Rising Costs in Health Care

A report by economists at the Department of Health and Human Services predicts that growth in health-care spending will increase substantially over the next 10 years. Total health expenditures are expected to rise from $1 trillion in 1996 to $2.1 trillion by 2007, jumping from 13.6 percent of gross domestic product to 16.6 percent. That is likely to translate into much higher health insurance premium increases than has been the case in recent years. These numbers are discouraging, particularly since the projections do not even reach the years when baby boomers will begin utilizing health care intensively in their late 60's and 70's.

The relatively low growth in spending of the past four years is actually an aberration from long-term trends, made possible by a rapid shift of American workers into managed-care plans from costly fee-for-service plans where there were few constraints on what doctors and hospitals could charge or patients could request. Many economists have said for some time, however, that this tamping down of costs is a one-time effect achieved mostly by getting price discounts out of hospital systems and squeezing down doctors' fees.

The long-term ability of managed care to control escalating costs is likely to be more modest. Although it can help by subjecting doctors' decisions to review and emphasizing preventive care, managed care has not been able to resist consumer demands for expensive technological procedures, a big driver of health spending. Changing practice standards and new and more expensive drugs will continue to push up spending even after managed care squeezes the easy-to-attack inefficiencies out of the health delivery system. The growth of point-of-service plans where enrollees have greater choice of doctors may further weaken managed care's ability to control costs.

This country already spends more on health care as a share of gross domestic product than any other nation, yet 41 million Americans have no health coverage at all. The shift toward managed care has produced a few good years of relatively stable costs. But it has not reduced the problem of the uninsured. With costs starting to accelerate again, the hope that managed care could extract enough savings out of the system to cover millions of uninsured Americans seems less and less likely.