Health or Defense

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Obamacare, now in its awkward early stages of implementation, is the American military's ticket home. The completion of the last element in America's welfare state –the last strand of the social safety net—is likely to end the security welfare system America provides for its allies.

There are four basic components to the welfare state: workman's compensation (which covers job caused disability), unemployment insurance, old age insurance, and health care insurance. Workman's compensation in the US was accomplished early in the 20th Century by the states. Retirement (known as Social Security in the US) and unemployment insurance were enacted in the 1930s as part of President Franklin Delano Roosevelt's New Deal reforms. Opposition from the American Medical Association, the physicians' lobby, prevented President Roosevelt from including health care in his reform package, and its enactment became an enduring Democrat Party quest.

Unintentionally, the Roosevelt administration created the 'private' alternative to the government directed health insurance by allowing employers to offer health care as an employment benefit for workers during the labor shortages of World War II. Unions fought to expand the use of such benefits after the war when the Supreme Court decided that they were subject to collective bargaining. The attraction of the benefit was boosted when the Treasury Department ruled that health insurance was non-taxable income for employees and a deductable expense for employers, thus providing what turned out to be huge tax incentives for the expansion of private health insurance. Before a public plan could be put in place, the private one had come to provide most American workers and their families with deep and heavily subsidized health insurance.

Private insurance covered the working population which by definition is basically a healthy population. Left out were the poor and the elderly, the latter accounting for roughly 75 percent of health services consumption. As the elderly had to pay their own costs, there was in effect a lid on health care costs in the US as hospitals and physicians needed the patronage of the elderly and had to limit their charges to fit the elder's ability to pay.

This all changed when President Lyndon Johnson helped broker in the mid 1960s the bi-partisan deal that created the Medicare and Medicaid programs, Medicare subsidizing care for the elderly and Medicaid subsidizing care for the poor. Most, but not all, Americans were now covered for most, but not all, health care services in a very complex, mixed public and private health insurance system. The elderly, in particular, got a very good deal as Medicare essentially provides heavily subsidized, broad coverage that is as good as the best private plans which, of course, are heavily subsidized, though indirectly, via the tax code. Medicaid's generosity varies as it is funded partially by state governments, and some states support more services and higher income eligibility thresholds than do others.

The American health care system is indeed complex, but the basic pattern is that the government (mostly the federal government) pays for about half of health care in the US and the private sector (individuals/employers) pays the other half. The US currently spends about 18% of GDP on health care which means the government share is about 9%. Most of our affluent allies are in 9-12% of GDP range with nearly all of it on their governments' budget. The overall health share of GDP is higher in the US because the US places a larger emphasis on technology and has higher administrative costs, but primarily because there are multiple payers of health care costs and US government pays a lower percentage of the total costs than do other nations' governments, which means health meets less resistance from advocates for education, defense or other governmental expenditures in the US than it does elsewhere.

Obamacare comes close to closing the final gap in health coverage in the US; in a real sense, it completes the American welfare state. Obamacare does at least four things. First, it mandates that every American have health care insurance including the youth who may have opted out in the past because they felt that they didn't need it, and the near poor who may have worked for small employers who didn't offer such coverage and felt that they couldn't afford it. Second, it mandates a basic coverage requiring insurers to offer services that are comprehensive and that are available for people with pre-existing health problems. Cancer care, for example, must be offered and a cancer victim can't be excluded (previously such a person would be forced onto the public welfare system if they were not already covered by a comprehensive benefit package before they were stricken or could not pay on their own). Third, it offers substantial subsidies insurance purchases so that good insurance is within financial reach for all. And fourth, it promises to control health care costs—the official title is the Affordable Health Care Act, a promise that many with deep insurance fear that will lead to rationing of the care that they currently receive or to which they have access. There are though no specific mechanisms in place that assures that costs can be controlled. In the short to medium term, it seems very likely that national health care expenditures will grow because population coverage, benefits and quality monitoring are expanding simultaneously.

National health insurance in terms of total population coverage has come late to America. While other nations were building their welfare states after the Second World War, the US was building the defenses of the West against the Soviet threat. By the time health care coverage was provided for America's poor and elder, the Vietnam War was fully underway. Inflationary pressures on health care costs quickly became substantial as many—those working for large employers and the elderly– now had comprehensive insurance coverage and there was no comprehensive health care system manager to hold costs back. With the baby boom generation heading toward retirement the formula for a societal financial squeeze, common to all welfare states, is in place in the US. It is either a lot more in taxes in the future or a lot less of something that the government does at home or abroad.

Obamacare, the culmination of the Democrat Party quest, shifts more of the health care financial burden onto the federal government, subsidizing care and allowing individuals and employers to drop private insurance by paying a modest fine or tax. Soon the US government will be responsible on its budget for the percentage of GDP devoted to health care that is similar to or greater than that of its allies. The more the federal government must devote to support health care, the more the resistance to increasing health's share that will develop from other sectors dependant on government support. But health care's appetite for absorbing more resources will be hard to curb. Many Americans are accustomed to deeply insured, easy access to the best, often the most expensive, care. With Obamacare politicians have just expanded the access for others while promising the deeply insured that their consumption will not be restricted. Rationing in some fashion is surely coming to the US, but it is coming slowly. In the meantime, health care expenditures will increase, hampering the government's ability to pay for other things including defense.

As our allies have found in supporting their own welfare systems, defense spending is an easy victim of rising health care and other social welfare expenditures. They of course had the US to offer them free protection. No need for maintaining a big, powerful military of your own when the US stands between you and potential danger. US is about to repeat the welfare state experience. We have our geography to provide us with free protection. Standing between us and China is a big ocean and Japan and Korea. Standing between us and Russia and the Middle East is another big ocean and our European allies. There is no need to spend 4% of GDP on defense when all of our rich friends spend under 2%. The additional 2% is needed to fund Obamacare and the crunch of the retiring baby boomers. We will decide that there are better people to subsidize besides our European and Asian allies– ourselves. We will be coming home.

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