

Fix health care. But fix the deficits, too

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President Obama says reforming health care is central to the task of getting the government's long-term financial problems under control. And he's right.

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But fixing the health care system, even if it brings down costs, is not enough.

Obama and other policymakers need to pay more attention to a fundamental conflict underlying the health care debate: People want the federal government to do much more than they are willing to pay for through their taxes.

As a result, the nation faces not only a growing health care crisis, but also a related long-term fiscal problem -- a sizable and growing imbalance between the federal government's future revenues and spending. And the pending health care reform proposals could even make the fiscal problem worse, if expansions of coverage outweigh achievements at cost saving.

Under current estimates, the long-term fiscal gap is about 9% of gross domestic product.

What does that mean? Well, first, you had better sit down.

The fiscal gap measures the size of the immediate and permanent tax increases or spending cuts that would keep the federal government in balance over the long term. The current gap represents about as much revenue as the income tax generates in a good year, so we would need to double our income tax collections to solve our fiscal problems using the income tax alone.

Of course, relying solely on income tax increases is not the only option, nor is it the best one, because government spending on health care is an important part of the fiscal problem.

At issue are the two major government health care programs: Medicare, which covers hospital, doctor and drug payments for the elderly, and Medicaid, which covers the poor and disabled, many of whom are also elderly.

Medicare and Medicaid have been growing much faster than the economy and are projected to continue doing so. Spending on the two programs rose from about 1% of GDP in 1970 to more than 6% today; it is projected to grow further to 9% of GDP by 2030 and 13% by 2050. The cause is the increasing share of the population that is elderly and continuing increases in medical costs.

Two for one: Health care and fiscal crunch

Because increasing medical spending is so central to the long-term fiscal imbalance, health care reform could help address not only the current health care crisis, but also the impending fiscal crisis. Thus, Obama's speech Wednesday night offers the rare opportunity to take important steps in resolving both problems at the same time.

Health care reform has two components: the expansion of coverage for those with limited access and changes in the system of health care delivery that can improve the quality of health care while reducing the rate of health care spending growth.

For example, some estimates suggest that as much as 30% of medical procedures are wasteful or unnecessary.

But removing all that waste from the system over a period of, say, 25 years, and achieving a slower rate of growth of health care costs during that period would still leave the nation facing a long-term fiscal gap of over 5% of GDP.

Earlier this year, President Obama met with leaders of the health insurance industry and exacted a pledge to reduce the annual growth rate of health care costs to a similar extent, but for just 10 years. Such a change would be commendable, but it would put an even smaller dent in the long-term fiscal gap.

As yet, it is unclear how such cost-saving might be achieved via health reform. In fact, the increased expenditures on those benefiting from expanded health insurance coverage would add to the costs that must

be covered, producing an even smaller net reduction in the size of the long-term gap.

So, while strong action is needed on health care, it cannot be sufficient, or even close to sufficient, to bring the nation's books into balance. Significant further tax increases or spending cuts will need to be considered.

Solutions won't be easy

This is a difficult problem. It is not hopeless, but it is far too large to be addressed through narrow measures alone, such as taxes on those with very high incomes or on soda consumption.

The necessary changes will affect all Americans in significant ways, and so they will require broad-based support from the American people. Achieving such support could begin with some frank talk about the costs, as well as the benefits, of health care reform, and the size of the long-term gap that health care reform alone cannot solve.

The first step is honest talk and leadership. Few political leaders relish talking about the need for tax increases and spending cuts and, indeed, it would be unwise to take such measures immediately, as the economy continues to struggle out of a deep recession.

But the transition from fiscal stimulus to fiscal responsibility must begin soon, and health care reform can incorporate the first moves along this path. Obama needs to make the case that both health care reform and fiscal responsibility generate benefits that are valuable and therefore are worth paying for. Until he does, the American people and the political system will continue to postpone serious discussion of difficult trade-offs.

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