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The Health Care Crisis Ain't What It Used to Be: Personal Spending on *Non-Health* Goods and Services Has Increased by One-Third Since 1995

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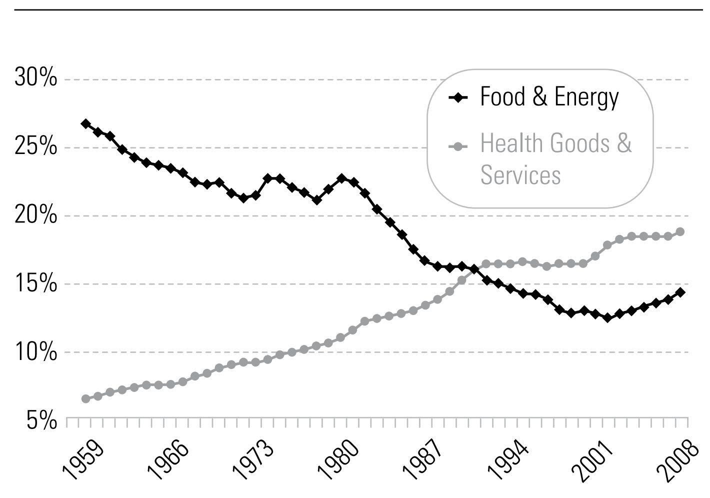
- Politicians advocating for a government take-over of access to medical services claim that the cost of health care "has weighed down our economy long enough." They ignore the reality that American families have more money than ever left in their pockets *after* spending on health care.
- Between 1995 and 2008, Americans' personal consumption expenditures *after* spending on health care rose by more than $6,000 per capita, or almost $16,000 per household.
- Between 1959 and 2008, spending on health care increased from 6 percent to 19 percent of personal consumption expenditures – an increase of 13 percent. However, spending on food and energy went down by an equivalent amount, while shares spent other essentials such as housing and transportation remained virtually unchanged.
- Government has dramatically increased its control of Americans' access to medical services over the last half century, hindering the processes that have allowed Americans to enjoy greater value in other goods and services. Reducing this government control is essential to increasing the productivity of health goods and services and expanding access.

Chart 1: Relative Shares of Personal Consumption Expenditure, 1959-2008



"The cost of our health care has weighed down the economy and the conscience of our nation long enough," claims President Obama.[1] This belief, unfortunately, does not jibe with the facts.

In 1959, before massive government involvement in taxing, financing, and controlling Americans' access to medical services, spending on health goods and services accounted for only 6 percent of personal consumption spending. By 2008, it had increased to 19 percent. These calculations include programs such as Medicare and Medicaid, by which the federal and state governments transfer money between households to finance personal consumption of medical goods and services.[2]

This increase in share of personal consumption expenditures, however, has been balanced with a proportional decrease in spending on food and energy, which dropped from 27 percent to 14 percent of personal consumption, over the period, as shown in Chart 1.

Proportions of personal spending on other goods and services have remained quite constant over the period. Of course there is some variation within these other categories. There has been a massive increase in purchases of consumer electronics, for example, but because the prices of these goods have collapsed, they have not chewed up a significantly higher fraction of personal spending. Spending on housing and related goods and services has also remained a constant proportion of personal spending.

This is not to deny that many families suffer from high medical costs that threaten their financial security. However, politicians who claim that we have a *national* crisis of deciding whether to pay the rent, buy groceries, or seek medical care are once again using scare tactics. Their intent is to terrify us into a complete surrender to government, which will then take over all access to our medical services. Problem solved? Not at all.

"The one kind of reform that America should avoid is one that is imposed uniformly upon the whole country, with a vast central bureaucracy," says British physician Anthony Daniels, who argues that, under the longstanding British national health system, "it is better to be a dog."[3]

The rigidities and inefficiencies in U.S. health care caused by massive government intrusion create pain for many Americans, and the need to get rid of these obstacles to health ownership is clear. The *status quo* is unacceptable in many ways: lack of portability of health benefits, opaque prices for

health services, reckless trial lawyers driving up health costs through expensive litigation, and regulation that reduces competition among both payers and providers, are some of the problems for which PRI and others have proposed solutions.

Nevertheless, we need to be more skeptical about claims that the current organization of U.S. medical care results in such a terrible burden on the nation's welfare. That is why we have challenged "conservative" reforms in the direction of "universal" health care, such as former Governor Romney's efforts in Massachusetts, which is proving to be as unwieldy as we and others anticipated.[4]

Even a "conservative" reform can play into the hands of those who seek more government power over our health care. For example, the Medicare Modernization Act of 2003 brought us Health Savings Accounts and tried to inject market forces into Medicare by creating a prescription drug benefit, Part D, offered only through private insurers. It also created added incentives for seniors to enroll in Medicare Advantage, where they receive all their benefits through private insurers.

Unfortunately, this made both drug makers and health insurers more dependent on the government for their success, instead of patients. Further, as we anticipated three years ago, the "free-market" protections in these programs are withering under the attack of those who demand more political control over health care.[5] Congress now demands a reduction in payments to private insurers in order to rope more kids into SCHIP (state government health insurance plans) and impose direct government price-fixing for prescription drugs. Even the piracy of potentially fake medicines from foreign countries, which involves the theft of intellectual property, will likely be "legalized" under the current White House and Congress.

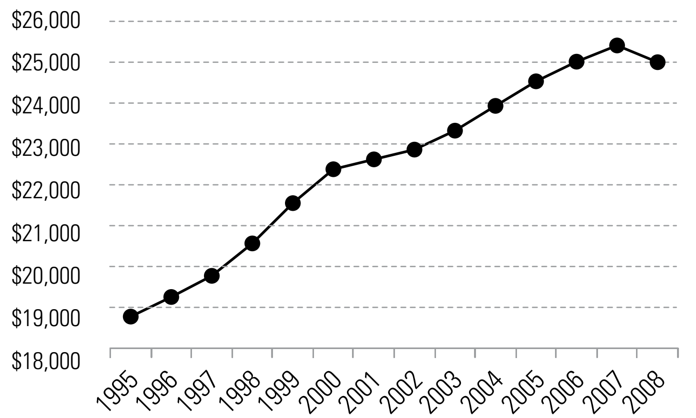
Although many Americans suffer without the means to pay for their health care, PRI has argued elsewhere that this is largely a consequence of misguided government intrusion. And it's not like the American welfare state cannot subsidize those truly incapable of financial self-reliance. Medicaid, the joint state-federal program for poor patients has grown relentlessly in the last four decades.[6] Indeed, its spending per capital grew one-third faster than private spending on health goods and services, from 1970 to 2007.[7] Spending on Medicare, the federal entitlement program for seniors, also increased by one-third over the same period.[8]

Americans' aggregate ability to finance spending on health goods and services has not become unbearable. Indeed, the yoke is significantly lighter than it was even a few years ago.

Because they are tax and spending programs that the government executes to transfer resources between households, these programs are included in personal consumption spending on health care. However, even these bloated programs, alongside the over-regulated private market for medical goods and services, are not enough to drag down Americans' growing personal consumption expenditure on other goods and services.

From 1995 to 2008, personal consumption expenditure on health goods and services has grown from $4,601 to $5,716 (in constant 2005 dollars). However, the vibrancy and productivity of the U.S. economy resulted in personal consumption expenditure *other than* on health goods and services increasing from $18,745 per capita to $24,886 per capita (in constant 2005 dollars).[9] This is an increase of more than $6,000 per capita (as shown in Graph 2) or slightly less than $16,000 per household.

Chart 2: Real Personal Consumption Expenditures, Less Health Care, Per Capita, 1995-2008 (Constant 2005 Dollars)



This series has previously demonstrated that U.S. Gross Domestic Product *after* spending on health goods and services, per capita, is significantly higher than other countries: about $5,000 higher than in Canada or Great Britain, and about $8,000 higher than in Germany or France, in 2005.[10] This longitudinal analysis supplements the previous one by demonstrating that Americans' aggregate ability to finance spending on health goods and services has not become unbearable. Indeed, the yoke is significantly lighter than it was even a few years ago.

The yoke, nevertheless, remains greater than it needs to be. Shares of personal consumption spending on the other ingredients of life have remained constant or shrunk because we have consistently enjoyed greater value for our money over the years. The primary difference between health goods and services and other personal goods and services is that we purchase most of the latter free of control by government and other third parties.

Unfortunately, government launched an expensive and reckless misadventure by taking over a significant share medical spending in the 1960s, and it has never looked back. The only way to prevent health spending from devouring an increasing share of our personal expenditures is for government to return health care dollars to the people. It is not the cost of health care that has weighed down our economy: It is the cost of government that has weighed down our health care.

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Endnotes

[1] Barack Obama, speech delivered on February 24, 2009. Available at http://www.whitehouse.gov/issues/health_care/ as of August 7, 2009.

[2] BEA, *National Economic Accounts: Interactive Access to Draft National Income and Product Accounts Tables* (Washington, DC: Bureau of Economic Analysis, 2009), Table 2.4.5U. Available at http://www.bea.gov/National/nipaweb2009/index.asp as of August 6, 2008. I include expenditures on "therapeutic appliances and equipment" (National Income and Product Account series DTAERC0), "pharmaceutical and other medical products" (DPHMRC0), "outpatient services" (DOUTRC0), "hospitals" (DHSPRC0), "net health insurance: medical care and hospitalization" (DMINRC0), "gross output of non-profit institutions serving households: outpatient services, gross output" (DOUGRC0), "gross output of non-profit institutions serving households: nonprofit hospitals, gross output" (DHSORC0) *less* "receipts from sales of goods and services by nonprofit institutions: outpatient services to households" (DOUSRC0) and "receipts from sales of goods and services by nonprofit institutions: nonprofit hospitals, services to households" (DNPHRC0).

[3] Theodore Dalrymple, "Man Vs. Mutt," *Wall Street Journal,* August 8/9, 2009, p. W1. Dr. Daniels writes under the pen name Theodore Dalrymple.

[4] See, for example, Sally Pipes, *Questionable Cure for A Questionable Crisis: The Massachusetts Health Plan Takes Shape* (San Francisco, CA: Pacific Research Institute, November 2006); and John R. Graham, "Eenie, Meenie, Miney, Mandate: Compulsory Private Health Insurance is Not Universal Choice," Health Policy Prescriptions, Vol. 4, Nov. 11 (November 2006); Michael D. Tanner, *Massachusetts Miracle or Massachusetts Miserable: What the Failure of the "Massachusetts Model" Tells Us About Health Reform,* Briefing Paper No. 112 (Washington, DC: Cato Institute, June 9, 2009); Grace-Marie Turner and Tara Persico, *Massachusetts' Health Reform Plan: Miracle or Muddle?* (Alexandria, VA: Galen Institute, July 2009).

[5] John R. Graham, "Republican HillaryCare: The Medicare Drug Benefit's Prescription for Perverse Incentives," Health Policy Prescriptions, Vol. 4, No. 2 (February 2006).

[6] John R. Graham, "Taming the Medicaid Monster: The President Pushes Progress but States Shirk Solutions," *Health Policy Prescriptions*, Vol. 4, No. 8 (August 2006).

[7] Jeffrey H. Anderson, "Medicaid's Costs, Like Medicare's, Have Risen Far More Than the Costs of Private Health Care," *Health Policy Prescriptions*, Vol. 7, No. 7 (July 2009).

[8] Jeffrey H. Anderson, "Medicare Costs Have Risen Far More Than the Costs of Private Health Care," *Health Policy Prescriptions*, Vol. 7, No. 6 (June 2009).

[9] BEA, *National Economic Accounts: Interactive Access to Draft National Income and Product Accounts Tables* (Washington, DC: Bureau of Economic Analysis, 2009), Table 2.4.6U. Available at http://www.bea.gov/National/nipaweb2009/index.asp as of August 6, 2008. Same data included as in endnote 2.

[10] John R. Graham. "American Health Care and American Productivity: It's Better than You Think!," *Health Policy Prescriptions*, Vo. 5, No. 10 (October 2007).

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