



The Long-Term Fiscal Crisis: A Health Care Problem, Not an Entitlement Problem

The federal government faces a long-term fiscal crisis with expenditures expected to rise dramatically over the next several decades. While this is frequently attributed to growth in entitlement programs, in reality the problem is primarily due to out-of-control health care costs which are rapidly increasing expenditures in Medicare and Medicaid. Any effort to address the fiscal crisis should begin with reform of the health care system, zeroing-in on the root cause of these rapidly growing costs. Including other entitlement programs in proposals to address Medicare and Medicaid costs is unnecessary and potentially risky.

- **Medicare and Medicaid expenditures are growing at a rate that threatens our fiscal health.** Between 2009 and 2050, Medicaid and Medicare, if left unchecked, would grow from their current combined level of 4.3 percent of GDP to consume another 7.7 to 8.2 percent of GDP.
- **Most entitlement programs are shrinking as a share of the economy.** According to the Center on Budget and Policy Priorities, entitlement programs other than Medicaid, Medicare and Social Security are actually projected to *shrink* as a share of the economy through 2050. Since these programs are growing more slowly than the economy, they are not contributors to the long-term fiscal problem. In the absence of legislative changes, revenues generally grow slightly faster than the economy.
- **Social Security costs are rising at a manageable level.** Social Security benefits are estimated to increase from 4.3 percent of GDP today to 6.1 percent in 2035, and then to fall back to 5.8 percent of GDP. While 1.8 percent of GDP is a significant increase, America has managed this kind of growth in expenditures in the past. For example, the expenses of public education increased by 2.8 percent of GDP between 1950 and 1970.
- **Reforming the health care system should be done separately from any consideration of changes in Social Security.** If minor adjustments needed to secure Social Security for the next 75 years are considered at the time the health care system is reformed, there could be a temptation to use resources from Social Security help pay for health reform.
- **Reform of Medicaid and Medicare should be done legislatively and not referred to a commission that has the power to circumvent the legislative process.** While such a commission is appropriate when there is broad general consensus on what steps should be taken, as was the case with the commission created to close military bases, there is no comparable consensus on the appropriate measures to resolve rising Medicare and Medicaid costs. Therefore it should remain part of the regular legislative process.