

Let's Be Real about Our Health Spending Problem

Darrell J. Gaskin, PhD

**William C. and Nancy F. Richardson Professor in
Health Policy**

**Director, Hopkins Center for Health Disparities
Solutions**

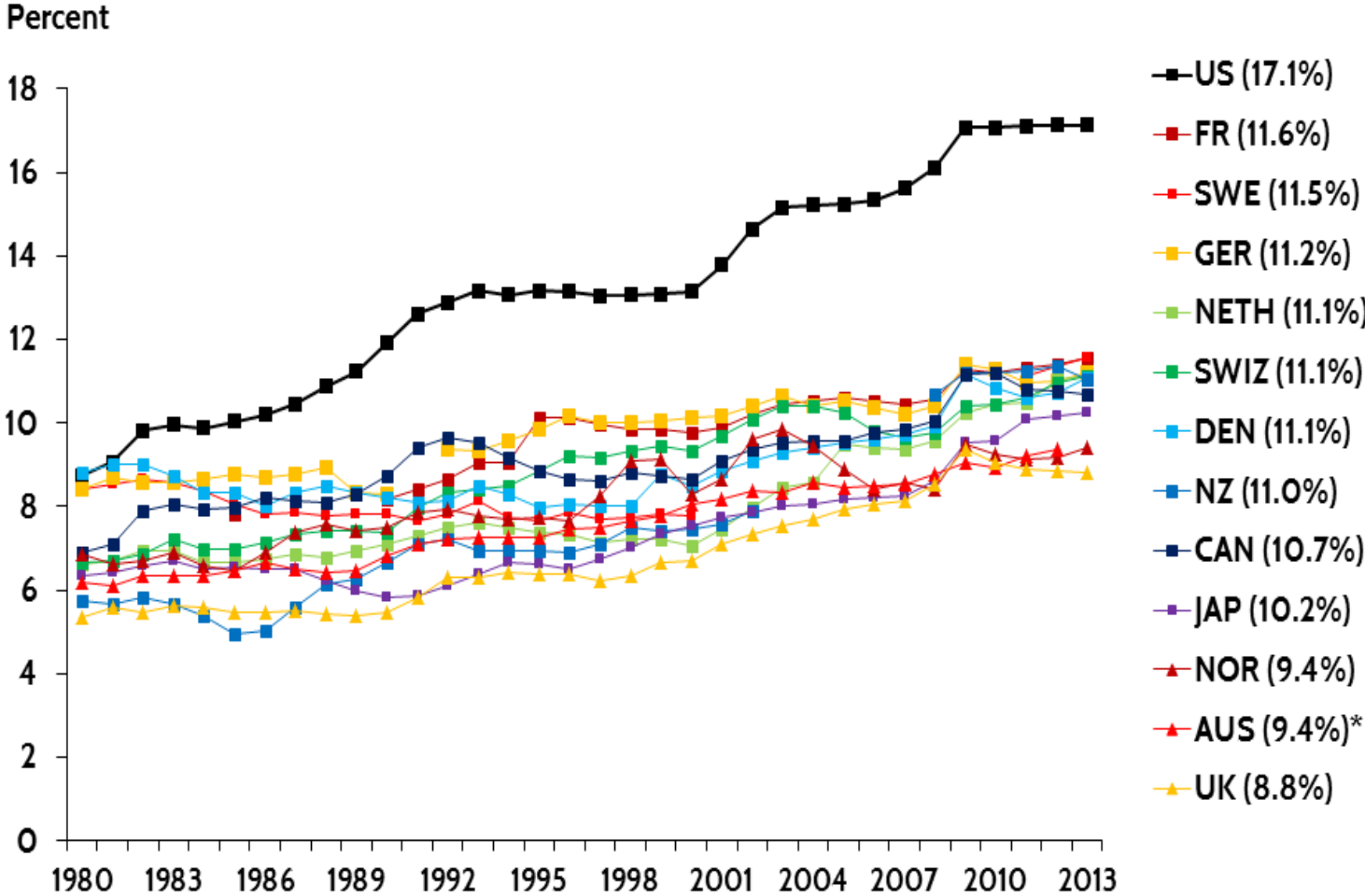
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The Problem

1. National Health Expenditure (NHE) grew 5.8% to \$3.2 trillion, and accounted for 17.8% of GDP.
2. Medicare spending grew 4.5% to \$646.2 billion, or 20 percent of total NHE.
3. Medicaid spending grew 9.7% to \$545.1 billion in 2015, or 17 percent of total NHE.
4. Private health insurance spending grew 7.2% to \$1,072.1 billion in 2015, or 33 percent of total NHE.



Exhibit 1. Health Care Spending as a Percentage of GDP, 1980–2013



* 2012.

Notes: GDP refers to gross domestic product. Dutch and Swiss data are for current spending only, and exclude spending on capital formation of health care providers.

Source: OECD Health Data 2015.



Guess What? Health Care is Complicated!

- This is not your average competitive market.
- The market vs. government dichotomy is false choice.
- Markets can not work effectively without government.
 - Viable markets need a uniform store of value.
 - Viable markets need a regulating entity to enforce transactions and contracts.



This is the reason why I study healthcare

- Healthcare markets are not about transactions between buyers and sellers under perfect information.
- Healthcare markets involves the interactions between several agents.
 - Consumers who become patients
 - Healthcare providers (doctors, hospitals, nursing homes, pharmacies, other health professionals, and
 - Health plans
 - Sponsors (Employers, Medicare, Medicaid)



Can health providers solve our spending problem? No!

- It is not in their fundamental financial interest.
- Individual agents have a strong incentive to produce more to make more.
- Their activities do not put downward pressure on prices.
- How come health care providers do not have sales?



Can health plans solve our spending problem? No!

- They don't have a financial incentive to reduce spending.
- Health plans are intermediaries that make their money as a percentage of the transaction.
- If the value and volume of the transactions decline they will lose money.
- They are not bad people, but they have investors. These investors allow them to spread the financial risks associated with becoming sick.



Can consumers solve the spending problem? No!

- Consumers as patients are the least informed buyers in a market place. They are unable to evaluate the value of their purchase ex ante and ex post the transaction.
- Sick people are bad negotiators! (Why don't you go food shopping while your hungry? Your hunger changes your willingness to buy marginal foods.)



Can sponsors solve the spending problems? Perhaps.

If they can convince consumers to let them.

- First, sponsors must let go of the myth. Most people think that their sponsor is giving them health insurance. That is not true!
- Private health insurance is compensation for work provided.
- Medicare is payment under the social contract between workers and the federal government. I pay taxes and Medicare will be available when I come of age.
- Medicaid is payment under the social contract between citizens and residents and government. I pay taxes the safety net will be available.



The Hard Truth

- Someone is going to have to take less.
- In our current system, the persons who make the sacrifices are the poor, the sick, and their providers. (This is morally repugnant.)
- So if we are going to spend less these agents are going to have to take less.
 - Healthcare providers
 - Health plans
 - Healthy consumers
 - Affluent consumers
- Unfortunately, these are powerful economic and political agents and they are impeding viable changes, because they won't take less.



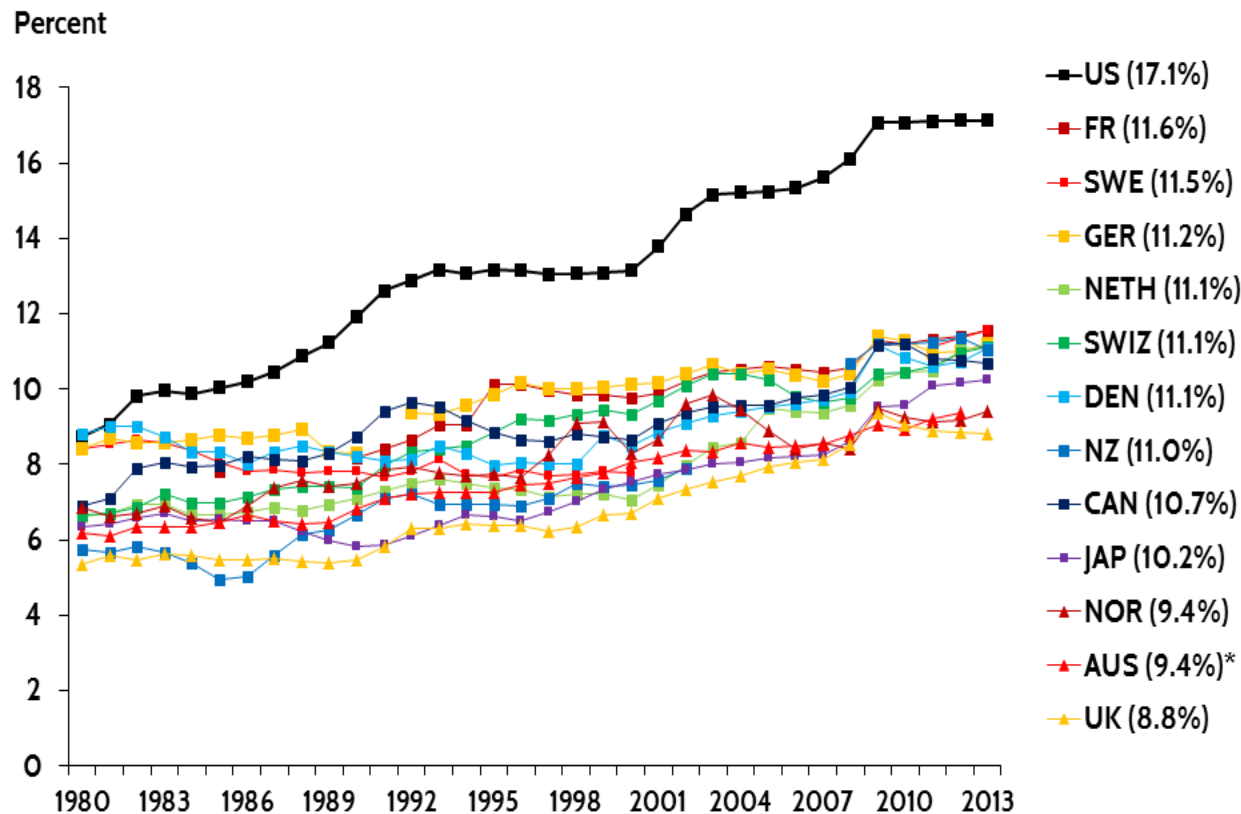
Is increasing health spending good for society? No!

- From a societal point a view, it does not create value for the society.
- Health spending crowds out other spending that create value.
 - Education spending increases human capital
 - Transportation spending improves the ability move people and goods
 - Consumer goods/services spending improves quality of life
 - Defense spending protects society from war
 - Social services spending improves quality of life
 - Public health spending protects health and saves lives millions at a time
 - Public safety spending protects lives



This is complicated but there are solutions

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- National Health Insurance
- National Health System
- Global Budgeting
- Etc...

Contact Information

Darrell J. Gaskin, PhD

William C. and Nancy F. Richardson Professor in Health Policy
Director, Hopkins Center for Health Disparities Solutions

Department of Health Policy and Management

Johns Hopkins Bloomberg School of Public Health

624 N. Broadway, Suite 441

Baltimore, MD 21205

443-287-0306

410-614-6284

dgaskin1@jhu.edu

