

WHY ARE PUBLIC PROGRAMS (E.G., MEDICARE) GENERALLY DRASTICALLY UNDERFUNDED?

by Robert Shapiro

Albert Einstein once said, “Imagination is more important than knowledge for knowledge is limited to all we know and understand while imagination embraces the entire world and all there will be to know and understand.” Einstein never could have envisioned the extent of the imagination of designers and managers in our public financial systems.

In a “perfect world,” financial expectations for new public programs (or for enhancements of old ones) would be based on appropriate prior experience with comparable programs. The designers would establish management disciplines to underwrite and administer the business in a manner consistent with those assumptions.

Of course we know that public programs don’t exist in a perfect world ... partisan politicians, lobbyists and other interested parties often work hard to justify their desires and hence distort science in the analysis. One of their most dangerous tricks is to cost a program within a short time frame (e.g., 10 years), not reflecting expected cost overruns beyond the end point of that 10-year period.


But even beyond these political distortions, there are problems with the financial analysis of our public programs. First, and probably foremost, these programs intertwine social and financial programs in such a way as to: (1) make it difficult to determine what should be analyzed as a financial plan and what should be analyzed as a handout, and (2) make it easy for politicians to establish costs for what they want to appear reasonable. Other reasons for underfunding range from gaming the system (e.g., legislators retiring on pensions and then going back on salary) to “voodoo economics.”

So a fundamental reason for the substantial understatement in projected costs of our public programs is “garbage in – garbage out.” For example, it is just plain wrong to assume experience will be as we’ve seen in other well-man-

aged private sector financial programs, when in fact these public programs are not structured or managed in the same way.

There are two other issues:

1. First, government programs likely cannot be managed with the discipline found in private programs. There just aren’t the same regulatory and financial pressures on government as there are on private companies.
2. Second, similar to private sector financial programs, there are things that we just don’t know (because they have not occurred in the past) and they are not reflected in the pricing models. Here many politicians have a unique capability of projecting unknowns, but only those that bend the numbers in the direction of their desires.

We have a problem here. It is a major problem. If we don’t fix it, we put the long-term strength of our country (and the financial lives of our children and grandchildren) in peril. How do we bring the needed focus, discipline and accountability to these public systems before it is too late? We suspect it won’t take too much imagination ... just import the protocols found in management of strong private sector businesses. 



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