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## The challenging economics of US health care reform

**A**s I write this, staffers are running between the Senate Finance Committee and the Congressional Budget Office as the Congress tries to enact real health care reform that will curtail rapidly escalating health care costs. Many in the health care community—the physician community in particular—are skeptical, even downright hostile, toward the prospect of reform. There is fear of change, and there is partisanship, spin, and outright dishonesty surrounding current health care reform efforts.

In my role as a health policy advocate, I think about this situation constantly, and I try to advocate not only for PAs but also for appropriate and sustainable change. To really understand the current health care reform effort, we need to look at the economics—the real impetus behind this movement for change.

**The most important number** in health delivery system reform is 6.9%, and it is also the number that causes the most consternation. This percentage is the rate at which health care expenditures grew in the United States during fiscal year 2008,<sup>1</sup> and in fact, health care expenditures have grown by an average rate of 6.2% for the past decade.<sup>2</sup> In addition, 2008 was one of the worst economic years in the past half century and finished the fourth quarter with negative 5.4% growth in gross domestic product (GDP).<sup>3</sup> Most markets responded to the economy, and prices fell. Unfortunately, health care costs did not follow suit. In fact, premiums paid by businesses for health insurance rose 7% in 2008.<sup>4</sup> Predictions for the rise in health care spending in 2009 range from 7.1% to 7.4%,<sup>5</sup> but whatever the number, it will be substantially greater than the concurrent rise in GDP. And this is the crux of the problem. The rise in our health care costs is not sustainable and has not been for some time.

Many people advocate for the “free market,” as if such a thing exists in today’s health care system. Truth be told, we have not had such a system since before 1965, when the enactment of Medicare and Medicaid legislation brought any possibility of a free market health care system to an end. The number of enrollees in Medicare and Medicaid and their ability to influence the market through the price controls, deflationary pressures, and reimbursement standards set by these agencies create real, substantial influence on the market. These influences create a false or pseudo stability, which does not allow the market to respond to real time economic pressures.

**Medicare does provide us** with some useful information, however. In 1966, the first year Medicare was in place, only 19 million Americans were covered.<sup>6</sup> The cost was \$3.3 billion,

only 0.4% of GDP.<sup>6</sup> Contrast that with 2006, when Medicare provided care to 43 million Americans for about \$400 billion, or approximately 3.1% of GDP.<sup>6</sup> In 2030, an estimated 20% of the population, or 79 million people, will be on the Medicare rolls, which will consume 6.5% of GDP.<sup>6</sup> If the economy were elastic enough to expand continually and our GDP grew at similar rates, this discussion would not be necessary. In fact, however, we are still in a period of contractility.

Furthermore, many health economists believe that medical services are inelastic, having a price elasticity score of 0 or –1. This means that if medical service prices rise by 10%, the drop in demand for services will fall, but by far less than 10%.<sup>7</sup>

**The bottom line** is that health care spending overall is increasing at rates dramatically higher than GDP and has been doing so for years. The United States will spend 17.6% of our GDP on health care in 2009.<sup>2</sup> Despite this, an estimated 47 million Americans are uninsured,<sup>6</sup> and an additional 25.2 million are underinsured or are paying more than 10% of their monthly income on health care-related expenses.<sup>8</sup> In 2010, health insurance premiums are expected to rise an average of 9%, and 42% of employers plan on passing on at least part of that increase to their employees.<sup>9</sup>

The health care reform bills currently being considered by Congress do not fully address costs; more importantly, they do not address the annual increases in costs. They are focused more on the issue of expanding coverage. This is an admirable goal, but unless we find a way to control costs, expanding coverage will only make our situation worse. **JAAPA**

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