95 and have to spend a dozen years in long-term care, is not something that can be planned for, other than through an insurance mechanism. It seems to me there are two insurance mechanisms. The one we have opted for is a social insurance mechanism where we go through the fiction of requiring people to impoverish themselves.

The other is essentially to have people insure themselves by buying a policy from a private party. I would love to find a way to make the private market work. I'm not sure what it is. If there isn't a good way to do it, I'm not opposed to being explicit about the fact that there's a method of social insurance much like Social Security. I think if we're going to do that, we should do it explicitly. We should avoid a Medicaid fiction – namely, that this is something which benefits people because they're poor – and simply say that if you have the good fortune or misfortune to live into the twilight years when you require this kind of care, it will be provided for you. Again, this is not something I think I have an answer to, but I don't have a philosophical problem with,

ultimately, concluding that it's a social insurance issue.

**Cooper:** I think that solves the problem. To return more directly to the question, I think it would be very difficult to legislate against transfers of wealth. The case for stopping the gaming arises from conservative principles, but there is another conservative principle that says, "Hey, you're interfering with private property rights here. These people worked all their lives. They earned this estate, and now they want to dispose of it as they see fit. Who are you to stand in their way?"

**Nelson:** People don't understand their long-term care needs. They don't understand their long-term care risks. That's one of the big reasons why they don't buy insurance. There are a number of polls out there showing that people actually believe that Medicare will take care of their long-term care needs. The AARP [American Association of Retired Persons] does these surveys all the time. There's just not enough of a knowledge base among 50-year-olds that would drive them to get insurance.

*"[W]e're going to have to get people to work longer simply to strike a balance between those who are still creating wealth and those who are consuming it."*

*-Tom Kelly*

**Kelly:** But even among those of us who are now 50-something and who are well aware of the risks, there's not a good alternative available today. It is frightfully expensive to buy long-term care insurance. I actually looked at this for my parents about 15 years ago. I said, "I wouldn't buy it. It's not a good product." It doesn't give you that much more than you would get simply by going through and waiting on the Medicaid system in the way they took my grandmother through it 20 years ago. That's why I say that I'm open on this to the possibility of making it an explicit social insurance contract.

**Pearlstein:** When you say that, what do you mean? The government picks up the tab? But how do we pay the government?

**Kelly:** We would have to have a tax to pay the government, the same as we do for Social Security.

**Nelson:** I agree. I actually had that same situation with my mother about five years ago. We went to the salesman. I looked at the product. It was a bad, bad deal when we looked at her income and assets. But I will say, as far as the state of the law is concerned, we do have laws on the books that, if enforced, would start creating incentives for people to actually buy long-term care insurance. The laws are pretty strict about government's ability to get at your assets.

**Kelly:** My understanding is that it's much stricter now than it was almost a quarter of a century ago when my grandmother was divesting herself of assets. I remember having these discussions with my parents about the morality of accepting divestiture in this way. The fact is we're in a situation, my wife and I, where we're looking at this for elderly relatives. The elderly relatives are saying, "We want to do this. We want to divest ourselves of the assets and give them to the kids or the grandkids." We're saying, "No, no, no. You can't do that. It isn't legal, and it isn't right." It's a very powerful human instinct to leave something behind for your children or grandchildren. Any effort to legislate that away will be as successful as any other legislation aimed at changing human character. It will fail.

**Nelson:** You're right. It has failed. As far as the law is concerned, in 1993, they really tightened things up. Before 1993, you could create an irrevocable trust and just throw all your money into it and not worry about it. It was your family's money and not a problem. Then, they changed that, and in 2005, they created further restrictions. They created longer "look backs"; the government can look back up to six years to see if you gave any money away. So there really are tight restrictions, as long as they're enforced.

**Pearlstein:** Let me ask this. In the old days, grandma moved in with her children and grandchildren; extended family, two and three generations in a home. You could make an argument that if we did

more of that now, it would take a lot of the heat off of Medicaid, specifically, because there would be less of a need for nursing homes. Do you see the American people at all – talking very generally here, obviously – interested in returning to that kind of care, that kind of family life? Or might it just be thrust on us because we won't have another choice?

**Nelson:** No, I don't think we're going to be moving back to that day and age. My great aunt Esther was an old maid, never got married because she was always taking care of her mother. That's just not going to happen, at least not frequently. You're not going to have somebody in the family who devotes their life to someone else in the family to the same degree it happened before. One of the big reasons is because I don't think that's what elderly men and women will want for their children. I know my parents would not want me to be serving them to that degree when they know they could get care in some other way.

**Chalberg:** It's also a function of smaller families. With five or six kids in the family, somebody wasn't going to get married and was going to be in charge of taking care of the parents. With one and two children families, it's less likely to happen.

**Kelly:** As the oldest of six, let me speak to two other perspectives on this. The first is that it's not just the smaller families. My parents live in Upstate New York. They live in the house I grew up in. They've lived there for 40-plus years. I live here in Minnesota. My brother lives in Pittsburgh. Two of my sisters live in Florida. One of my sisters lives in Connecticut, and one of the six of us lives a few miles away from where my parents live. The kinds of extended families that you had when families tended to live more locally don't exist anymore, and they're not going to exist in our economic system.

But another big reason why institutionalized care is both necessary and desirable is that old people today live far longer, with far more debilitating illnesses, than they did two generations ago. Then, you didn't have people who were living with the same kinds

of conditions – whether it’s Alzheimer’s, or cancer, or other types of debilities requiring intensive care – which are routine today. For those people to live with their children is not a matter of sons and daughters stepping up and taking one for the team. It’s a matter of their not having the technical capabilities to provide the required levels of care. There are always going to be examples of people whose parents will live with them, but that’s not a part of the long-term solution to the problem.

## Generational Equity

**Pearlstein:** One of the many sad things about Dave Durenberger’s departure from the Senate in the early ‘90s was that he had created a very interesting organization called Americans for Generational Equity. The question of generational equity is certainly key in several of the Butler pieces we’ve read. It’s not an unknown notion. Do we have enough of a sense in this country of our obligation to future generations?

**Kelly:** One of the very interesting things is that as boomers age, even as the people of my parents’ generation age – they’re between the World War II generation and the boomers – there’s far more willingness to consider the possibility that entitlements might need to be reformed. The World War II generation was, in fact, the most reluctant to see any kind of changes in programs for retirees. I don’t think this is a moral condemnation of them. I think their perspective was that they paid for all the benefits and they were entitled to them. This was inaccurate, of course, as our government lied to us for a long time about how benefits were being paid for. As boomers age, we recognize more and more that we haven’t paid for them either – and we’re sending big bills to our children. I hope that that will make us more willing to reform the system than our elders were.

*“The boomers have been making such a fuss of themselves for so long that it might even appeal to the pride . . . of the group to say, ‘Yes, we should be willing to curtail our claim.’”*

*-Larry Cooper*

**Chalberg:** I remember that was an argument for voting for Bob Dole for president in 1996. Dole could tell his generation, “You’ve got to make one more sacrifice. You’ve got to do one more thing here.” But it’s not likely.

**Pearlstein:** Are you saying that the Greatest Generation has not been as sacrificial as legend has it?

**Kelly:** I’m not saying that they haven’t been sacrificial. I’m saying they’ve been human just like the rest of us.

**Cooper:** I’m happy to be able to say a good word about baby boomers and to agree with Tom. Folks earlier on believed what they were told. They also had a Depression mentality. They’d grown up through that period and imagined that prosperity was what they had earned. I should say I imagine that was the case. There’s a defensible explanation for their reluctance to let go. The boomers have been making such a fuss of themselves for so long that, it might even appeal to the pride, the maturing pride, of the group to say, “Yes, we should be willing to curtail our claim.”

**Pearlstein:** But if you were to ask them to sacrifice, what would you want them to do?

**Chalberg:** Wow. What would I want them to do? Well, to come to terms with the very thing that we’ve been talking about tonight. We seem to be saying they – we –

are not willing to do much, such as means testing for Social Security or raising the retirement age, etc. We’ve gotten a free ride.

**Cooper:** I’m actually hopeful. When we’re being sour on the boomers, we’re thinking of self-indulgent college students from 1969. First of all, those weren’t the majority. There were many more over in Vietnam at that moment, answering a call, the justification of which they may not always have



understood, but answering it nonetheless. They showed a willingness to make sacrifices and show dedication in ways their more prominent peers didn't.

As for the prominent ones, well, they're the ones we like to think of as self-indulgent, but they didn't answer the call because they didn't see it as just. But they may see calls for generational equity as, in fact, just. As a generation of highly educated people who pride themselves on being the best and the brightest, they may well want to answer that call in a really magnanimous way. People like to be able to respect themselves. If you spend a lifetime congratulating yourselves on your superior morality you might just be apt to follow through when called on.

## Sacrifices and Hard Choices

**Pearlstein:** Who in public life is calling on boomers, or anybody else, to make those kinds of sacrifices? Can you think of anybody?

**Nelson:** That's one of the points I was going to make that gets at this whole notion that we should expect some sort of generosity from the baby boomers on behalf of their children and grandchildren. When you look at AARP, the organization that's most out front on issues of the elderly, they're leading the fight against any sort of reform.

**Kelly:** AARP is not sticking its head in the sand. They understand this is a problem. They understand that long-term care is a huge problem and that we need to figure out some other ways to finance it. But they are focused on just one way and that's raising taxes so we can create a new governmental-run social insurance program. For long-term care, I can agree that maybe that that's the reality and we have to live with it. But for Medicare, that's not the reality we need to live with or can afford to.

**Pearlstein:** Let me go back to the question. Is there anybody in public life of some note, political or otherwise, who is asking the American people to sacrifice in any significant way?

**Kelly:** I think there are people in public life, but there's nobody in politics, and there's a reason for that distinction. David Walker, the former head of the General Accountability Office, has been on a mission for the last five years trying to alert the country to this. But anybody who is trying to win an election is not going to be talking this way.

You win elections by telling people what you're going to do *for* them, not what you're going to do to them. It is no different now than it was when George Washington and John Adams were walking the land. Thomas Jefferson unseated John Adams in large part because he was able to persuade people he would do something that they wanted, which was reduce government in those days, more than Adams would. Nothing has changed in human nature since those times.

**Cooper:** I picked up Tocqueville's *Democracy in America*, which I just taught this past term. Tocqueville makes an uncanny observation that sounds very familiar. It's in a footnote to one of the latter chapters about the creeping tendencies towards centralization and despotism in democratic America, by which he means paternalistic government. He says that amid democracy in America, people profess – and they mean it, he says – their belief in limited government. However, there is always one particular item that is really important that they need government assistance for. Everybody has one such item. So, of course, everyone wants one exception made for him or her. That's a lot of exceptions when you look at the big picture.

Whittaker Chambers made the same observation about ostensibly conservative farmers in Eastern Maryland who wanted protections for their industry. George Will makes this observation when he calls Americans “ideological conservatives but operational liberals.” People, who in all good conscience profess themselves to be fiscally conservative and in favor of limited government, all too typically manage to be very eloquent in making a case for an exception, and those exceptions, of course, add up across the board.

**Pearlstein:** Final question: Looking ahead over the next five, ten, 20 years, with all the problems we're talking about – Social Security, Medicare, Medicaid – can you envision a situation in which taxes are not increased significantly, or at least measurably? Or, on the flip side, do you see tax increases of one kind or another as simply inevitable?

**Kelly:** Tax increases are inevitable. Paul Ryan, an increasingly influential Republican from Wisconsin on the House Budget Committee, did a comprehensive outline of how we could get through the next 75 years without raising taxes. We would have to incur deficits that are mindboggling on a regular basis. We're talking about decades of deficits between five and ten percent of GDP. It's not sustainable. That doesn't mean that, at this point, I'm willing to support any increases in taxes. I think if we raise taxes now, the money just will be spent on further expansions of government.

**Chalberg:** This whole notion that Barack Obama was going to transcend politics and that he was going to make hard choices was appealing. Unfortunately, he's turned out to be a left-wing Democrat, and he isn't asking us to make any hard choices. If he had come through with a stimulus that was going to deal with infrastructure and cleaning up the banking system and stiffed the House Democrats, you could maybe see he's serious about this, but he's obviously not. Either he got rolled by them, or he's one of them. I don't see any hope.

**Cooper:** Tax increases are inevitable, because the baseline is being elevated by the expansion of government in this administration. There are other reasons that we haven't cited in connection with this question, but which also suggest that tax increases will occur. What I'm particularly thinking of is the decrease in the birthrate and, particularly, the increase in the birthrate of children to unmarried mothers. These dynamics just intensify the entitlement problem. All I can say against the

likelihood of higher taxes is that who knows what's coming down the pike by way of increased wealth creation and productivity? We shouldn't be too glib about that, because we just don't know what could be in the offing. We can say we'll probably require significant economic growth to avoid significant governmental growth.

**Nelson:** In January, the Minnesota Legislature released the report of a budget-trend study commission which looked at long-term projections. The commission also looked at whether state budgets can maintain structural integrity. It was clear that spending is easily going to outpace growth. Revenues were estimated to grow at about 3.9 percent annually, but spending at about 6 percent annually

*"[Bob] Dole could tell his generation, 'You've got to make one more sacrifice.'"*  
-Chuck Chalberg

Compound that, in the out years, and you start getting a huge difference, and that is just at the state level. The state has health care responsibilities through Medicaid, but the federal responsibilities for health care are for both Medicaid and Medicare. When commission members looked at what all this spending would go for in Minnesota, it was health care. All the disparity was health care. Health care spending was projected to increase 8.5 percent annually, while revenues were projected to grow only 3.9 annually. Unless we get our arms around health care inflation, we're going to have to raise taxes. We're absolutely going to have to raise taxes.

**Cooper:** Conservatives often find themselves losing in a tactical sense. For example, if the question on the table is something like, "Do we want to be like Europe in 30 years? Do we want to lose our economic and social dynamism?" somebody can say: "Aha, I can see that big picture." But they might also say: "What we're really talking about, more immediately, is how to help poor and suffering people right here and now. Are you going to deny them care because you say some policy or another leads, ultimately, to a kind of desiccation?" Making such long-term arguments can sound overly abstract.

It takes talented leaders to evoke the big picture, not as a farfetched possibility, but as the inevitable logic of certain steps.

**Kelly:** On the other hand, we've been blessed with uniquely poor leadership in recent years. Perhaps we'll fare better in the future. I was at a meeting with Governor Pawlenty recently. Even though he's not as conservative as I wish he were, the fact is that he has an ability to communicate a basic conservative

perspective on economics in a very straightforward way. Unfortunately, the previous president did not have that. We really have to go back to President Reagan to find somebody who did. I don't know how soon we'll have somebody with that kind of ability in national leadership.

**Pearlstein:** This was excellent. Many thanks all around. ■





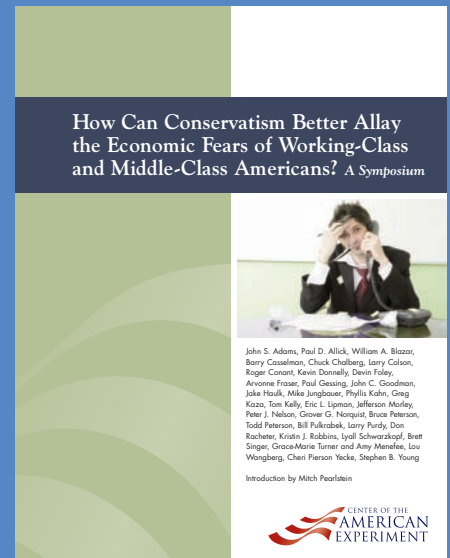
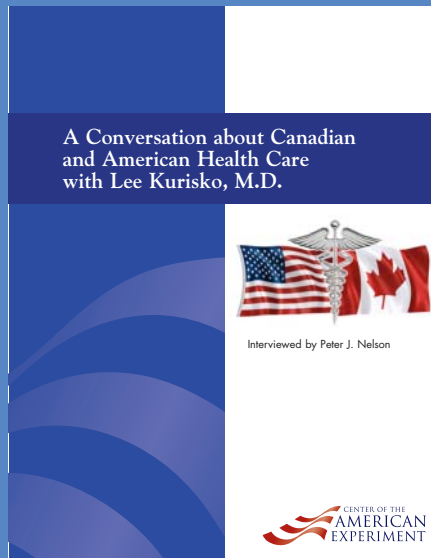
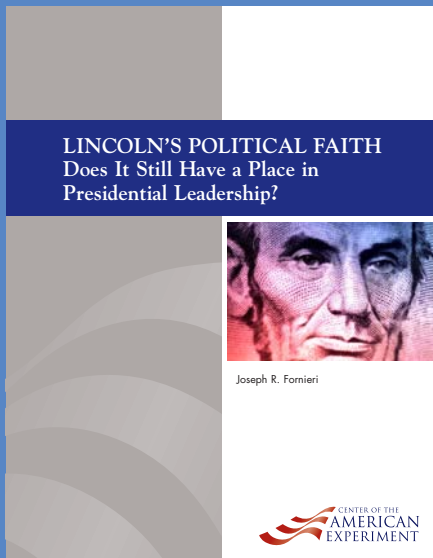
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