Op-Ed

The Paradox of Reducing Health Care Spending

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EVERYBODY AGREES THAT HEALTH CARE SPENDING HAS BEEN rising more slowly than it has in a long, long time. It is a trend that is likely to continue. In September, actuaries at the Centers for Medicare and Medicare Services (CMS) published their latest annual projection of future national health expenditures: what we, as a country, will spend on medical care for the next decade. The actuaries are famously pessimistic and, sure enough, they predicted that inflation (the year-to-year increase in costs) would start to rise. But they also predicted that this increase would remain below historical levels. Between 1990 and 2008, health care spending tended to rise at a rate that was 2 percentage points above inflation. And for the next 10 years? CMS actuaries predicted that health care spending would rise at an average rate of just 1.1 percentage points over inflation.

In the world of health care economics, in which a few tenths of a percentage point are the difference between budget comfort and budget calamity, that's huge news. And if you talk to the experts, the big argument you'll hear is over why this is happening.

It's possible that the slowdown largely reflects the lingering effects of the nation's economic slowdown. When people have less money to spend, they cut back on health care, just as they cut back on other goods and services. Other factors may be at work, too. Private employers have been changing the design of their insurance plans, requiring employees to pay more of their costs directly out of pocket. This in turn makes employees more sensitive to the cost of care and, just as the recession did, could discourage them from seeking more treatments. The Affordable Care Act also could be a factor, as it has changed the way Medicare pays for services, in ways designed to make hospitals, doctors, and the rest of the health care industry more efficient. Many researchers believe those changes are having an impact.

This is a lively and critical debate, one that experts will be debating for some time. But there's one more question that needs to be asked and that almost nobody is asking, at least explicitly: Is less health care spending always a good thing?

The conventional answer is yes, and there are some good reasons for that. If you spend less money on health care, you'll have more money to spend on other things. It works that way for governments, too. So if the federal government isn't spending as much to finance programs like Medicare and Medicaid, it will have a much easier time financing other programs and paying down debt. Businesses also benefit in some obvious ways. A company in control of its benefit costs can more easily find money to pay for expansions or new equipment—or to pay its workers. The ultimate beneficiaries of these things are the individuals and families who see these savings in the form of larger paychecks, which they can use to pay for their own goods and services. People also will be able to pay for health insurance itself more easily, which is why, when spending isn't rising so quickly, it's easier to make sure that everybody has coverage.

Still, there are both good and bad ways to slow health care spending. Naturally, liberals and conservatives disagree over which ways are which. Conservatives think the best way to control health care spending is by exposing consumers more directly to the costs of care and avoiding government interference in the way the health care industry sets prices. Such interventions, conservatives say, will inevitably have dangerous side effects, like stifling innovation by drug makers or creating long waits for services. Their proposals typically call for changing the tax system and reducing regulations in ways that would leave most people with less generous insurance than they have today.

Liberals, by contrast, worry that conservative approaches will penalize people with medical problems, the very ones whom insurance is supposed to protect. They also believe that government regulation of health care works because health care does not operate in the way that normal consumer markets do. Their proposals frequently involve greater regulation of prices, like setting uniform reimbursement levels for hospitals, as the state of Maryland currently does, or having government negotiate prices with drug makers, as the governments of most developed countries do.

Conservatives look at the Affordable Care Act and see those liberal impulses in action. The law limits how much money insurers can spend

on overhead, marketing, and other uses besides paying for actual medical care. It also reduces what Medicare pays hospitals. But one of the least advertised stories of the whole “Obamacare” fight is the extent to which liberals look at the law and see (with equal regret) conservative ideas for holding down health spending. The whole idea of the new insurance marketplaces is to set up a system of competition, one in which people can choose either to pay more for more generous coverage or to pay less for skimpier coverage.

Sometimes liberals and conservatives even argue among themselves over whether a particular cost-cutting strategy actually is good. An example of this is the controversy over insurers’ increasing use of “narrow networks,” that is, requiring that beneficiaries be limited to extremely small groups of doctors and hospitals. You’ll find both liberals and conservatives who don’t like this because they think it might mean that somebody with a serious condition won’t get the specialist he or she wants to see. You’ll also find both liberals and conservatives who think that narrow networks are fine because they make it possible to force down reimbursements to doctors and hospitals.

So which view is right? There’s no right answer, obviously—it depends on how you weigh the trade-offs of every effort to reduce costs. But one possibility to consider is that sometimes more health care spending is in fact beneficial. It might be worth spending a little extra money if that extra money actually buys quality health care for more people. That might mean spending extra money to help the poor and middle classes pay their medical bills. It also might mean forking over huge sums for a particular drug because it’s very effective. It really depends on what the evidence shows, which will be different in each case.

Today, the United States spends about 16% of its gross domestic product on health care. That’s more than any other country spends, and as a general rule, forcing ourselves to spend more carefully is the right idea. But remember: There’s no economic law saying that overall spending can’t be higher. It all depends on what sacrifices we are prepared to make, whether we are willing to give up paying for other goods and services instead. That’s why the ultimate question about health care economics should never stop at what we are spending, and it should always ask, what are we getting for that money?

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