



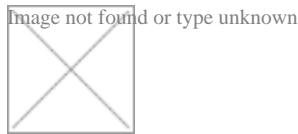
Insight

No Evidence The Price of Health Services is in Decline or that Spending Growth is Under Control

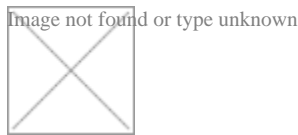
DOUGLAS HOLTZ-EAKIN | MAY 1, 2014

There has been a lot of talk about “bending the cost curve,” “controlling health care costs,” and the “slow growth of health care costs” in recent years. Unfortunately, these discussions often carry a great deal of imprecision and intermix three very distinct concepts: insurance premiums, health care spending, and the prices of medical services.

Put aside the sticker price of health insurance. It ultimately is driven by the price tag for the medical services it covers. Health care spending is the net result of the prices of medical services and utilization of those services. National health care spending has historically grown much faster than the economy, driving the unsustainable costs of federal health programs, pressuring state Medicaid budgets, and driving health care to nearly 1/5 of the economy. Accordingly, much ado has been made of the [recent slowdown in national health expenditures](#) (especially relative to Gross Domestic Product or GDP) in recent years. As the chart below indicates, it is not unprecedented and can’t be counted upon to continue.



But did health care spending growth slow because of lower prices? Or did utilization decline? Some have seized on low health price inflation (see chart below) as evidence of the former. Unfortunately, this misses the larger point that the U.S. is experiencing low overall inflation — all prices are rising slowly. The real question is whether health prices are rising more relative to the overall price level. As the second line in the chart indicates, relative health price inflation is low, but not historically low or low for unprecedentedly long periods.



That suggests the decline in national health expenditures may ramp back up when people utilize more health services. Recent evidence suggest that is already [happening](#), including the 1st quarter GDP report that indicated inflation adjusted health care spending was rising at a 9.9 percent annual rate.

The bottom line: there is no overwhelming evidence that either the price of health services is in decline or that spending growth is under control.