Weekly Checkup

# Weekly Checkup No. 62: Excessive Optimism Over Low Cost Growth

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The past few weeks have seen a number of optimistic headlines[1] praising the Affordable Care Act (ACA) for reducing the growth in health care spending. Since all evidence points to health care cost growth as a key driver of our national debt, does this mean Americans no longer have to worry about the solvency of the US economy? Not quite. While slow growth rates are a positive development, yesterday's report from the Government Accountability Office that examines the ACA's long term budget impact, as well as a look at historical trends in healthcare cost growth, give a sobering reminder that there is still much to be done to reduce federal healthcare spending.

In response to Congressional inquiry about the ACA's impact on the federal budget outlook, GAO examined the long-term projections both under current law as well as an alternative fiscal scenario that saw less success from the cost-containment provisions in the law. The alternative fiscal scenario was necessary because, as the report notes, "…the [Medicare] Trustees, CBO, and OACT all expressed concerns about whether certain cost-containment mechanisms included in the ACA can be sustained over the long term." In other words, these groups all question the effectiveness of the healthcare law. However, with or without the ACA cost-containment provisions, which include reductions in Medicare payment updates, the controversial Independent Payment Advisory Board, and small-scale demonstration projects, the long-term outlook remains bleak. Because some of the cost savers, such as Medicare payment cuts, have been enacted in advance of the large and expensive coverage expansions coming in 2014, the past two years have seen a decline in the growth of national health care expenditures, and has led to a faulty conclusion that we are out of the woods.

As a warning to anyone becoming too optimistic the report states, "…while the steps taken in [ACA] to restrain spending on the federal health programs were significant, they were not sufficient to prevent an unsustainable increase in debt held by the public even under the more optimistic assumptions in our Baseline Extended simulation… Debt as a share of GDP still reached the historical high of 109 percent by 2036." So even if the ACA works perfectly as described by the law's supporters, national debt will still surpass GDP within 25 years. Furthermore, drops in national health expenditure (NHE) growth rates have occurred before, and unfortunately were short lived. Consider the graph below, showing per capita growth rates in NHE minus the growth rate of GDP in that same year for 1961-2011.

Figure 1: NHE Per Capita Growth Rate Minus GDP Growth Rate, 1961-2011

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Source: Calculated from CMS and National Bureau for Economic Analysis Data Sets.

Although health care expenditures grow faster than the economy in almost every year, there are a few time periods where this isn't the case. Unfortunately, we see the spikes rise again. There is no sound evidence to support the argument that healthcare spending is no longer an issue. What's worse is that the ACA looks like it will only exacerbate that issue.

[1] Such headlines can be found at The New York Times, The Huffington Post, and The Washington Post