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Bernanke: Rising Health Costs Pose Economic Risk

By REUTERS

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WASHINGTON ([Reuters](#)) - [Federal Reserve](#) Chairman Ben Bernanke warned on Monday that rising U.S. government spending on health care risks triggering runaway budget deficits that could put economic stability in danger.

"There are limits to how big the deficit and the debt can be," he said in response to questions after a speech to a health-care event organized by the Senate Finance Committee.

"Soon it will begin to have effects on interest rates, it will have effects on economic growth, and on stability, so ... it's not just balancing the [federal budget](#), it's really a much broader question of the stability and strength of our economy over a longer period of time," Bernanke said.

Health-care spending is the largest single component of personal consumption and currently exceeds 15 percent of U.S. gross domestic product, Bernanke said. There is little evidence health-care spending will stop rising as a share of GDP, he added.

To buffer the effects of rising health-care costs on household budgets, the government may have to absorb an increasingly large share of the bill for those costs, he said.

This will put "even greater pressure on government budgets than official projections suggest," he added.

Current government spending on the two major health care programs -- [Medicare](#) for retirees and [Medicaid](#) for low-income people -- takes up 23 percent of federal spending that is not for interest payments, up from 6 percent in 1975, Bernanke said.

Due to higher costs and the aging of the U.S. population, that portion is scheduled to rise to about 35 percent in 2025 if no changes are made, he added.

As those costs rise, the public and lawmakers will face difficult decisions about spending and taxes, Bernanke said.

"Higher government spending on health-care spending will, of necessity, require reductions in other government programs, higher taxes, or larger budget deficits," he said.

Even as government spending on health care rises, 47 million Americans, or about 16 percent of the population, are without health insurance, Bernanke said.

"Access to health care is the first major challenge that health-care reform must address," he said, adding that the issue is likely to be a topic of debate in the upcoming presidential election.

But Bernanke cautioned that problems facing the complicated U.S. health care system will require a range of solutions.

"We should not expect a single set of reforms to address all concerns," he said. "Rather, an eclectic approach will probably be needed."

Bernanke stopped short of recommending specific steps, but acknowledged that the range of political views surrounding health care reform will make enacting reforms challenging.

One possible approach would be to set up a commission which would make recommendations that Congress would vote to adopt or reject, without making changes, he said. This approach was used by a panel that made difficult decisions about closing military bases around the country.

Another plan might be to leave choices to a body that has some independence but very clear guidance about objectives, in the model of the Federal Reserve, which has defined goals but makes decisions about achieving them independently, Bernanke said.

(Reporting by Mark Felsenthal; Editing by Tom Hals)

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