



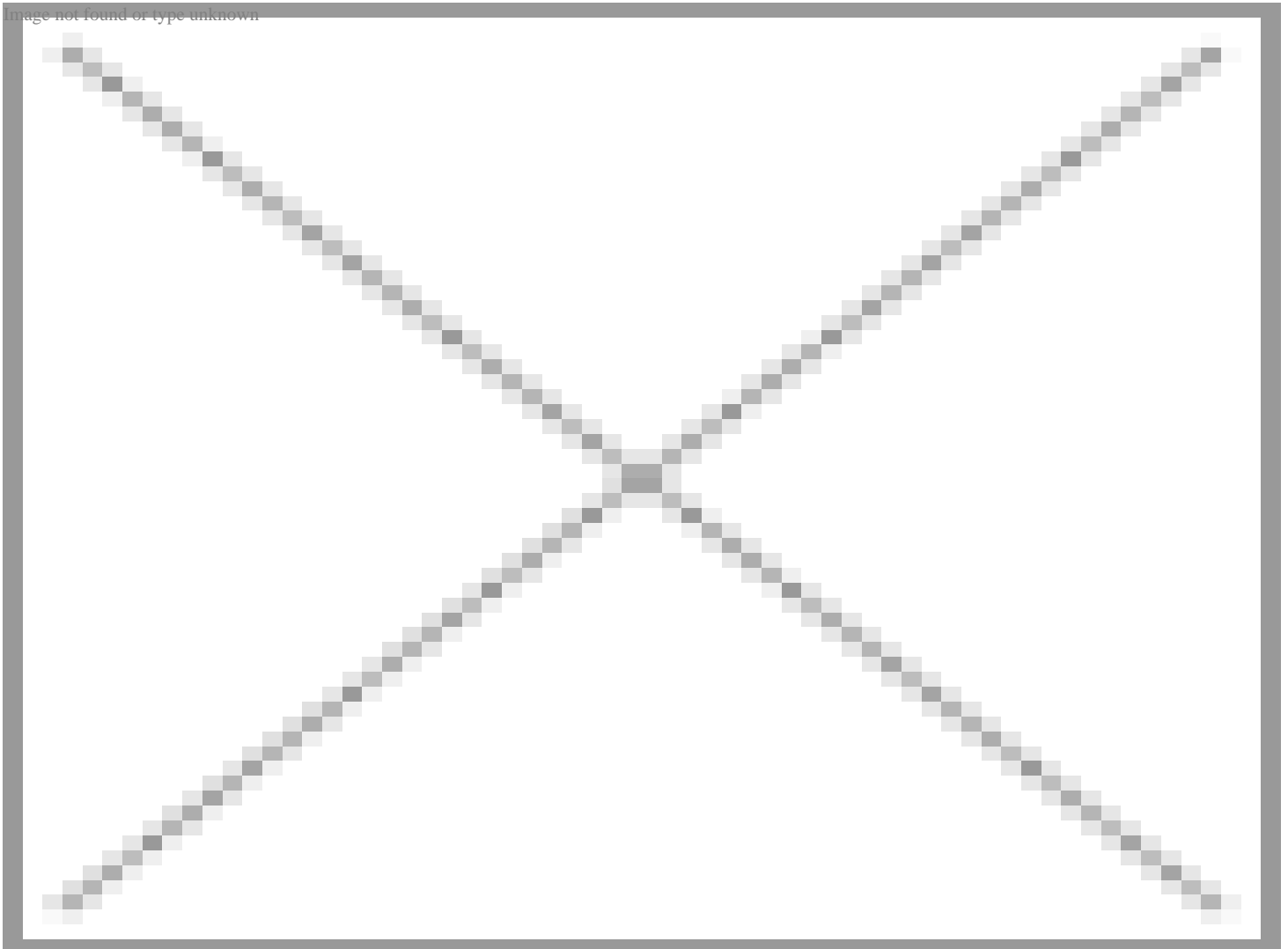
Insight

Health Care Expenditures: Success, Cycle, or Something Else?

CONOR RYAN | JULY 15, 2014

The inexorable rise of health care spending is an unavoidable problem for both the federal budget and household pocketbooks. The Congressional Budget Office (CBO) finds in its 2014 Long-Term Budget Outlook that federal health care spending is still on pace to nearly double as a percentage of GDP over the next 25 years.^[1] Some recent reports of slower-than-expected growth have prompted optimism that the Affordable Care Act has brought lasting change to the health care industry. Unfortunately, such praise is likely premature. A number of factors may be contributing to the slowdown—such as the economy and changes in the market landscape—but as shown in the chart below, similar periods of slow growth have happened in the past and rarely last longer than a few years.

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The Affordable Care Act

The White House maintains that the historically low growth in national health care spending is an achievement of the Affordable Care Act.^[ii] Reductions in Medicare payment rates has marginally reduced national spending growth over the past three years, and there is some hope that the anticipation of payment reform is controlling costs. However, the spending slowdown in Medicare began noticeably in 2007, and the growth in National Health Expenditures first dipped below 4 percent in 2009.^[iii] It is hardly accurate to attribute a significant portion of the slow growth to a law enacted in 2010 and only beginning to be fully implemented.

Sluggish Economic Growth

According to the Organization for Economic Co-operation and Development (OECD), the average growth rate in per capita health spending among its member countries fell from 4.1 percent over the period 2000-2009 to 0.2 percent between 2009 and 2011.^[iv] The financial crisis of 2008 had a powerful impact on global health care markets, and the United States is no exception. The current health expenditure trend is consistent with the historical pattern of near-GDP health care spending growth in the two to three years following the end of a recession, which portends a return to high spending growth as the economy recovers. The National Health Expenditure Accounts (NHEA) staff believes there is little evidence to suggest the pattern has been broken.^[v]

A Cocktail of Incremental Change

While the recession appears to be an intuitive explanation, it cannot explain the whole story. In a report on the slow spending growth in Medicare—a program traditionally insulated from the economic cycle—the Congressional Budget Office is unable to identify an empirical explanation for 75 percent of the slowdown.^[vi] Economists from Harvard and Dartmouth, in a study published by the National Bureau of Economic Research (NBER), are able to identify a number of possible explanations for the slowdown: higher cost-sharing for patients, slower diffusion of health care technology, and a spill-over effect from enrollment in managed care.^[vii] NHEA also points to numerous patent expirations for blockbuster brand-name drugs as a likely contribution.

An Uncertain Future

A significant amount of uncertainty surrounds the future of health care spending growth. The NBER study tentatively predicts a growth rate of GDP plus 1.2 percent, putting the health care sector on pace to grow from 17.9 percent of GDP to 23 percent by 2032. NHEA similarly assumes that health expenditure growth will resume its previous pace before too long. Beyond the economic recovery, another primary driver of health spending growth is technological innovation which creates higher prices through expensive procedures and higher utilization by treating the previously untreatable. And since the technology pipeline is loaded with new innovations, from heart valves to proton beams, health care spending will likely grow as these innovations are phased in. There remains a considerable deficit in our understanding of what has caused this recent cost growth détente, and it would be irresponsible for policy makers to consider the battle won. Serious reform must address the roots of health care spending if we are to effect any lasting relief from the increasingly expensive cost of care.

[1] *The 2014 Long-Term Budget Outlook*, The Congressional Budget Office, July 2014, available at: <http://www.cbo.gov/sites/default/files/cbofiles/attachments/45471-Long-TermBudgetOutlook.pdf>