America’s economy is buckling under a broken health care system. Year after year, health care costs grow faster than the rest of the economy, straining families, businesses, and government budgets. There are 46 million Americans without health insurance.¹ Some patients receive excellent care, but we waste as much as $700 billion a year on tests and treatments that cannot be shown to improve health.²

Overhauling this health care system to cover everyone and reduce waste is an economic imperative for three reasons. First, high health care costs put many American businesses at a disadvantage to their foreign competitors and lead to lower wages and fewer jobs. A 20 percent increase in health insurance premiums would cost 3.5 million jobs and cut incomes by $1,700, according to one study.³

Second, ever-rising health care costs are threatening to drive an unsustainable explosion in the national debt. The rising tide of red ink that threatens to drown the federal budget and swamp the economy in the coming years is primarily due to rising health care costs.⁴ If health reform slows growth in health care costs, it could be the most fiscally responsible course, even at the cost of higher deficits in the short term.

Finally, our system is a threat to families’ health and financial security. Accidents and illnesses can drive the families who lack adequate health coverage deep into debt and devastate their financial security. Uninsured individuals who lacked access to quality health care in 2006 cost the economy as much as $200 billion.⁵ The higher taxes and insurance premiums necessary to meet rising health care costs threaten to consume the benefits of nearly all economic growth over the next four decades.⁶

Some have suggested that we cannot afford to address these problems in the midst of a recession. But postponing health reform would be penny-wise and pound-foolish. Addressing health care can stimulate the economy and create jobs now, while laying the foundation for stronger and shared economic growth in the coming years.
Skyrocketing health care costs

America has far and away the most expensive health care system in the world. Health care costs have grown faster than the overall economy for decades, consuming an increasing share of our nation’s resources. Americans will spend $2.4 trillion on health care in 2008, which is equal to $7,900 a person. And health care costs are expected to nearly double to $4.3 trillion within a decade and continue to consume a larger and larger share of our economy in the years to come.

There is strong evidence that much of this spending does not contribute to better health. Americans spend twice as much per person as the average among other industrialized countries, and yet our life expectancy and infant mortality rates are below average. The United Kingdom has achieved universal health care while spending less per person than U.S. federal and state governments.

Some costly, advanced medical technologies work miracles, but other expensive tests and treatments contribute little or nothing to our health. Treatments such as spinal fusion, routine episiotomies, and neonatal intensive care are helpful for some patients, but widely overused. At least one-third of medical procedures have questionable benefits, according to the Rand Corporation. Based on a study of regional variation, Dartmouth researchers concluded that Medicare spending could be reduced by 29 percent without reducing effective care or affecting health outcomes. The finding suggests that the entire American health care system spends roughly $700 billion a year that does not improve health outcomes.

Our fragmented approach to financing health care also discourages investments that could both make care more effective and bring down costs. Because Americans move from insurer to insurer, there is little incentive for investments such as preventive care and the effective management of chronic diseases that will reduce costs in the long run. Our health care system is focused on treating diseases, not preventing them. Similarly, a greater use of information technology could make the system as a whole more efficient but requires someone to make up-front investments.

The effect on businesses, wages, and jobs

Rising health care costs put a particular burden on U.S. businesses, which have been the primary source of health coverage for nearly 75 years. Today, the majority of Americans—158 million people—receive health coverage from their job or a family member’s job.

Higher health insurance premiums translate directly into higher labor costs, forcing employers to cut back their workforces. A 20 percent increase in health insurance premiums would cost 3.5 million workers their jobs, lead a similar number of workers to move
from full-time to part-time work, and cut average annual income by $1,700, according to research by Katherine Baicker and Amitabh Chandra. Premiums are expected to increase by 20 percent in less than four years.

Economists believe that over time higher premiums primarily translate into lower wages, particularly for the workers most likely to incur higher health care costs. Rising health care costs will drive up taxes and premiums, eating up 95 percent of the growth in per capita gross domestic product between 2005 and 2050.

Older industries are particularly burdened by the cost of health coverage for their workers and retirees. American manufacturers are paying more than twice as much on health benefits as most of their foreign competitors (measured in cost per hour), according to the New America Foundation.

Small businesses also face unique challenges. They lack the negotiating clout needed to obtain favorable rates from insurance companies, and their inability to spread risk across a large group of employees means that the health problems of a single employee can drive premiums up to unaffordable levels. Without economies of scale, small businesses also face larger administrative costs for each worker covered. Small business owners and their employees account for an estimated 27 million of the 47 million Americans without health insurance.

Some employers are dropping health insurance, while employment is growing more quickly in industries that are less likely to cover their workers. As University of Texas professor Jeanne Lambrew points out, while manufacturers are one-third more likely to cover their workers than service industry employers, the United States will lose 1.5 million manufacturing jobs and gain 15.7 million service-sector jobs between 2006 and 2016.

As a result, fewer and fewer Americans receive health coverage from work. The percentage of Americans covered by employers dropped from 62 percent in 2003 to 59 percent in 2008, the equivalent of 8 million people losing coverage. And for tens of millions of Americans ineligible for Medicare, Medicaid, or another public program, no viable alternative exists to employer-sponsored insurance.

Our health care system also distorts the labor market. Employers have incentives to hire part-time workers who are ineligible for health benefits. They may hire fewer workers eligible for insurance and work them longer hours. Rising costs exacerbate these problems. At the same time, many workers do not want to leave their jobs because they fear losing or changing health insurance. As a result, the fragmented system of health insurance creates “job lock” that impairs the flexible labor markets that strengthen the economy.
The effect on the national debt

Rising health care costs are the primary reason that our federal budget is on an unsustainable path. The federal government is responsible for nearly half of America’s health care expenditures, including Medicare, Medicaid, tax subsidies for private sector insurance, and health coverage for federal employees, retirees, military personnel, and veterans. Public health care costs are rising at similar rates and for similar reasons as private costs. Medicare has low administrative costs, but like most public spending on health care, it finances care in the same settings and with the same providers as private insurance.

Federal spending on Medicare and Medicaid alone is projected to increase from 4 percent of the economy today to 12 percent in 2050. As Brookings Institution scholar Henry Aaron has pointed out, their rapid growth accounts for the entire long-run federal fiscal deficit under Congressional Budget Office projections. Without a new direction, higher health care costs will force budget deficits to “levels that will seriously jeopardize long-term economic growth,” according to Peter Orszag, recently designated to head the Office of Management and Budget.

Our nation should not abandon its commitment to health care access for low-income and senior Americans or adopt the large tax increases that will be required to finance projected spending. A better approach would be to reform the entire health care delivery system to slow spending increases by promoting more efficient delivery of care and better choices about new medical technologies. As the nation’s largest payer of health care services, Medicare will help lead these reforms and derive important financial benefits from them.

The effect on families’ health and financial security

Our health care system is a threat to our economic productivity and to families’ economic security. Forty-six million Americans lacked insurance in 2008, including 8 million children. Eighty-two million Americans—one-third of all non-elderly adults—experienced a gap in coverage over a two-year period.

Millions more are underinsured, without the financial protection against illness they need. There were 25 million underinsured Americans in 2007, according to the Commonwealth Fund, and more than half went without needed care.

Workers without access to health care or who receive ineffective care will miss more days of work and perform less effectively at work. Interruptions in needed care for uninsured Americans cost our economy as much as $200 billion in 2006. And roughly 22,000 Americans die unnecessarily every year due to lack of health insurance.
Health emergencies sometimes mean financial ruin for Americans without adequate insurance. In 2007, 57 million Americans reported problems paying medical bills. Half of the people filing for bankruptcy in 2004—more than 1 million people—did so due to illnesses or medical bills. Nearly half of homeowners losing their homes to foreclosure named medical problems as a cause. Some families turn to credit cards to pay medical bills: Nearly 30 percent of low-income people with credit card debt named medical bills as a contributing cause. Last year, Business Week reported the emergence of credit cards designed solely to pay for health costs, some carrying rates as high as 27 percent.

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Health reform can generate large economic benefits

The good news is that there is an opportunity for health reform that covers every American and slows the growth in health care costs. Such a reform may require an up-front investment, even in these times of large budget deficits; it might cost the federal government between $100 billion and $150 billion annually, not including any savings it generates by making the health care system more efficient. But it could also generate very large economic and fiscal benefits.

The first step is universal coverage. Coverage is an essential step toward controlling health care spending because it allows a rational financing system that does not rely on inefficient and inequitable cross-subsidies to care for some Americans. Universal coverage will also facilitate early prevention and detection of disease and better management of chronic diseases, which can improve health and reduce costs.

Investments can improve the quality of care while reducing costs. Research into the comparative effectiveness of treatments—funded partly by taxpayers—can identify treatments that provide the best results, often at a lower cost than treatments widely used today. These steps can ensure that medical advances continue and are used wisely. Greater use of electronic medical records and other health information technology could reduce errors, diminish the need for duplicative tests, improve the quality of care, and gather data on effective treatments.

There are other important steps to reduce the growth of health costs without compromising the quality of care. Payment reforms can encourage doctors and hospitals to improve management of chronic diseases and adopt proven treatments. And greater use of generic drugs can provide equally or even more effective treatment at lower cost.

Some have suggested that we cannot afford to reform health care in the midst of a recession and financial crisis. But health reform can strengthen the economy and create jobs now. Expanding coverage can create jobs in health services, help states avoid cuts to Medicaid and children’s health insurance, and promote consumer spending. And an immediate investment in electronic medical records would create jobs in the technology sector.
Conclusion

There is an urgent economic need to address the failures of the American health care system. Up-front investments in expanding coverage and initiatives to reduce waste could stimulate the economy and create jobs now. At the same time, they could lay the groundwork for a stronger health care system that covers every American and imposes lower costs on families, businesses, families, and taxpayers.
Endnotes


6 Aaron, supra note 4.


9 Ibid; Orszag, supra note 7.


11 Ibid.


15 Orszag, supra note 2.


20 Aaron, supra note 4.


24 Author’s calculation based upon Census Bureau, supra note 1.

25 Gruber and Madrian, supra note 19.


28 Aaron, supra note 4.

29 Orszag, supra note 7.

30 Census Bureau, supra note 1.


32 Carpenter and Axeen, supra note 5.


41 Aaron, supra note 4.
