Blog from the Chair: Connecting the Dots
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Toward the end of the book, Professor Blinder focuses on a Congressional Budget Office chart. Reproduced below, the chart looks at federal revenue and spending projections as a percentage of gross domestic product from 2010 through 2090.

Understanding this chart is critical. Working from the bottom up, the purple line is primary government spending for everything except healthcare and interest on debt. This includes Social Security, defense, education, and other categories. Note that the line goes down slowly over time. The blue line, which essentially remains flat, is an estimate of ongoing federal revenues from taxes, assuming no major tax increases. The red line is primary spending, including healthcare and all other primary categories. Note that it dips until 2020 and then increases significantly over time. The green line is total spending, which adds interest payments to all primary spending. This line takes a rapid trajectory upward.

![Chart](image)

The conclusion one can draw from this chart is that healthcare spending is the one component of federal spending that is driving the federal deficit upward. Excluding healthcare, primary spending as a percentage of GDP would be expected to decline over time, remaining below revenues at all times.

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Professor Blinder summarizes the problem as follows:

“The implication for budgeteers is clear: If we can somehow solve the healthcare cost problem, we will also solve the long-run deficit problem. But if we can’t control healthcare costs, the long-run deficit problem is insoluble.”

Is there a revenue solution to the healthcare-driven federal deficit? Professor Blinder notes that federal taxes have traditionally run at about 18.5 percent of GDP. To solve the CBO-estimated deficit, federal taxes would need to rise to 32 percent of GDP—not likely under any administration, Democrat or Republican.

This is the economic construct in which healthcare organizations operate. So the critical question for providers is as follows: Is anyone in Congress paying attention to the trends analyzed by the CBO and Professor Blinder? The answer appears to be an emphatic “yes.” The American Hospital Association recently released the following graphic that shows a reduction of $113 billion in federal Medicare and Medicaid payments to hospitals since 2010, excluding any ACA-related reductions.

![Figure 2. Impact of Hospital Payment Cuts Since FY 2010](image)


No member of Congress ever directly attacks the Medicare budget—that kind of thing is the “third rail” of American politics. But at the same time, it turns out that the attack on the Federal deficit is more of a bipartisan effort than one might have expected. The Republicans are clearly deficit hawks, but apparently the Democrats support at least a reduction in the size of the projected deficit. As the AHA demonstrates, both political parties are more than happy to reduce healthcare expenditures to get there.

This is a strategic realization for all providers. There are macro-economic issues that are top of mind both economically and politically. And these issues are seemingly more powerful than any historical support for both Medicare and Medicaid. Plan accordingly.

Your comments are welcome. I can be reached at kkaufman@kaufmanhall.com.

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