



The above chart by Mercatus Center senior research fellow, Veronique de Rugy examines the fiscal year-over- fiscal year deficit effects of the final healthcare legislation, the Patient Protection and Affordable Care Act (PPACA), using Congressional Budget Office projections. The chart compares the net change in deficits due to changes in insurance coverage (red), net changes in deficits due to other spending on Medicare, Medicaid and other federal health programs (green) and net changes in deficits due to a \$420 billion increase in federal taxes. Importantly, these long-term estimates suppose that spending cuts and tax increases are instituted as legislated.

The purple line shows the year end change in the deficit due to the final healthcare legislation. This change of \$143 billion over 10 years is paltry when taken in context - this nation has spent an average of \$1.8 trillion dollars on healthcare during each of the past 10 years. To put it another way, the net deficit reduction over the next 10 years will be less than 1% of *this year's* GDP, and less than 4% of *this year's* federal spending. This deficit reduction does nothing to reduce the substantial pressure of growing healthcare costs on the federal budget.

Furthermore, if history is any indication, the cost savings in this legislation are unlikely to be instituted as they are written. Take Medicare, for example. In 1967, long-run forecasts estimated that Medicare would cost about \$12 billion by 1990. In reality, it cost \$110 billion that year. Today, it costs \$500 billion.

Out of control healthcare costs are a major culprit in the proliferation of government spending; reforming this spending represents a real opportunity for debt and deficit reduction. Instead of moving toward these ends, the final healthcare legislation pushed through Congress increases the federal commitment to healthcare by roughly \$400 billion dollars and creates two new entitlement plans. This all but promises a net increase in federal healthcare spending over baseline projections.

To contact Dr. de Rugy, please call (703)993-9458 or email jdebnam@gmu.edu.