



The Daily Dish

Medical Care Prices — It's Not Just the Drugs

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Eakinomics: Medical Care Prices — It's Not Just the Drugs

Yesterday the Bureau of Labor Statistics (BLS) [released](#) the August data for the Consumer Price Index (CPI). The major takeaway was that core inflation (all items excluding food and energy) was up 2.4 percent from August 2018 and has now met or exceeded the 2.0 percent threshold for 6 consecutive months. The upshot, according to a Bloomberg [story](#), is “Sustained increases in inflation could give some Federal Reserve policy makers pause as they weigh additional interest-rate cuts this year, though the central bank is expected to make a second straight reduction next week as the global growth outlook dims and uncertainty over trade policy damps business investment.”

But there is a health-policy subplot as well. “The core reading reflected the biggest monthly rise in medical-care costs since 2016 and record increases in health-insurance prices.” This spike is a useful reminder that not all of the price pressures in health policy stem from prescription drugs — one has to keep an eye on the hospitals, doctors, and other providers as well. Indeed, since the Great Recession bottomed out in June 2009, overall CPI inflation has averaged 1.7 percent (at an annual rate) per month, and core CPI has averaged 1.8 percent. In contrast, the medical-care component average of the CPI has averaged 2.9 percent (and up 3.5 percent in the past year), while the medical care services component is even higher at 3.1 percent (and up 4.3 percent in the past year). As the Fed has tried to raise inflation to its 2.0 percent target, the health community has certainly been doing its part!

All this raised the question (at least for me): In what other economic statistics is the health sector having a disproportionate impact? It is widely appreciated that the health sector has accounted for a rising share of total gross domestic product. Perhaps this increasing share is because that sector has seen a flood of hiring and a spate of wage increases?

Not really. Using the monthly employment data, for example, health care workers accounted for 10.3 percent of all employees in June 2009. Health care employment grew monthly at an average (annual) rate of 1.9 percent through August 2019, compared with 1.4 percent for all non-farm employment— faster, yes, but health care employment is still only 10.8 percent of the total. Looking at average hourly earnings, overall wages grew at an average rate of 2.4 percent during the recovery. Did health care wages blow past this? Quite the opposite, they came in at an average rate of 2.3 percent.

As the late, great Uwe Reinhardt emphasized: “[It's the Prices, Stupid.](#)” The only durable solution to high prices is reduced barriers to entry and more vigorous competition. That is exactly the right medicine for the U.S. health sector.