

Government Budgets, Health Care Spending, and Policy Approaches

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Increases in Health Spending over Time

From 9% of GDP in 1980 to 18% today

Government health spending: from 3% of GDP in 1980 to 8% today

Fueled by:

- Excess Cost Growth

- Increased share of health spending in public sector: 36% in 1980 to 45% today

Looking forward:

- Population aging

- Continued, although slower, excess cost growth

- Continued pressure for expanding public insurance?

Broad Policy Options

Raise taxes or cut other spending

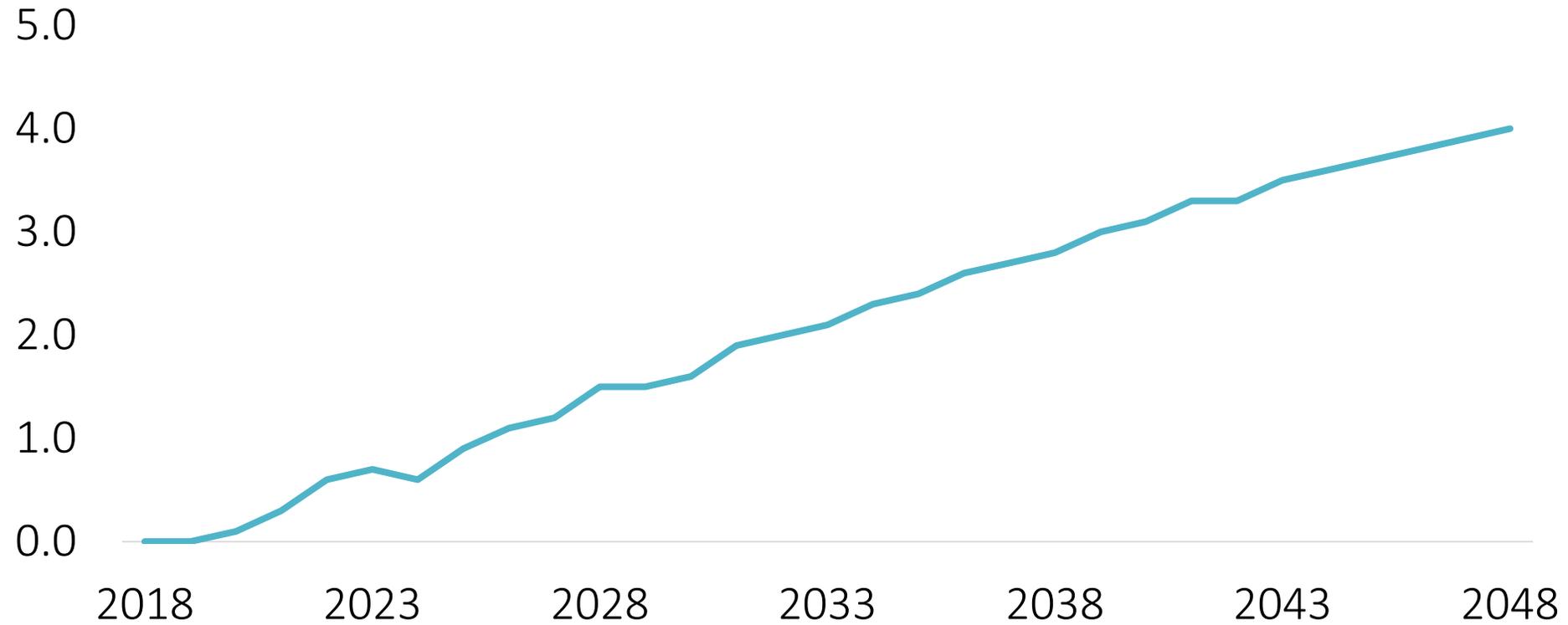
Restrain overall health spending

Restrain government health spending

Enact policies that raise GDP

Raise Taxes or Cut Other Spending

Increase In Federal Health Spending Relative to 2018
Share of GDP



Restrain Overall Health Spending

Improve efficiency – Keep taking small steps rather than expecting silver bullet?

Pay less for care: RX drug reforms, physician payment reforms, universal health with global budgets, etc.

Doesn't necessarily require single-payer: Changes to Medicare and Medicaid could have spillover effects that affect private health spending (both P's & Q's)

Restrain Government Health Spending

Decrease total health spending of those with government insurance

- Medicare voucher or slower growth in bundled payments

- Lower physician compensation

 - Under MACRA, physician payments increase by much less than inflation already*

Decrease government share of health spending for those with government insurance

- Higher premiums, copays, deductibles – perhaps means tested

- Medicare voucher

Decrease share of the population with government insurance

- Means-test Medicare

- Increase Medicare eligibility age

- Limit Medicaid eligibility

Increase GDP

Aging a problem because ratio of dependents to workers rises

Increases in labor force participation would boost tax revenues without increasing health expenditures

Increases in productivity would boost GDP, but might also boost health spending

Most of aging from changes in fertility, not longevity; means that increasing LFP at older ages can help, but likely small

Other Economic Trends that Might Affect Policy Choices

Increases in income inequality

Increased inequality in life expectancy by income

- Most of gains have gone to those in top ½ of income distribution

- Makes Medicare program less progressive, worry about raising eligibility age

Continued excess cost growth in health care will mean that, even given current health insurance provision, health care becomes less affordable

- Medicare premiums, deductibles, ACA premiums rise as a share of income with excess cost growth

- In the past, decreasing affordability has led to expansion of government subsidies