CEPR
CENTER FOR ECONOMIC AND POLICY RESEARCH

Health Care Costs and the Budget Deficit

Dean Baker

Presentation at Middlebury Institute,

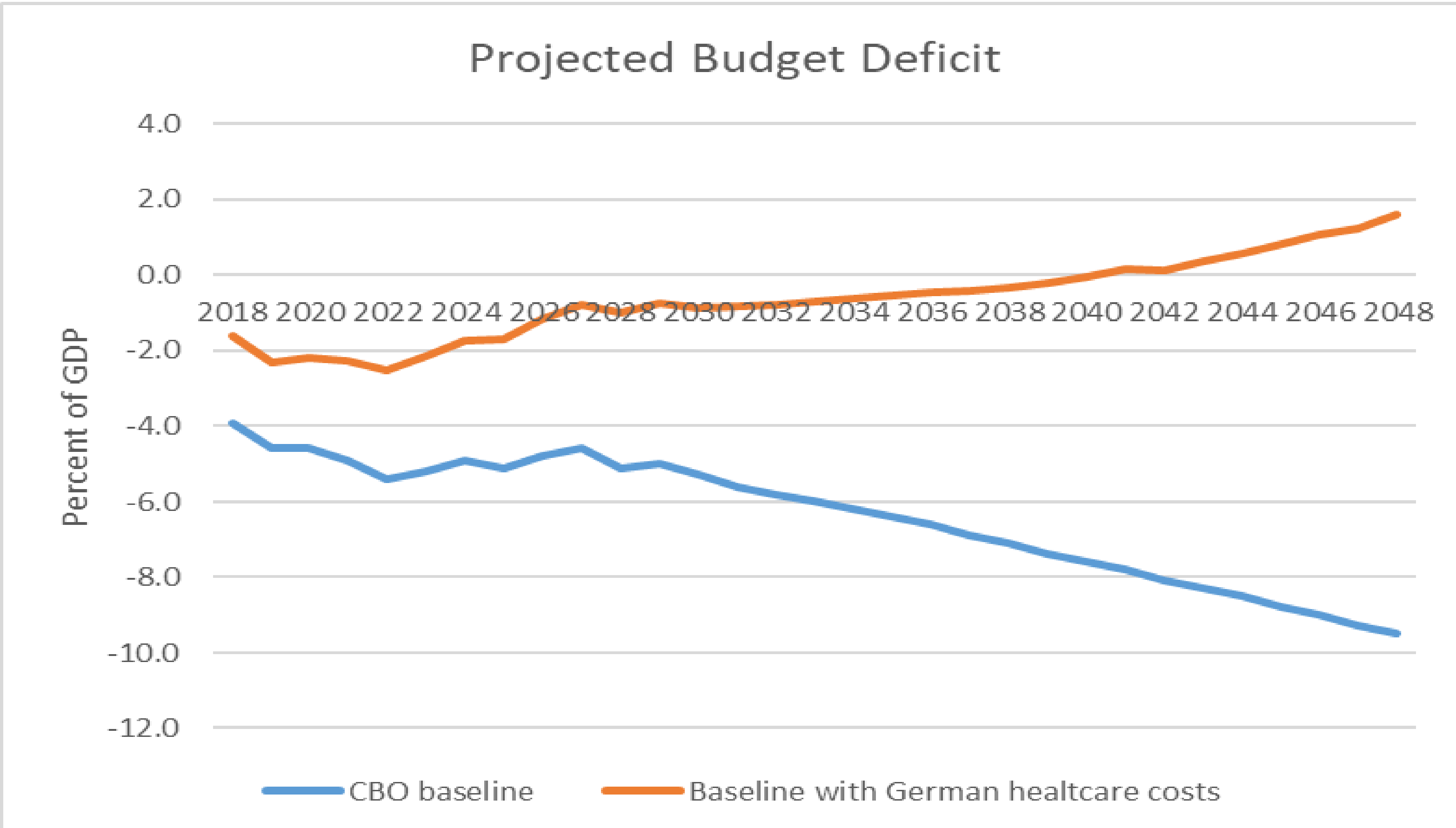
Monterey, CA

February 27, 2019

Main Points

1) Large projected budget deficits are primarily a health care story.
2) Health care cost has slowed dramatically in the last decade.
3) High health care costs in U.S. are due to the fact that we pay twice as much for health care services, not more services.

a) U.S. doctors get paid twice as much as doctors in other rich countries.
b) We pay twice as much for prescription drugs.
c) Administrative costs for private insurers dwarf payments in other systems.



Source: Congressional Budget Office, OECD, and author's calculations.

If U.S. Health Care Costs Were Comparable to Other Wealthy Countries, Deficits Would be Surpluses

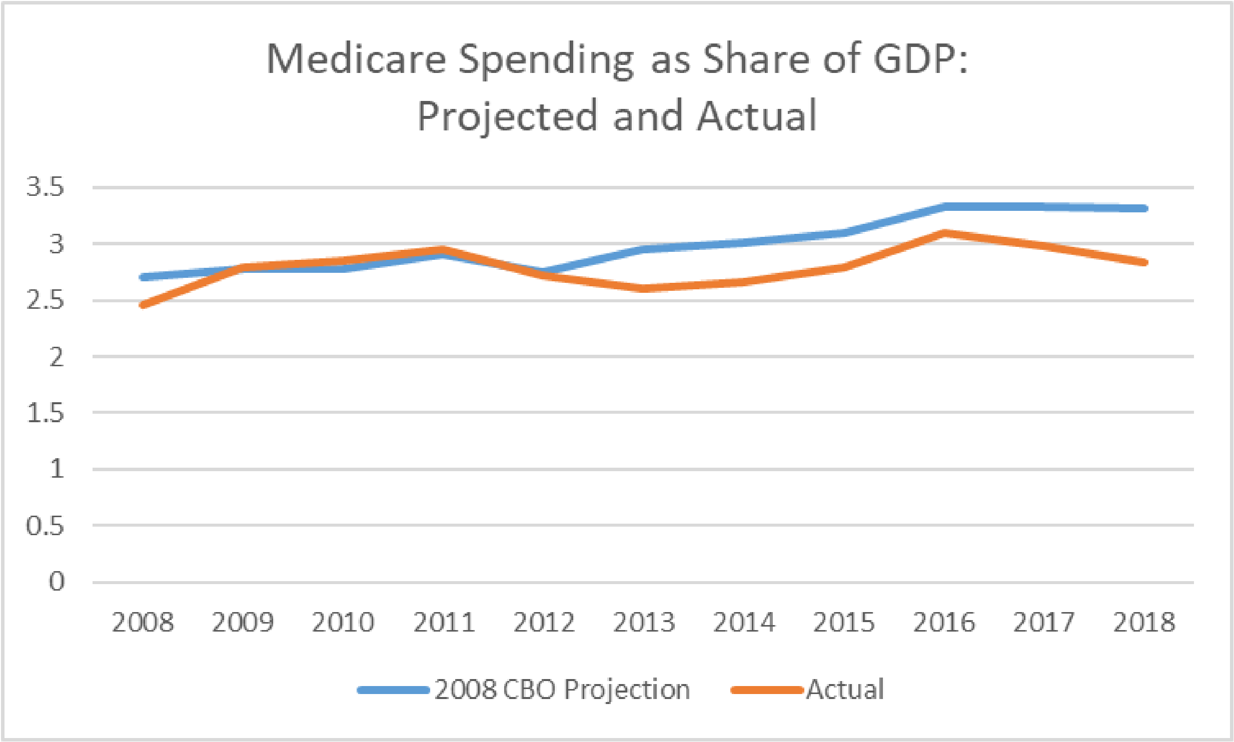
1) Budget turns to surplus in 2041
2) Pay off national debt, begin to accumulate assets in 2044.
3) Figure understates differences

    a) assumes interest rates are unaffected by deficit.
    b) ignores additional tax revenue from lower employer-paid insurance premiums (approximately $110 billion a year or 0.5 percent of GDP)

Health Care Costs Have Slowed Sharply

1) Per person spending rose 6.8 percent annually 1990-2008, 4.7 percent in 2008-2018.
2) Big factor in smaller than projected deficits.
3) Projected Medicare shortfall dropped from 3.88 percent of payroll in 2009 to 0.82 percent in 2018.
4) Part of worldwide slowing, Spain 6.9% to 2.2%, Netherlands 5.9% to 3.4%, France 5.5% to 3.2%.
5) History of overstating health care cost growth. Projection for 2020 in 1990 was 22.7% of GDP, most recent projection is 18.4%.

Medicare Spending Has Been Far Below Projections



Source: Congressional Budget Office and author's calculations.

CEPR
CENTER FOR ECONOMIC AND POLICY RESEARCH

Source of Excess Costs 1: Doctors

1) General practitioners average over $200k in U.S., close to $100k in other wealthy countries, specialists over $250k vs $150k.
2) U.S. ratio is 2:1 specialists to general practitioners, elsewhere reverse.
3) Solutions:

a) Reduce barriers to entry –residency requirement
b) Medical travel
c) Increased use of lower paid professionals (e.g. nurse practitioners)
d) Free or low cost medical school

Source of Excess Costs 2: Drugs

1) We pay twice as much for our drugs as other wealthy countries, $440 billion in 2018 (2.2% of GDP)
2) Other countries negotiate drug prices

1) Solutions

a) Negotiate prices
b) Anti-trust policy with generics
c) Public funding for research, new drugs sold at generic prices (no patent monopolies)

Source of Excess Costs 3: Insurance

1) U.S. paid $230 billion (1.2 % of GDP) to private insurers in 2017.
2) This was more than 19% of payments. Medicare has administrative costs of roughly 2%. Same for Canada.
3) Insurers also require hospitals and other providers to have additional staff to deal with forms and coverage rules.
4) Solutions

a) Universal Medicare
b) Medicare buy-in option.

CEPR
CENTER FOR ECONOMIC AND POLICY RESEARCH

Conclusion: Deficits are Driven by Health Care Costs

1) If U.S. paid comparable prices for health care as other countries, deficits would be small.
2) Health care cost has been constrained in the past.
3) Problem is powerful lobbies: physicians, drug companies, medical equipment and insurers.