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The Brookings Cafeteria Podcast
"How to cure America's debt addiction (and invest in the future)"
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(MUSIC)

DEWS: Welcome to the Brookings Cafeteria, the podcast about ideas and the experts who have them. I'm Fred Dews.

By most measures, the American economy is doing well. But as today's guest writes, dig beneath the surface and trouble looms. On today's program, Brookings Senior Fellow David Wessel interviews fellow Senior Fellow William Gale about Gale's new book, *Fiscal Therapy: Curing America's Debt Addition and Investing in the Future*, in which he outlines reforms and investments to reduce the debt, restructure taxes and build a more equitable and growth-oriented society.

Wessel is director of the Hutchins Center on Fiscal and Monetary Policy here at Brookings and is regular contributor to this podcast. Gale holds the Arjay and Frances Fearing Miller Chair in Federal Economic Policy and is co-director of the Urban-Brookings Tax Policy Center. His book has just been published by Oxford University Press.

Also, on today's show, the return of Ask and Expert. Christen Linke Young, a fellow in the USC-Brookings Schaffer Initiative for Health Policy, answers a listener's question about the cost of healthcare in the U.S.

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And now, here's David Wessel with Bill Gale.

WESSEL: Thank you, Fred. It's good to be here with you, Bill. It's always nice to see someone actually finish a book instead of talking about writing it for so long as you did.

GALE: I've been told there are two types of books, those that are done and those that are not.

WESSEL: Well, fortunately yours is one that's done and it's really an extraordinarily comprehensive look at both the federal budget, taxes and spending and Bill Gale's solution to all the problems that ale the economy, so it's pretty impressive. Let me start by asking you this, Bill. We have a large federal deficit. The federal debt measured by against the size of the economy is bigger than it's been any time since the end of World War II and, if on the current course, it's going to get bigger and bigger and bigger. Yet the public doesn't seem worry about it, politicians don't seem worried about it, the bond market doesn't seem worried about it. Interest rates are extraordinarily low even though the government debt has been rising. So, why should anybody worry about this right now?

GALE: Well, that's a great question. The short answer is that because the economy is doing well and interest rates are low, people are not paying attention to it. So, voters, for example are interested in getting on with their lives and don’t really pay attention to issues until or unless politicians raise the issue. Politicians are not interested in talking about long-term debt because they don't have a solution that they're ready to support yet. Then financial markets, as you mentioned, are expecting low interest rates to continue. That's very helpful for the long-term fiscal situation. But it's not definitive for several reasons.

First, we know that the financial markets don't always get things right. They made some fairly major mistakes in the last 20 years in terms of the tech bubble, the housing crisis, the general financial crisis. And they always make mistakes in the same way. They assume that whatever is happening now will continue when, in fact, it turns out it changes. So, I'm not betting against the financial markets but, I think, it's fair to say they're not always the last word.

WESSEL: Okay but so why should I worry about something that no one else seems to be worrying about?

GALE: Right. There are three reasons, I think, to be concerned about the long-term fiscal situation. The first is even with low interest rates and even with a strong economy, we have a very high current budget deficit. We have expected debt that's rising relative to the economy as far as the eye can see. And that's even with no new wars, no new government programs or anything like that. So, that's point one. We're sort of at an IFAD situation. If interest rates ever return to normal levels, the situation would be really, really bad.

The second is that the effects of deficits in reducing national saving, occur even if interest rates stay low and even if deficits don't affect interest rates that much. We're still borrowing against the future just like someone that puts a vacation on their Mastercard will have to pay it back in the future and thus will have less income in the future to deal with.

And I think the third reason to think about the debt is politics more than economics. To the extent that we have a high debt, it will be used as an excuse for people who don't want the government to address new issues or new initiatives. And so, for all those reasons, we as citizens, as people who are concerned about the economy, should, in fact, care about the debt even if politicians are not paying attention to it.

WESSEL: So, one thing you didn't mention is the prospect of a big crisis. You know, I've been in Washington a long time, you've been at Washington a long time. And every year somebody gets up and says if we don't do this, the world is going to fall, stock market is going to crash, the dollar is going to crash, we'll have a depression or something. It seems to me that in the book, you make clear that you don't think we need to wait for a crisis, we might never get to a crisis but that doesn't mean we should ignore it.

GALE: That's right. I think the crisis discussion is both economically wrong and strategically wrong. It's economically wrong because we can pay the debt that we owe for decades to come. The issue isn't whether we can pay it, the issue is whether we want to accumulate and want to have to pay it.

On the strategic side, it's wrong in sort of a boy who cried wolf kind of way. If people keep saying, this is the end of the world, we have to do something now and we wake up the next day and we haven't done anything and it's not the end of the world, then it's hard to continue hearing that it's a crisis. Now, it turns out politicians unfortunately don't do things when they need to, they do things when they have to. So, it may take a crisis of some sort, like Social Security running out of money or politicians not extending the debt ceiling, it may take something like that to get them to act. But there's no reason we have to create an economic crisis to deal with this.

WESSEL: Right. I think your boy who cries wolf line is exactly right. And people who have been predicting a crisis every year for the last 15 years about the federal debt have no credibility left. You know, in the current debate, you hear, I heard it this morning on TV. Democrats say the rising deficit is because Republicans cut taxes. And the Republicans say no, taxes this year are about the same as last year, the problem is spending, particularly on government benefit programs. Is one of them right or is this just a stupid way to look at the argument?

GALE: I think what's going on in the long term is we have a chronic imbalance between what people expect from the government and what they're willing to pay to the government. The analogy I like to use is it takes both sides of the scissors to do the cutting. So, it's not just the tax issue, not just the spending issue.

Having said that, I will say I think the argument that is a spending issue is overstated because first, a lot of the increase in spending is net interest which is not new government activity, it's just paying the shortfalls in the past between taxes and spending. And the other thing is the increase in spending does not represent new initiatives, it's simply the working out of the old commitments that the government made, particularly in Social Security and Medicare. So, there's not a lot of new, in fact, there's no new active government initiatives, it's simply that spending is going to go up because the population is aging.

WESSEL: And the population aging means more people on Social Security and more people on Medicare and we know that healthcare costs tend to rise faster than everything else. So, even if we don't start anything new, the problem of the aging of the society is going to push up government spending.

GALE: That's exactly right. And so, when you think about the revenue side, you could argue that the issue is that the revenue side is not keeping up with the commitments that we made decades ago on the spending side.

WESSEL: So, basically your point is, we might be able to do some things that restrain spending but fundamentally, we have to raise taxes, the only question is when and how, is that right?

GALE: Yes. I think we do need to raise taxes; the question is when and how. On the spending side, I think there's some parts that we need to actually raise particular investments in children, investments in job training and investments in infrastructure and science and research.

WESSEL: Okay, we'll talk about that in a minute. But so those people who say, all we have to do is restrain spending, by which they mean essentially through some way of cutting spending on Social Security, Medicare, Medicaid and other things and we won't have to raise taxes. You're saying that's arithmetically impossible or just it's not something we want to do so we're not going to do it?

GALE: It's arithmetically possible to cut Social Security, Medicare, Medicaid by enough to balance the budget or to bring the debt into a stable, sustainable situation. But I don't think it's the desirable outcome and it's certainly not the outcome that the public supports. One of the few consistent public opinion views on Social Security and Medicare is that people would rather see those taxes go up then to see those benefits cut.

WESSEL: Right. So, let's talk about spending for a minute. If you had to pick one or two things that you think the federal government is spending too much on and one or two things that you think the federal government is not spending enough on, what would be on your lists?

GALE: On the spending too much side, I think the most compelling answers are

Social Security benefits for high income households and a variety of medical procedures in Medicare, in particular, that do not appear to have scientific value in terms of improving health. In terms of things we're spending too little on, the obvious answers are children and education and low-income families and then also infrastructure and science and research and experimentation.

WESSEL: So, if some liberal Democrat were here and said, wait a minute, you're just talking about cutting Social Security and Medicare, aren't you, what would you say to him or her?

GALE: The book has proposals to reform Social Security and Medicare in ways that not only preserve but enhance their anti-poverty features and the social insurance features that they offer. Nevertheless, there's money there that can be cut. The Social Security proposal is a bipartisan proposal that was developed a couple of years ago. The Medicare proposals, the set of proposals go after cost containment in a number of fairly conventional ways.

WESSEL: So, the Social Security idea is we would give more to low income people, we'd give less to high income people and we'd raise taxes on Social Security to make the system sustainable.

GALE: And we would encourage people to work longer by raising the full retirement age and we would fix the way inflation is calculated.

WESSEL: Now you point out in the book and it has the virtue of being true, which is nice, that if you're trying to figure out what is driving federal spending, it's hard to get away from health. Medicare, Medicaid, I think the federal government or government pays like something like 45 percent of all health spending in the country, especially when you throw in federal employees and veterans. It's a system that everybody seems to be wanting to change but there's a lot of disagreement about which way to change it. We can see that even in the recent debates between President Trump and Democrats in Congress. So, can you sketch out for us a little bit about what your vision is for changing healthcare?

GALE: Yes, let me start with just a couple of numbers to frame the debate. First, the healthcare sector in the United States is enormous. If it were a separate country, it would be the fourth largest country in the world. Having said that, spending on healthcare is extremely heterogenous. The top 5 percent of people by healthcare spending account for half of all healthcare spending. And the bottom 50 percent of people account for less than 5 percent of all spending.

So, when we're talking about cutting spending, we're really talking about reducing the incidents and the cost of the high cost patients. And those are things like chronic conditions, heart surgery, end of life issues. Things like health saving accounts which aim to reduce health spending for healthy people aren't going to cut expenditures that much.

The other fact to throw out in the debate is almost half of the young children in the country are on Medicaid at some point during the year. So, Medicaid plays a crucial role in the healthcare of low income and even middle-income kids.

Having said all that, I think the two big initiatives for healthcare, the two big goals would be to raise coverage, raise health insurance coverage and contain the costs. The way to raise coverage is to first, do something to replace the individual mandate. Somehow encourage people to buy insurance. We can continue the Medicaid expansion that Obamacare started and it would be great to have a national public option that could be issued on the healthcare exchanges.

WESSEL: How is that different than today? So, in your vision would I still be able to get insurance from my employer if the employer wants to offer it?

GALE: Yes. The vision I have for healthcare reform is to build off the existing system, not to throw it out and start over. So, the idea would be to strengthen the exchanges, give people more options to buy healthcare and give them a public option which would help keep the pressure on the private insurance.

WESSEL: A public option meaning that if I don’t get insurance from my employer and I go to one of these healthcare exchanges or marketplaces. In addition to choosing between Cigna and Aetna and United Health, I would have the U.S. government option. And the idea is competition from the government option would keep prices from going up too much in the private insurers.

GALE: That's exactly right on the coverage part and then the same idea applies to keeping Medicare costs down where we could move to a premium support system where the government becomes a competitor with private insurance plans.

WESSEL: So, premium support is kind of like I get a voucher and I can use it to buy health insurance from a private company or from the government Medicare thing, right?

GALE: That's right. And the voucher covers the cost of the government plan and if you want more than that, you pay that difference.

WESSEL: Right. The thing about the so-called premium support is sometimes when Republicans are talking about premium support, they have in mind a concept like yours but they have in mind a voucher that's so low that you wouldn't be able to buy much. In your vision, you would still be able to buy a basic policy with this thing, right?

GALE: Yeah, that's a really good point. Some of the Republican proposals that have been put out for premium support, the trick, if you will, is that the amount of the voucher doesn't go up very much over time. I think the amount of the voucher should go up with average healthcare spending. I'm not trying to introduce premium support as a back-door way to reduce Medicare over time, I'm introducing it as a way to enhance competition.

WESSEL: Why not go all the way and say look, we have a ridiculous system that evolved over time. Why don't we just do what Canada or the UK does and let's just get over this fixation with markets that don’t really work very well in healthcare and let's just go to a single payor government run healthcare thing which everybody else in the world seems to like?

GALE: The answer, I think, is a number which is 170 million and that is the number of people that have insurance through their employer right now. Moving to a "simple" system with just a single payor would be a massive transition and I think the logistics of it would be extraordinarily complicated.

I'd like to add, too, there's a more general theme of the proposals in the book. There aren't any sweeping proposals that have never been tried in the U.S. or have never been tried around the world. I try to focus on proposals that build off the existing system that exists that minimize the transition costs. And, I think, one of the values of the book is to show that you can actually get there from here without doing something extreme.

WESSEL: Yeah, I think you're right. I used to be a newspaper reporter and one of the frustrating conversations you'd sometimes have with economists is well, assume we were designing the tax system from scratch or assume we were designing the healthcare system from scratch. At which point, I usually stop listening because only an economist would think of it that way, certainly no practical politician or citizen would.

You mentioned infrastructure. So, it's kind of interesting. If you listened to the campaign rhetoric, you think we would have had an infrastructure program through Congress by now. Democrats love it, Trump loves it, even some Republicans love it. Local state governments love it but we don't. So, how would you propose moving from where we are now to have an infrastructure program that would direct the money to the right place. Because I think one of the problems here is that people have become very skeptical of government. So, you say I want to do a big government program and they roll their eyes and they think it's all going to be wasted on bridges to nowhere or some congressman's favorite boondoggle.

GALE: Infrastructure is an interesting issue in that everyone seems to be in favor of more of it yet seemingly nothing happens. And it's not just that nothing happens now, nothing has happened for a long time. Net federal investment and infrastructure has been extremely close to zero for the last 20, 25 years.

WESSEL: Net by meaning, you're adding up the new stuff we put in plus the deterioration of the old stuff, that's what that means.

GALE: Exactly, exactly. So, you hear these horror stories like flight controllers using post-it notes, or Domino’s Pizza contributing to local governments to fix potholes so its drivers can deliver pizza to people. And then, of course, there's things like the

Minneapolis bridge and all that.

I think we need a sustained increased investment, not just to rebuild the existing infrastructure but to build new infrastructure that is consistent with modern technology and modern needs. Getting the Congress to agree to that seems like a relatively easy lift compared to some of the other issues that are out there.

But one thing we could do, for example, to help allay concerns about the bridge to nowhere. Things like that, would be to have an infrastructure bank along the lines of the Federal Reserve Board that tries to make these decisions based on economic criteria rather than political criteria. The standard political concern is that if you want to build new infrastructure in cities where it's actually needed, you have to, for political reasons, build more in North Dakota or Wyoming where it's not needed but you need the votes.

WESSEL: Right. You make a good point in the book with which I agree that when we talk about investing, we shouldn't talk only about broadband and highways and sewer pipes but we should talk about people. And you have a number of ideas in there. You call for a 1 percent of GDP increase in investments in people. I don't think we need to talk about every detail but I am interested in how you think about the whole question of paying for college, free college. What's the way out of this current mess which seems to be raising a lot of concerns with people because it doesn't seem very fair or effective.

GALE: Yeah, I think two things. First, I think we need to start way before college. The early childhood interventions have been shown to be very effective and have lasting impacts on the children as they mature into adults. And that's important both for the obvious equity and income mobility and income distribution reasons. But it's also important in kind of a sheer calculated, we want to make the economy stronger approach. There's one of the biggest under-utilized resources in the country is the brains of disadvantaged kids. And if we can access that human capital, we will all be better off.

On the college market, I think, I've been saying this for a couple of years now, I guess. I think the online market is going to revolutionize college expenditures. I don't think the business model where people spend four years on campus and spend an enormous amount on their consumption or their lifestyle in combination with their courses, I don't think that's a durable model.

WESSEL: So, you think the government should do something to encourage more online stuff? Like would you give more loans for that than for going to state u?

GALE: I think the online stuff is happening. I would not be opposed to the government encouraging it further but I don't think it's a situation where the market doesn't want to do it and the government has to encourage them. I feel like the market is already moving there.

WESSEL: So, not only do you propose raising taxes in the book but you have lots of new taxes, as you point out. They're not novels, not like something that you thought up in the shower some morning, as far as I could tell anyways. So, you have a value added tax, you have a carbon tax. So, I'm curious of two things. One is why can't we raise the money with the existing money and payroll taxes and two what are the pros and cons of these various new taxes that you'd want to impose?

GALE: Yeah, the reason we can't raise the money without a value added tax, say, is that no country in the world can raise the money without a value added tax. We are virtually the only country that does not have one and it's hard to see how we get there from here without the revenue that a value added tax would generate.

WESSEL: And value added tax is a tax on consumption. It's kind of like a national sales tax.

GALE: It's like a national sales tax but it's collected in pieces at each stage of production rather than all collected at the retail sales tax.

WESSEL: Right.

GALE: That happens to have some administrative advantages that countries latched onto about 50 years go and it's caught on. And in the last 50 years, it's the tax that has been most widely adopted around the world. The carbon tax, I think, is important for environmental reasons as well as fiscal policy reasons and economic reasons. We have this enduring situation where we are not showing people what the cost of using carbon is, what the cost of emitting carbon is. So, in a classic externality case, we are using too much. And so, we could fix that market imperfection and raise revenue and improve the environment and reduce congestion and get better health if we imposed a carbon tax.

WESSEL: So, how big a carbon tax do you have in mind?

GALE: Most of the carbon tax proposals are in the range of $30 to $40 per ton that then rises 2 to 5 percent per year after that. The proposal in the book is on the low end of that scale. It's $30 per ton rising at 5 percent per year after that. But I should say, this is not a situation where we should let the perfect be the enemy of the good. If someone told me the right carbon tax starting point was $40 or $20 instead of $30, I would say, I'll take it.

WESSEL: I notice that some of the public discussion of carbon taxes seems to be we should impose a carbon tax for the reasons you say so people will use less gasoline and will use less fossil fuels in our heating and industrial processes. But they think the political way to get it done is to promise to give every nickel back to people so it doesn't do anything to reduce the debt or shrink deficits or fund investments, it's just kind of round trip. Do you think that's a mistake?

GALE: I signed the petition supporting that policy. It is not my most preferred use of the money. I would rather us use the money, part for debt reduction, part for tax reform, part for investing more in clean energy. But again, given the political contingencies, I thought it was a good enough policy that it was worth support. And I would rather see us do that than do nothing.

WESSEL: And what would you do to the income tax? Do you like the 70 percent marginal tax rate that Ocasio-Cortez talks about?

GALE: I don’t. I agree with her that we need to raise taxes on high-income households. High-income households have done extremely well the last 40 years but their average tax rate has not gone up because it has been cut repeatedly. In a progressive tax system like we have, average tax rates or taxes at a share of income are supposed to go up as income goes up. So, I feel like they are due for a tax increase.

But the other reason is if we're talking about the long-term fiscal situation, the only real way to get high-income households to share in the burden is to raise taxes. You can't really cut spending for them because they don't really receive much in the way of spending. So, I think it's imperative that we raise taxes on high-income households. The evidence shows pretty strongly that they are ways to do that without hurting the economic growth rate.

In terms of how we should do that, I feel like the first step is to expand the base, to remove loopholes that taxes broaden income measure is possible. The most obvious thing here is to tax capital gains at death. That's probably the single biggest loophole in the system. We could also repeal the passthrough provisions that were passed in 2017. Repealing it might be tough politically. If we simply let them expire in a few years when they're supposed to expire, that would be okay.

WESSEL: These are the so-called small business provisions.

GALE: The past provision, Section 199, the small business, right. So, there are a number of things that we could do that would broaden the base and raise the effective tax rate for high income households. Then if wanted to then raise the actual tax rate some, that could be helpful too. But raising the rate to 70 percent with closing the loopholes first is a recipe for tax avoidance and if I were a tax advisor or a tax attorney, I would love that proposal.

WESSEL: And when you talk about high income, what do you have in mind? What level of income?

GALE: Oh, I'm thinking the capital gains at death affects the vast majority of those capital gains are concentrated in the top 10 percent of the income distribution. The top tax rate, 37 percent, applies maybe to the top 1 or 2 percent of the income distribution.

WESSEL: So, if I bought all the polices in your book, *Fiscal Therapy*, and I'm making say $75,000 a year, would I be paying more in taxes do you know or less or about the same?

GALE: I believe the middle class will actually pay more in taxes under the proposals in this book than they would under current policies. And I say that unabashedly. We can't get to a fiscal solution just by taxing the highest income households. There has to be a more broadly shared increase in tax burden. This is essentially what European countries do. They spend more and in a more progressive manner than we do. In exchange for that, they raise taxes and they have taxes like the value added tax that hit middle income households. And the proposals in the book basically move toward that. So, I believe that middle class households will have to see a tax increase. In exchange for that, they get sustainable debt, a stronger economy, less unequal income distribution, more economic mobility and so on.

WESSEL: Let's talk a little bit about that income distribution. So, we know that market forces in the economy have been widening the gap between winners and losers in the U.S. That's what people mean when they say inequality is risen. And it certainly is not a fluke. We now have quite a bit of experience that seems to be going on and there's reason to believe it's going to change.

The current set of government programs, taxes and spending narrows that gap some from what it would otherwise be. But you think the government should work harder to reduce the gap between winners and losers, is that right?

GALE: Right. I think inequality is not all bad. We want to retain incentives for people to work hard and succeed and those are central to the operating of a capitalist economic system. Where inequality has gone wrong, I think, is where people have essentially taken advantage of the system or the system has lost its ability to provide equal opportunity. I think people are willing to tolerate differences in outcomes if they think that the process generating those outcomes is a fair one. But it's impossible to look at the processes generating economic inequality right now in the U.S. and think that they are fair.

Poor kids face increased obstacles at literally every stage of the lifecycle. Whether it's prenatal care, whether it's being read books to at home, whether it's living in save neighborhoods, going to good schools, having peers that are going to be successful. And so, I think addressing those root causes, there's fundamental differences in opportunity is not only essential for us for the hard nose economic reasons but even more importantly for the type of society that we think we live in or we think we want to live in, we need to address those inequities.

WESSEL: So, Bill, if I read the book, which I have, you can see I have all these little post-it's in here just as proof.

GALE: I appreciate that.

WESSEL: I know you don't intend for this to be adopted by the next president from start to finish. We know, somebody once said to me that Congress in the United States does not govern in symphonies it governs in measures or something, I can't remember the line. So, if you look at all the things you have in the book and you make the point that most of these things are not radicle, they're incremental, they may be bigger than bolder but they're not ideas you just thought up. I'm just curious, which of the things in here is most politically feasible in the near term if you had a to pick a couple?

GALE: I think the things that are most politically feasible are also the things that I would say were the most important to pursue. On the tax side, it's the carbon tax. We really need to get started on addressing climate change. On the spending side, it's investment in kids and in infrastructure and sort of getting the investment agenda going. So, those two areas, I think, are both compelling and within the range of political possibility, we never know how Congress will react. But those seem possible to me.

The third element, which I think is compelling may well not be politically realistic and that is to get going on the bigger agenda to raise revenues. One of the things that makes the proposals in the book work is that revenues are raised early and substantially and that brings net interest payments way, way down. If we don’t raise revenues now, if we wait 5, 10 years, we will be accumulating more debt which means more net interest and so on.

So, infrastructure, kids and carbon tax, I think are both feasible and compelling. Raising revenues further, I would say is compelling but I'm not sure how feasible it is.

WESSEL: And finally, I just want to talk to you a little bit about the process of writing a book. Why did you decide to do this and what was the hard part about doing it now that you have it actually done?

GALE: I decided to do it because as a scholar and an expert and a commentator, it's easy to say there's a problem here. And we spend our lives pointing out, there's a problem with this policy, there's a problem with that policy. It's much harder to decide how to balance all the various criteria and make a choice about how one would solve one problem, especially when it conflicts with solving another.

So, I felt like I owed it to myself sort of as a matter of intellectual honesty to say, all right, you've been thinking about this for 20 years what would you actually do. And, you know, I hope my thinking about it and the marshaling of evidence and reasoning and logic is compelling to people who read it as well.

In terms of writing the book, I feel like my next book could be called, How Not to Write a Book. The substance was not the hard part. The organization, the kind of starting and maintaining a narrative, not saying the same thing in six different chapters, that part was the really hard part.

WESSEL: How long did it take you?

GALE: In terms of like full-time equivalent time, I would say between three and four years. In terms of calendar time it took several more.

WESSEL: A life time, great. So, the book is called *Fiscal Therapy: Curing America's Debt Addiction and Investing to the Future*. It's been fun talking to Bill Gale about this and I have a feeling we're going to be talking about every issue in this book for at least the next ten years, so it's a pretty good reference as that conversation continues. Thank you, Bill.

GALE: Thank you.

DEWS: And now, ask an expert. Dave, a listener who currently lives in Tokyo asks why health reform has to cost so much in the U.S. Dave notes that Japan spends far less on healthcare as a percentage GDP compared to the U.S. and that he also gets free annual checkups and lost cost operations. Right now, Dave writes, it seems that there are really high rates, from monopoly, I assume, going to a combination of U.S. doctors, hospitals and insurance companies at great cost to the society.

Thanks for your question, Dave. To answer it, I invited Christen Linke Young to the studio. She has worked in healthcare policy at both state and federal agencies and was a senior policy advisor for health at the White House and the Director of Coverage

Policy in the U.S. Department of Health and Human Services Office of Health Reform.

LINKE YOUNG: Thanks for your question, Dave. I'm Christen Linke Young, a fellow with the USC-Brookings Schaeffer Initiative and Health Policy here at Brookings.

So, to a first approximation, you're right. We do spend too much on healthcare services and that's a big reason why healthcare is more expensive here and why it's hard for us to cover more of our population. The question is, why is our healthcare spending so high.

Fundamentally, healthcare costs equal the price of our healthcare services times the volume of services delivered. In the U.S., some of the fact that our costs are too high is because we have extra volume but mostly it's about excess price. The costs of our healthcare services are higher compared to the equivalent services delivered in the rest of the world. So, by driving prices down, we can save money and spend that money on coverage for more people.

But how do we accomplish that? That is fundamentally the work of health reform. Figuring out how we can lower costs and use that savings to drive additional coverage in the rest of the system.

This was a component of the Affordable Care Act and it's something that experts continue to talk about as a component of future health reform that will build on the successes of the ACA and bring better affordable coverage to more people. So, fundamentally lower costs have to be a part of the solution in U.S. health reform.

But even as we focus on driving lower costs, it's important to note that there may some good reasons why U.S. healthcare costs are higher than the rest of the world.

The first is that we are a very rich country and to some degree, if we want to spend some of that excess money on healthcare services, maybe a little of that is justified.

It's a little bit like if your rich friend wants to by a Burberry raincoat for their dog. Not necessarily super high value spending but if they have the money to spare, maybe it's appropriate.

The second and, I think, much more important reason why U.S. healthcare spending might be high for good reasons has to do with innovation. You hear this talked about a lot in the context of prescription drugs. The U.S. pays more for prescription drugs than most other countries. But many people believe that the extra spending in the U.S. drives innovation throughout the prescription drug sector.

There may also be some of this going on in other parts of the healthcare system with excess spending on physician services driving innovations in surgical procedures, the same dynamic in the medical device industry and other components. Again, this doesn't explain all of the excess spending you see in the U.S. but it is worth keeping in mind as you think about future improvements to our system.

DEWS: If you have your own question you'd like to have an expert answer, send an email to me at BCP@brookings.edu. If you include an audio message, we may play it on the air.

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The producers are Chris McKenna and Brennan Hoban. Bill Finan, director of the

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Until next time, I’m Fred Dews.