



Episode 402: Five Ways the State Is Stiffing the Young

Guest: Diana Furchtgott-Roth

WOODS: I'm very pleased about your new book, *Disinherited* -- very good title, one-word title -- subtitle, *How Washington is Betraying America's Young*, and you go through in this book -- it's not a long book; you can read it easily -- you go through, step-by-step, various ways in which government policy is making the lives of the so-called "millennials" very, very difficult. As if it weren't difficult already, they've compounded the difficulties facing the millennials. Before we get into those ways in which they're doing that, though, let me ask if you know anything about polling data that indicates the political views of millennials -- I have an instinct that a lot of them think that the very policies that are burying them are good for America.

FURCHTGOTT-ROTH: Well, it's interesting that you should say that, because, yes, most Millennials do vote Democrat. They do vote to increase these programs. But when you ask them individually, "Do you think poorly qualified teachers should be allowed to teach in schools?", they say, "No." "Do you think it's right that you graduate with \$27,000 in debt, and 70% of graduates have college debt?" They say, "No." "Do you think it's right that you should be paying for programs that, unless they're changed, won't exist when you retire?" They say, "No." So if you go down the line and ask questions -- again, here's another one: "Do you think you should have to have an occupational license to be an interior designer?" They say, "No." So they agree with us down the line. And that's one reason we wrote this book. We wanted to educate them about the consequences of changing these policies, and how much they can gain by changing these policies.

WOODS: Let's start with the one that's just the elephant in the living room; it is an enormous problem, and that of course is the unfunded liabilities -- Social Security, but really Medicare -- there's a lot of talk about Social Security, and whether it'll be stable in the long run, but it is dwarfed actuarially by the Medicare problem. What is the extent of this problem, and what is the problem?

FURCHTGOTT-ROTH: Well, Medicare is already running a deficit, and it's projected to run billions of deficits into the future. The problem is that medical care keeps expanding, and the cost of it keeps expanding. And it's very difficult to rein in this program, especially when the number of people who are on it is also expanding. When Medicare and Social Security were put into place, the life expectancy was around 67, so people would be on the program for two years. Now, someone born today can expect to live till they're about 85. Life expectancy is routinely into the eighties, so people will be on the program for 20 years. And many of the largest costs are incurred in the last months of life. So we need to do something about reining in Medicare, putting in place a different kind of system -- or else slightly raising the contributions, or raising the retirement age and the age at which people go on Medicare.

WOODS: But even these changes seem that they would be much too small to deal with a problem this staggering. What's going to have to happen, it would seem, is people are going to have to be forced into changing their political philosophy simply by the stark reality of the numbers.

FURCHTGOTT-ROTH: I think that if you look at areas where there's competition in medical care -- if you look at the Part D drug program, for example, that's costing far less than people forecast. If you look at LASIK eye surgery, the costs of that care have gone down. Cosmetic surgery, the costs of that care have gone down, because people are aware of what they're paying. If we had competition in Medicare, different groups competing to offer senior medical services, we would likely see a change in the costs. We would likely see cost savings from that, just as we've seen cost savings in these other areas.

WOODS: So the way in which this harms the young, of course, is that they're paying taxes into programs that are obviously unsustainable in their present form.

FURCHTGOTT-ROTH: That's right, yes, exactly. And these programs need to be changed so that they'll be there for when young people retire, so young people aren't just throwing away their money.

WOODS: I was very interested to note this. I thought I knew all about the Affordable Care Act, but you make the point that it's pretty much inevitable that the cost of insuring an 18-year old, as compared to the cost of insuring a 64-year old, that that ratio is going to have to change, because the Affordable Care Act forbids insurance companies from charging older people more than three times as much as younger people. Well, it used to be that insuring an 18-year old was one-fifth of insuring a 64-year old, but now it *has* to be one-third, because the law requires it. So what they're paying, in effect, has to go up.

FURCHTGOTT-ROTH: Exactly. And many of them are seeing a big jump in their premiums. In our book, we tell stories of young people. We interviewed many, many young people for our book, and Tommy Groves is a young professional whose premiums about doubled after he had to go on the Affordable Care Act, and he spent countless hours on the phone, trying to enroll in the program, and he still has problems with the

program. It's a very compelling story. And the problem is that these young people have far less income. Many are unemployed. They have far fewer assets. They have a lot of debt. They're worse off than the older people that they're subsidizing. Why should my children have to pay more so that my premiums are less? It doesn't make any sense. They're just starting out in life. We should be giving them a break, not the other way around. And the three-to-one ratio, put in force by the Affordable Care Act, dramatically works against young people.

WOODS: But, Diana, Paul Krugman writes articles all the time running victory laps, saying that Obamacare has turned out to be a great success and that all the scare-mongering of the right wing has come to naught, and it's all doing very well. How is he able to argue that? Is he arguing that, saying that the people who benefit are benefiting? But your point is that the people who aren't benefiting, aren't benefiting? How can there be such divergent views of this program?

FURCHTGOTT-ROTH: He is looking at the number of people who have signed up, and so he's saying, since more people have enrolled, the program is a success. But we've basically taken away any other options. If someone wants to buy health insurance right now, and they're not covered by their employer, they have no choice but to go to an exchange, because all of the plans are being sold on exchanges now. It's as though you eliminated every kind of candy except Reese's Peanut Butter Cups, and you saw an increase in sales in Reese's Peanut Butter Cups, and you say, "Hey, this is working. People like Reese's Peanut Butter Cups; they're buying more of them. Sales are skyrocketing." But they're only skyrocketing, because you can't buy any other kind of candy. In the same way, there are more people insured now under the Affordable Care Act, but that's because there are no other options. Yet, you can see people were complaining, because their plans were cancelled. They're complaining, because their premiums went up. And people should have the choice, as the president said when he was campaigning for the Affordable Care Act, if you like your plan you can keep it. They should be able to keep the plans they had before, which were lower cost. If they didn't want drug abuse coverage, mental health coverage, maternity coverage, they didn't have to buy that. Now these plans are so large and generous, that even singles have to buy plans that include pediatric dental care. That raises the cost of plans. And yes, Paul Krugman can say that enrollment has gone up, but that's because all the other choices have been taken away.

WOODS: I don't know what to say to that. That's really what it boils down to. Let's shift gears, though; let's talk about education. There seems to be a myth that cannot be eliminated. It is absolutely widespread; it's been around for years and years: It's the myth of cuts in education funding. Everybody thinks that education funding has been, or is being, cut to the bone, and that this maybe accounts for why students are doing so poorly. But it turns that that the opposite is the case.

FURCHTGOTT-ROTH: America is spending more than ever before on education, and yet, student achievement is going down. In some areas, only 55% of students graduate from high school, and yet, we force students to go to these failing schools. You know, when you have almost any other kind of benefit program -- if you have food stamps,

you can go to any grocery store you want. If you have Medicaid, you can go to any clinic or any doctor that takes Medicaid patients. Schools are the only thing where we say, "Here's free education, and you have to go to your neighborhood school." If we made people go to their neighborhood grocery store, there would be a revolution; there would be headlines in the paper about poor people being forced to go to grocery stores that have high prices and not-good food. But we don't do that with schools. We need to dramatically improve the quality of schools by giving people the choice of what school they send their child to, just the way they have the choice of what store to take their food stamps to and what doctor to go to on Medicaid. And we need to also make sure that teachers who are low performing don't get to stay on. You know New York City has rubber rooms where they keep teachers, and they keep them on the payroll, but they don't let them teach, because they're so poor quality. In any business, that just wouldn't happen. And we need to treat education more the way we treat other businesses, because it adds up to the lifetime earning of these children. If a child moves from a teacher in the lowest 5% to a teacher of average quality, they gain in their lifetime earnings. And if you look at Eva Moskowitz, with her Harlem Success Academies, she spoke at the Manhattan Institute annual dinner this year, and she was saying that her students are in the top 1% of students in New York State. Her students start physics in kindergarten. We need to give all children opportunities like Eva Moskowitz's Harlem Success Academies.

WOODS: I think, given the huge cost disparity between traditional classroom instruction and the almost completely untapped potential of the Internet so far, we can conceive of what it may be able to do, but we've barely gotten started. There will very likely, it seems to me, be a total overhaul and revolution in the way education is delivered in the future anyway, so some of these questions may wind up being moot eventually. But just to play devil's advocate here, one concern that some free market people have had about so-called "voucher systems" -- where you get a voucher and you can choose the school you go to -- is that one of the benefits of the neighborhood school is that a middle class family scrimps and saves to move to a middle class neighborhood so that they can send their kids to a respectable school, and they don't have to worry their kids are going to be terrorized at that school. But then the students who have made the bad schools bad then take their little vouchers, go to your local neighborhood school, and make your kid's life impossible. Why is that something to celebrate?

FURCHTGOTT-ROTH: I think if you have a good school, it does well for everybody. For example, at Success Academy Harlem 1, 86% of students are proficient in reading, and 94% are proficient in math. If you get a good principal and if you get good teachers and you get good discipline, then everybody is going to benefit.

WOODS: Having been in academia briefly, I can --

FURCHTGOTT-ROTH: Oh, I feel sorry for you.

WOODS: Oh, it was terrible. (laughing) I mean, there were good things about it, but what I saw were students who -- I mean this was freshmen, sophomores -- they just

could not have had less interest in anything that mattered. And I'm a pretty good public speaker. I wasn't boring them; that wasn't the problem. They just didn't care about anything, so that's partly their issue. And then secondly, I assigned them a book by Thomas Sowell. Now Thomas Sowell is not advancing propositions from Wittgenstein; I mean, he's writing for the general public. And yet they could not even understand Sowell's arguments. So from that point of view, they're woefully unprepared. They can't even read a book that's written for the general public, much less a book written for other scholars. But secondly, I found that they would rather play video games. They were there to make their parents happy. There isn't a whole lot that a school can do about that. I mean, I'm talking about the college level, but if that's the attitude, there's not a whole lot a school can do.

FURCHTGOTT-ROTH: Well that's right. And there are a lot of children in school who are racking up large amounts of debt. 70% of graduates have debt, and the average amount of debt is \$27,000. There's no point in going to school, not paying attention as you describe, and racking up that much debt. And you have that with you for the rest of your life if you can't pay it off fast. So what you need to do is, if you're not really interested in some of the courses that are being offered, a good option is to go to community college. It only costs \$3,000 dollars a year, and you can choose a higher return field, such as physical therapy, occupational therapy, computer programming. And students graduate from those schools with earnings of around \$45,000 a year in those jobs. Education and health care services have kept growing every single year, even during the recession. Computer programming -- the demand is booming. So it's not necessary to get a four-year degree to get a well paying job. You can get an associate degree from a community college, and then if you want to go back to school later and get a four-year degree, most state universities accept the credits from the two years of community college. So you have a four-year degree at half the price.

WOODS: Well and how about this; I found out about this not too long ago: Hack Reactor is a place out in San Francisco -- HackReactor.com -- it is a place where you learn coding. It's for programmers, and it's an extremely rigorous 12-week program -- it's the most unbelievably difficult 12 weeks of your life. But it's vastly less expensive than a four-year school, and their graduates are, on average, earning \$105,000 a year. So there are alternatives popping up all over the place. But unfortunately, people are stuck doing what their guidance counselor tells them, because the guidance counselor is stuck in 1978 -- as if there were no Internet and no changes to the way we do things. You mentioned student debt -- that's another of the major problems -- but let's move ahead to an issue that we talked about in the past in connection with the fast food protest, and that is the minimum wage. People will say that the minimum wage has already, over time, been eroded by inflation anyway, so the minimum wage in real terms has been coming down, and all we're trying to do is boost it back up to where it was. And it was never really a major disincentive for employers -- I mean, people did more or less find work, so what's the big deal?

FURCHTGOTT-ROTH: Only 3% of working Americans make minimum wage anyway. 97% make more, not because their employers are kind and generous, but because that's what their employers have to pay to keep them. But a small number of people -- many

teens and low-skilled workers -- can only get low wage jobs. They need those jobs in order to start out in the workforce. If you think about a teen, for example, who wants a summer job in fast food or someone who wants a job in a bike store, they're not going to get \$15 an hour. They might not even get \$10 an hour. So it's a choice of a low-paying job or no job at all. So the minimum wage doesn't really affect the vast majority of working Americans. What it does affect is people who are trying to get into the workforce. And if you get that first job as a teen, you can maybe get that second job and the third job, and you can work your way up. So we're really doing a big disadvantage to our teens, to young Americans, by raising the minimum wage. And any increase in the minimum wage should be accompanied by an exemption for people 22 and under.

WOODS: Alright, I would like you to take, well, let's see if you can do it in 60 seconds: Give us the bird's eye view of what fixing this would look like. And you know what, I'm going to make it a little more challenging. Give me the politically feasible version, and then give me the Diana-Furchtgott-Roth-can-do-anything-she-wants-to version.

FURCHTGOTT-ROTH: Well, I think that the politically feasible version and the Diana Furchtgott-Roth version are not that different. Washington needs to rein in the regulatory state, which has expanded steadily. States can look at their regulations, and they can see, "Do we really need to have these occupational licensing requirements for florists, for interior designers, for hair braiders?" This is something that individual states can roll back. And Congress, also, is taking a very good look at some of these regulations. If the United States had kept its regulatory state at 1949 levels, GDP would now be about three and half times higher. What's more politically difficult, I guess, is to make changes in Social Security and Medicare, but a lot of the presidential candidates have proposals out there. And it's not that difficult in terms of an economic solution. With Social Security you could gradually raise the retirement age. You could index benefits to the price levels instead of the wage level. These two small changes would bring the program back into balance, and many presidential candidates, such as Senator Rubio and Governor Walker, are talking about the need to do this. Governor Chris Christie of New Jersey had a program out in *The Wall Street Journal*, laying out many of the changes that need to be made. With schools, we need to expand the charter school movement and allow as many charter schools as individuals want to start and parents want to send their children to. There are many charter schools growing already all over the United States, and we need more of these. So I think that with a few sensible changes, and with young people getting together and saying, "We don't want to be having money taken out of our paychecks for programs that aren't even going to be there, and we want to be able to get into the workforce. We want to be allowed to have unpaid internships at for-profit companies" -- something that's just being done by the Labor Department. I think that politicians will listen; the problem is there's an American Association of Retired Persons, but there's no American Association of Young Persons. We need to get young people together to demand these changes.

WOODS: And of course, when it comes time to vote, the AARP people are there in force. If it's the last thing they do -- I've stood at a polling place, and I have watched

the demographics of the people who walk in there -- and if it's the last thing these people do, they're going to get in there and cast that vote for, you know, basically more of the same. And the young people who are very idealistic, they don't show up. So that is, of course, a major factor in this lopsided calculus that we face in this situation. There are three ways people can find out about this book. Of course, you can go right to Amazon and type in "*Disinherited: How Washington is Betraying America's Young.*" You can find out about it on the Manhattan Institute's website, which is Manhattan-Institute.org. And on the show notes page for today's episode -- this is episode number 402 -- so the show notes page will be TomWoods.com/402. Diana, best of luck with the book, and thanks for your time today.

FURCHTGOTT-ROTH: Okay, thanks very much, Tom. It's great to be with you.