



The Daily Dish

# National Health Expenditures

DOUGLAS HOLTZ-EAKIN | DECEMBER 11, 2018

## Eakinomics: National Health Expenditures

In the political debates over health care policy, the focus is often on issues of access to care — the number of uninsured, the treatment of pre-existing conditions, and so forth. An equally important phenomenon, however, has been the ever-rising spending on health care in the United States that threatens the budgets of families, states, and the federal government alike. In this regard, an important moment occurred this past Thursday when the Centers for Medicare and Medicaid Services (CMS) released the 2017 [version](#) of data on national health expenditures (NHE).

The top line looks like more of the same. NHE grew 3.9 percent to \$3.5 trillion in 2017. This figure amounts to \$10,739 per person. You might not have noticed writing a check for your full \$11,000, but it was certainly written on your behalf by your employer and your state and federal governments. The growth rate — 3.9 percent — is faster than the economy as a whole — gross domestic product (GDP) grew 2.5 percent — leading to a crude estimate of “excess cost growth” (ECG) of 1.4 percentage points. The ECG has been lots higher historically, but until growth comes down to the rate of GDP growth, health care will continue to account for an ever-larger share of GDP. In 2017, it was 17.9 percent of GDP.

As noted above, many institutions pay health care bills. The largest of these is private health insurance, which pays 34 percent of the bill. Its spending grew 4.2 percent, as did that of Medicare, which is second at 20 percent of the bill. Medicaid pays 17 percent and grew more slowly at 2.9 percent. Finally, out-of-pocket spending grew the most slowly — 2.6 percent — but still accounted for 10 percent of spending (\$365 billion). It is this latter piece that gets most of the attention when people say that health care “costs too much.” The fact that out-of-pocket spending is growing faster than the economy remains a potent political problem.

The other hot-button issue is the price of pharmaceuticals. Prescription drug spending increased a mere 0.4 percent in 2017, although this measure excludes some very expensive drugs (e.g., cancer drugs) administered by a physician or in a hospital. This is slower than the 2.3 percent rate in 2016 and down from 12.4 percent in 2014. In contrast, hospital expenditures grew 4.6 percent and physician and clinical service expenditures grew 4.2 percent.

The bottom line is that health care spending continues to grow more rapidly than is sustainable over the long term. This growth is reflected in the difficulties faced in obtaining private insurance and the long-run financial instability of Medicare and Medicaid. The top health care issue should not be universal coverage (e.g., single payer, Medicare-for-All, and Medicare buy-in), but instead should focus on (1) getting high value for the money being spent, and (2) reducing the pace at which total spending rises.