

# Background

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## Congress's Health Care Bills Would Increase Spending and Federal Budget Deficits

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**Abstract:** *Both the House health care reform bill (H.R. 3200) and the bill authored by Senator Baucus would increase government spending by hundreds of billions of dollars over the next decade, even after assuming massive "savings" from cutting waste and inefficiency in Medicare and Medicaid. If lawmakers can easily cut nearly \$1 trillion in waste from Medicare and Medicaid over the next 20 years, they should do so to reduce Medicare's \$36 trillion unfunded obligation, not to fund massive new health care benefits.*

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This year's \$1.6 trillion budget deficit and President Barack Obama's proposal to double the national debt over the next decade have made spending restraint and deficit reduction vitally important. Despite the President's pledges to "bend the curve" of health care spending growth downward and to "not sign a plan that adds one dime to our deficits—either now or in the future,"<sup>1</sup> the leading health care plans in Congress would add trillions of dollars in new spending, even if they are deficit neutral.

These bills represent a staggering abandonment of fiscal responsibility and would result in higher taxes and slower economic growth for current and future generations.

### **"Bending the Curve" the Wrong Way**

President Obama has repeatedly emphasized that health care costs too much for families, businesses, and the government. Focusing on soaring government

### **Talking Points**

- With the United States facing escalating spending and large budget deficits, it is imperative that health care reform be both spending-neutral and deficit-neutral.
- The House health care reform bill would add \$626 billion in new spending in the first decade and \$2.2 trillion in the second decade. Despite large tax increases, it would run a \$1 trillion deficit in the second decade.
- Senator Baucus's bill would also expand spending by hundreds of billions of dollars and significantly raise taxes, while still leaving 25 million Americans without health insurance.
- All major health bills assume massive savings from cutting "waste and inefficiency" in Medicare and Medicaid. History suggests that these savings may never materialize.
- Lawmakers should focus any Medicare and Medicaid savings on reducing Medicare's \$36 trillion unfunded obligation, rather than adding even more spending.

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This paper, in its entirety, can be found at:  
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health spending, the President recently told a joint session of Congress, “[O]ur health care system is placing an unsustainable burden on taxpayers.... If we do nothing to slow these skyrocketing costs, we will eventually be spending more on Medicare and Medicaid than every other government program combined.”<sup>2</sup> Thus, he has stated repeatedly that reform should “bend the curve” of health care spending growth downward.

Yet the House health care bill (H.R. 3200) would actually *increase* government costs. The Congressional Budget Office (CBO) estimates that it would add \$823 billion in net spending (with gross spending much higher) over the first 10 years.<sup>3</sup> Similarly, the Lewin Group estimates that it would add \$626 billion in new spending in the first decade and \$2.1 trillion in the second decade. Even these figures assume nearly \$1 trillion in Medicare and Medicaid cuts over the two decades.<sup>4</sup> Rather than bending the cost curve down, the House bill would bend it up.

CBO Director Douglas Elmendorf has confirmed this. After surveying the existing House and Senate health plans in July, but before the Baucus bill was unveiled, he testified to the Senate Budget Committee:

In the legislation that has been reported we do not see the sort of fundamental changes that would be necessary to reduce the trajectory of federal health spending by a significant amount. And on the contrary, the legislation significantly expands the federal responsibility for health care costs....

The way I would put it is that the curve is being raised, so there is a justifiable focus

on growth rates because of course it is the compounding of growth rates faster than the economy that leads to these unsustainable paths.<sup>5</sup>

Nor would the House health plan reduce the growth of private health spending. Providing more Americans with health insurance would induce additional health care utilization. The Lewin Group reports that the House bill would significantly raise health costs for employers, which would then be passed down to employees through lower wages. Both the public sector and the private sector would face higher health care costs under the House bill.<sup>6</sup>

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***Despite increasing net spending by at least \$365 billion in the first decade, the Baucus bill would still leave 25 million Americans without health insurance.***

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According to a quick, non-comprehensive analysis by the CBO, the bill authored by Senator Max Baucus (D-MT) would increase net spending by at least \$365 billion in the first decade, which includes \$409 billion in proposed Medicare and Medicaid cuts.<sup>7</sup> Because the Baucus bill would not fully phase in the spending until 2014, nearly all of these 10-year costs would occur in the last six years of the decade. These high annual costs would likely make the second decade substantially more expensive. Despite these costs, Senator Baucus’s bill would still leave 25 million Americans without health insurance.<sup>8</sup> Moreover, it would do nothing to address the \$36 trillion unfunded Medicare obligation.

1. Barack Obama, “Remarks by the President to a Joint Session of Congress on Health Care,” September 9, 2009, at [http://www.whitehouse.gov/the\\_press\\_office/Remarks-by-the-President-to-a-Joint-Session-of-Congress-on-Health-Care](http://www.whitehouse.gov/the_press_office/Remarks-by-the-President-to-a-Joint-Session-of-Congress-on-Health-Care) (September 21, 2009).
2. *Ibid.*
3. Congressional Budget Office, “Preliminary Analysis of America’s Affordable Health Choices Act of 2009,” July 17, 2009, at <http://www.cbo.gov/ftpdocs/104xx/doc10464/hr3200.pdf> (September 21, 2009).
4. John Sheils and Randy Haught, “Long-Term Cost of the American Affordable Health Choices Act of 2009; As Amended by the Energy and Commerce Committee in August 2009,” Lewin Group, September 9, 2009, pp. 19–20, at <http://www.lewin.com/content/publications/The%20Peterson%20Foundation%20Report.pdf> (September 21, 2009). These numbers represent net federal cost minus Medicare and Medicaid savings.
5. Z. Byron Wolf, “CBO Sees No Net Federal Cost Savings in Dem Health Plans,” ABC News, July 16, 2009, at <http://blogs.abcnews.com/thenote/2009/07/cbo-sees-no-federal-cost-savings-in-dem-health-plans.html> (September 21, 2009).
6. Sheils and Haught, “Long-Term Cost of the American Affordable Health Choices Act of 2009,” pp. 7 and 27–30.

## Increasing Budget Deficits

President Obama has engaged in a rhetorical sleight of hand by asserting the importance of reducing the growth of health care spending and then using deficit neutrality as his standard of judgment. Deficit neutrality, which can match steep tax hikes with steep spending hikes, is not the same as spending neutrality. The House bill attempts to keep its deficits down by raising income taxes on small businesses and upper-income families by \$588 billion in the first decade and by \$1,148 billion in the second decade.<sup>9</sup> However, large tax increases do not make these large spending increases any more affordable.

Furthermore, these tax increases are not enough to bring deficit neutrality. By beginning the tax increases in 2011, but not fully phasing in the spending until 2014, the bill would create early surpluses that create the illusion of fiscal responsibility.

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***Congress and President Obama have an obligation to taxpayers to eliminate waste and inefficiency in Medicare and Medicaid regardless of the fate of particular health care bills.***

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However, once the program is fully operational, it would immediately begin running growing budget deficits. In the second decade, the Lewin Group estimates that it would run a \$1 trillion budget deficit as the new tax revenues fail to keep pace with soaring costs. By 2029, the new taxes would not

even cover half of the \$330 billion in annual net spending.<sup>10</sup> Simply put, the House bill fails the President's test of long-term deficit neutrality.

The CBO's rough projection of the Baucus bill, absent its 500-plus amendments, shows potential deficit neutrality in the first decade. However, this would depend on Medicare and Medicaid cuts that may never materialize. Historically, such cuts have a poor track record: Medicare "savings" enacted in 1992 and 1997 have been routinely reversed when the required savings became painful.<sup>11</sup> A long-term analysis of the Baucus bill has not yet been released, so it is too early to determine whether it would run budget deficits after the first decade.

## Are the Medicare and Medicaid Offsets Real?

President Obama's health care reserve fund proposal includes \$622 billion in reductions in the growth of Medicare and Medicaid.<sup>12</sup> The President claims that all of the savings will come from cutting "waste and inefficiency" and thus will not reduce benefits at all.<sup>13</sup> Similarly, the Baucus bill would trim Medicaid and Medicare by \$409 billion in its first decade and the House bill would trim it by \$1 trillion over 20 years.

Yet if hundreds of billions of dollars in waste can be trimmed from these programs without reducing benefits, why are lawmakers waiting for a health care expansion bill to enact these changes? Medicare and Medicaid are already growing unsustainably, and Congress and President Obama have an

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7. Douglas W. Elmendorf, Director, Congressional Budget Office, letter to Senator Max Baucus, September 16, 2009, at [http://www.cbo.gov/ftpdocs/105xx/doc10572/09-16-Proposal\\_SFC\\_Chairman.pdf](http://www.cbo.gov/ftpdocs/105xx/doc10572/09-16-Proposal_SFC_Chairman.pdf) (September 21, 2009). The CBO's analysis "does not constitute a comprehensive cost estimate for the proposal," and CBO analysts "have not taken into account all of the proposal's effects on spending for other federal programs or estimated the federal government's administrative costs for oversight and implementation that would be subject to future appropriations." *Ibid.*, pp. 6 and 7.
  8. *Ibid.*
  9. Sheils and Haight, "Long-Term Cost of the American Affordable Health Choices Act of 2009," pp. 19–20.
  10. *Ibid.* These numbers represent net federal cost minus Medicare and Medicaid savings.
  11. Past legislative commitments for Medicare savings, such as "Docfix," have a largely unsuccessful history. See J. D. Foster, "Medicare's Financial Woes: Bigger Than Official Estimates," *Heritage Background* No. 2174, September 2, 2008, at <http://www.heritage.org/Research/Budget/bg2174.cfm>.
  12. U.S. Office of Management and Budget, *Mid-Session Review: Budget of the U.S. Government, Fiscal Year 2010*, August 25, 2009, pp. 50–53, at <http://www.whitehouse.gov/omb/assets/fy2010/msr/10msr.pdf> (September 21, 2009).
  13. Obama, "Remarks by the President to a Joint Session of Congress on Health Care."

obligation to taxpayers to eliminate waste and inefficiency regardless of the fate of these particular health care bills.

In reality, government waste is easy to identify, but difficult to eliminate. If lawmakers could easily cut nearly \$1 trillion in waste from Medicare and Medicaid, they would have done so already. Therefore, this spending is likely either actual program benefits—such as Medicare Advantage—or waste that lawmakers have not determined how to eliminate. Either way, lawmakers would be irresponsible to make large, permanent spending commitments based on vague promises to reduce waste and inefficiencies that may never materialize. At a minimum, lawmakers should produce these savings *before* considering new spending.<sup>14</sup>

Even better, any Medicare and Medicaid savings should go toward shoring up these programs' shaky finances. Medicare faces \$36 trillion in unfunded obligations, and Medicaid spending is set to double as a percentage of the economy over the next three decades.<sup>15</sup> Eliminating waste and inefficiency from these programs would reduce these long-term costs. Otherwise, taxpayers will be left with the same staggering funding shortfall for these programs and one fewer option to begin plugging the hole.

### **A New Approach Is Needed**

Earlier this year, Senate negotiators trimmed the “stimulus” bill from \$838 billion to \$787 billion

and portrayed this historically expensive bill as a victory for fiscal responsibility. Now, lawmakers trimming the cost of health reform to under \$1 trillion over 10 years are portraying these bills as similarly fiscally responsible. The better description would be that the proposed bills would be slightly less destructive to the nation's long-run fiscal health than the more costly bills would have been.

America already faces soaring government spending, permanent trillion-dollar budget deficits, and the Social Security and Medicare costs of 77 million retiring baby boomers. Adding trillions of dollars in additional government spending and budget deficits is not responsible. It would expand already massive budget deficits, which would add more pressure towards higher interest rates, and would lead to slower economic growth, and eventually steep tax increases.

The current health plans do not meet the President's goals of slowing health care spending and not increasing the budget deficit. Congress should scrap the current plans and seek a new approach that improves the health care system based on real choice, competition, and transparency, while addressing the unsustainable spending trends.

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14. See Stuart M. Butler, “Senate Finance ‘MedPAC’ Health Proposal Needs Savings Guarantee,” Heritage Foundation WebMemo No. 2507, June 26, 2009, at <http://www.heritage.org/Research/HealthCare/wm2507.cfm>.

15. U.S. Department of the Treasury, *2008 Financial Report of the United States Government*, pp. 29 and 39–41, at <http://www.gao.gov/financial/fy2008/08frusg.pdf> (September 21, 2009).