

The Daily Dish



The Daily Dish: The Mortgage Interest Deduction and Health Care Spending

JULY 30, 2013

[BNA](#) reports this morning on a new [AAF study](#) on the mortgage interest deduction (MID), writing “Imposing a moderate-sized cap on mortgage interest deductions that can be claimed would impact relatively few homebuyers and may prove to be “a winning compromise,” the American Action Forum said in a report set for release July 30. The group, led by former Congressional Budget Office Director Douglas Holtz-Eakin, said the mortgage interest deduction is estimated to cost the government more than \$1 trillion in forgone revenues from 2014 to 2023—almost as much as the deduction for charitable contributions and the child tax credit combined.”

Meanwhile, the [Wall Street Journal](#) writes that local governments may start to recover from the economic crisis: “Monthly jobs data from the Labor Department show local governments, which make up about 65% of the overall government workforce, added workers in seven of the past eight months, the longest such streak in five years. So far this year, 46,000 new jobs have been created on a seasonally adjusted basis. Local-government employment through June stood at 14.08 million, the highest level in more than a year and a half, though still well below a peak of 14.61 million in mid-2008.”

This is welcome economic news compared to the [Reuters](#) report this morning that “Gross domestic product probably grew at a 1.0 percent annual rate after expanding at a 1.8 percent pace in the first quarter ... according to a Reuters poll of economists. But there is a risk that growth undershoots expectations, with forecasts as low as a 0.4 percent rate.” We will know more about the state of the recovery once the actual GDP number is released Wednesday morning.

Eakinomics: Health Care Spending

[USA Today](#) reported that “Personal health care costs rose last year at the slowest rate in the last 50 years,” a finding that has the White House [crowing](#). What exactly is going on?

The USA Today report concerns the rate of increase of the subset of consumer prices that reflects health services. It rose at an annual rate of 1.1 percent. This is indeed good news for purchasers of those services (although not as good a story for the sellers!). It is also reflective of other recent data that show an overall slowing in the growth of national health care spending. The latter is ultimately the most significant, as the price tag for health spending is ultimately the cost that must be covered by insurance.

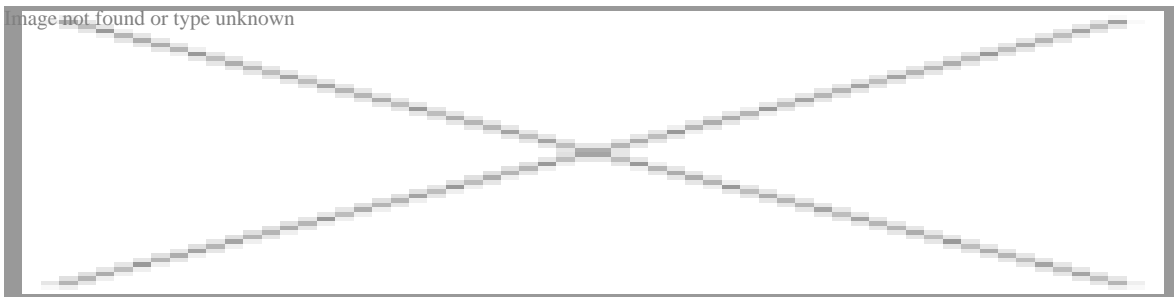
Since this slowdown is occurring at the same time the Affordable Care Act (aka ObamaCare) is being implemented, the White House is happy to feed the notion that ObamaCare is the reason for the slowdown. The title of the White House blog is “As ACA Implementation Continues, Consumer Health Care Cost Growth Has Slowed” — which cleverly suggests there is a relationship without quite asserting that ObamaCare is the cause.

There is good reason to be cautious. First, the Great Recession dampened the growth of prices and spending

across the economy; health is no different. As the economy recovers, one would expect the pace to pick back up. Second, many times in the past (see the chart below) health care spending grew at the pace of GDP or slower — exactly what is happening right now — notably in the late 1990s. In each case, the pace turned right around and picked back up. Finally, as ObamaCare is implemented, it will cover millions more with health insurance precisely for the purpose of making sure they spend *more* on health care — a recipe to see current trends reversed.

The growth of health care spending is the root cause of rising health insurance premiums, slower growth in cash wages, and rising entitlement spending. Slower growth rates are good news, but not yet a guarantee of permanent improvement.

NHE per capita growth rate minus GDP growth rate (current dollars)



Also From the Forum

Infographic: ACA Delays — The Affordable Care Act's many delays ([See the Infographic Here](#))