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Health Care Cost Growth and the Economic Performance of U.S. Industries

How do increasing health care costs affect the U.S. economy? A RAND study addressed this question by estimating how health care cost growth that exceeds growth in gross domestic product (GDP) (“excess” cost growth) affected three important economic outcomes in U.S. industries: employment, output (measured as revenues), and value added to GDP. The analysis included data from 38 industries over the 19-year period 1987–2005.

The analysts posited that the effect of excess cost growth on economic outcomes depends on the percentage of workers with employer-sponsored insurance (ESI). Health care cost growth would have a stronger effect in industries that have a larger percentage of workers with ESI: Increased health care costs can translate into higher labor costs, which might cause firms to hire fewer workers, produce less output, or raise prices.

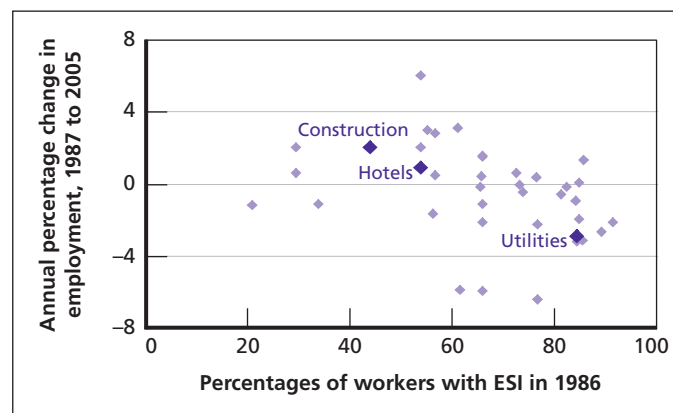
The study found that excess growth in health care costs has adverse effects on employment, output, and value added to GDP in the United States, and that the effects are greater for industries in which high percentages of workers have ESI. For example, over the period 1987 to 2005, when health costs were rising rapidly, the workforces in industries with larger percentages of workers with ESI grew more slowly—the workforce in the construction industry, in which about 43 percent of workers have ESI, grew about 2.1 percent; in the hotel industry, in which 54 percent of workers have ESI, the workforce grew about 1 percent. But in the utilities industry, in which about 84 percent of workers have ESI, the workforce shrank by 2.8 percent (see the figure).

The analysts estimated that, economy-wide across all 38 industries surveyed, a 10 percent increase in excess health care cost growth would result in about 120,800 fewer jobs, \$28 billion in lost revenues, and about \$14 billion in lost value added. These economy-wide effects might be mitigated by movement of workers across industries, so that reductions in employment, or in output, in industries with high percentages of workers with ESI are partially offset by gains in other industries with low percentages of workers with ESI. However, even if this is the case, rapidly rising health care costs promote redistribution of workers from jobs with health insurance to jobs without health insurance.

To rule out the possibility that these economic effects reflected some industry-wide factor rather than the true effect of ESI and rising health care costs, the analysts compared U.S. industries with their Canadian counterparts. Since Canada has universal health care that is publicly financed, growth trends in its industries cannot be influenced by ESI, and industry-level changes, such as product innovation or labor outsourcing, would affect Canadian and U.S. employers in the same way.

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Workforces Grew More Slowly in Industries with Higher Percentages of Workers with ESI



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The analysts found no significant relationship between the percentage of workers with ESI in the U.S. industries in 1986 and the percentage change in employment in the corresponding Canadian industries over the 19-year study period. The lack of a relationship suggests that excess growth in health care costs does have adverse economic effects and that these effects are more pronounced in industries that have a higher percentage of workers with ESI.

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