

Nothing but Net

*At Heller-Hurwicz Forum
on Social Insurance, a synergy
of research and policy*



- PPACA: Impact of Health Reform Reconciliation Bill, as of 3/15/2010
- Uninsurance is reduced by **59.8%** (81% if base is US citizens only) to newly cover **32 million people**, 17 million of whom through *State Medicaid Agencies*.
 - CBO (Congressional Budget Office) Estimates – 3/18/2010
 - CBO 10 year cost: \$940 billion
 - CBO deficit savings \$130 billion
 - My estimates – 3/19/2010
 - 10 year cost: \$1.36 trillion
 - My Summary: Additional costs will eliminate deficit savings and add to deficit by \$287 billion
 - On April 22, 2010 the Medicare/CMS actuary concluded health reform would add



We've learned a great deal about both the frontiers of research and the challenges of policy and its implementation. Fortunately, we have also seen that promising new economic research holds great potential for the design of better, more effective social insurance.

—V. V. Chari

All branches of government, including the Supreme Court, are currently debating social insurance—protection of the people, by the people and for the people against uncertainty in life. This so-called safety net—including Social Security, unemployment and disability insurance, Medicare and Medicaid—is often taken for granted. But, of course, these forms of insurance are neither guaranteed nor inexpensive.

Moreover, while citizens value such programs highly, providing them is costly both in their obvious fiscal impact and through their subtler incentive effects. Economists point out that unemployment insurance, disability payments and retirement

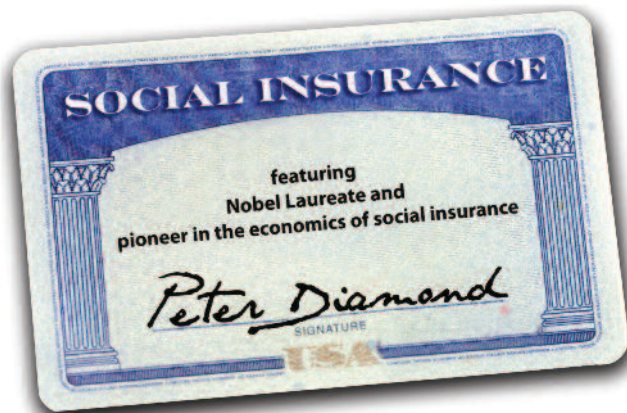
pensions may affect labor supply. Health services are likely used more when their cost is subsidized. Taxing wages and capital can discourage work and investment.

Thus, the structure and dynamics of social insurance programs have tremendous economic consequences, and for decades, economists have studied how to design an effective and efficient safety net and how to generate tax revenue to pay for it. At the University of Minnesota and the Minneapolis Fed, in particular, researchers have pioneered optimal design of insurance and taxation policies and conducted innovative research into health and economic risk over the life cycle.

HHEI's first forum

Social insurance was therefore both a fitting and timely topic for the Heller-Hurwicz Economic Institute's first annual policy forum, held Nov. 16-17, 2011, at the University of Minnesota. HHEI was launched in 2010 to help shape public policy with insights from cutting-edge economic research, and the design of social insurance programs builds solidly on the legacies of the institute's guiding lights, Walter Heller and Leo Hurwicz.

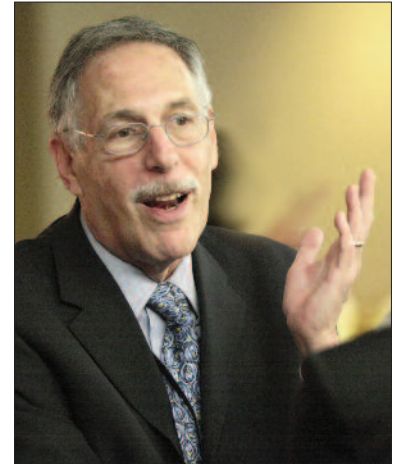
The "Inaugural Forum on Social Insurance" immersed its roughly 200 registered participants in



theory, policy and practice. Both days began with presentations from economists on taxation, social insurance and government spending. The afternoons consisted of panel discussions—on tax policy,

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—Peter Diamond



pension programs and health care—led by policy-makers, policy advisers and practitioners. The keynote address was delivered by 2010 Nobel Laureate Peter Diamond, the former MIT economist renowned for his analysis of optimal taxation, labor markets and social insurance.

Taxes, expenditures and the size of government

Day one began with MIT economist Iván Werning's theoretical exploration of social insurance and optimal taxation policy. Donald Marron from the Urban-Brookings Tax Policy Center then presented an analysis of federal government expenditure. Laurence Kotlikoff of Boston University followed, asserting that the United States is already "bankrupt and we don't even know it."

Health care panel:
Douglas Holtz-Eakin
Larry Jacobs
John Marty



Photos by Everett Ayoubzadeh and Douglas Clement



Alan Viard

Following lunch, a tax policy panel discussion, moderated by V. V. Chari, founding director of the HHEI and a Minneapolis Fed consultant, with Kotlikoff and the American Enterprise Institute's Alan Viard, focused on using economic principles to design a better tax system. A second panel discussion followed: using mechanism design theory to build viable pension programs. This discussion, moderated by the university's Art Rolnick, former research director at the Minneapolis Fed, included Leo de Bever of the Alberta Investment Management Corp., Martin Skancke, formerly of the Norwegian Ministry of Finance, and Kurt Winkelmann of MSCI.

The evening event began with Peter Diamond's recollections of both Heller and Hurwicz. "When Chari called me and asked would I be the keynote speaker at the first Heller-Hurwicz event, I jumped at the chance," he said, "because I have extremely positive feelings about the accomplishments of both of them [and] brief but warm personal connections." Diamond then discussed recent research on the forum's policy focus: "Resource allocation and economic stabilization: Taxes, spending, regulation and social insurance."

Theory and practice

The forum's final day started with three research papers on social insurance and taxation. First, Columbia University's Stefania Albanesi presented on the optimality of tax policies that front-load distortions (raising labor taxes now to finance tax cuts in the future, for example); then Emmanuel Farhi of Harvard on insurance and taxation over the life cycle and, finally, Mikhail Golosov of Princeton on optimal dynamic taxation.

After lunch, Stephen Parente of the University of Minnesota explored health care finances, stressing the strain on future revenue streams of projected program expenses. The forum concluded with an afternoon health care panel moderated by the University's Larry Jacobs, at which state Sen. John Marty and Douglas Holtz-Eakin, former director of the Congressional Budget Office, debated the future of health care entitlement systems.



Stefania Albanesi



Mikhail Golosov and Emmanuel Farhi

New possibilities

HHEI annual forums are “designed to advance emerging theories, push the boundaries of economic theory and open new possibilities in the face of pressing problems,” according to the institute’s website. Through the depth of research and discussion at the inaugural forum, observed Chari, “we’ve learned a great deal about both the frontiers of research and the challenges of policy and its implementation. Fortunately, we have also seen that promising new economic research holds great potential for the

design of better, more effective social insurance.” Referring in part to a post-forum celebration with 2011 Nobel laureates and former University of Minnesota economists Thomas Sargent and Christopher Sims (see page 46), he added, “And moreover, we found that, as expected, the future of Minnesota economics is as bright as its past.”

—Douglas Clement

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To learn more about HHEI and the policy forum on social insurance, visit <http://hhei.umn.edu/policyForum2011/>.



Kurt Winkelmann



Peter Diamond and Robert Lucas



Peter Diamond and Larry Jones



Douglas Holtz-Eakin