

Answer on Question#38677 – Economics - Macroeconomics

Why does the market-based Advantage voucher system not help to control Medicare costs (in the United States)? The answer is that health care cost control is tough, from technical and political point of view. Provider groups typically resist it. When it pertains to Medicare, beneficiaries resist it too. By adding another private-sector layer to the program—health insurers—the Advantage program invites a third source of political pressure. Rent-seeking by providers and insurers, as well as the power of the beneficiary constituency, align in their encouragement of higher Advantage payments. Congress, apparently, is willing to yield to that encouragement.

So, it's really no surprise that Advantage plans have not been part of a Medicare cost control solution. Congress has not consistently been willing to say no to the combination of powerful interests that advocate for higher payments to private plans. Given the track record, it is also not unreasonable to conclude the mandatory voucher program Ryan advocates wouldn't save money either. As Krugman suggests, it could even be worse because in time 100% of beneficiaries would be enrolled in vouchers, not the 24% that are enrolled today.

The politics of Medicare are such that Ryan's idea, paying for care entirely through private plans, costs more. That's not due to a market failure, but a political one. Congress likes to spend money; insurers, providers and beneficiaries like to receive it. Congress spends even more when it can satisfy those interests under the guise of a seemingly pro-market, pro-competitive program.