The Global Slowdown in Health Care Spending Growth

Increasing health care spending has been part of the US economy for decades, consuming an ever-increasing share of gross domestic product. However, in the past several years, the growth of US health spending has slowed to well below its historic norm. This slowdown in the rate of spending growth predates implementation of the Affordable Care Act.

The causes of the slowdown in the growth of health care spending have been widely debated by researchers and policy makers. Does the slowdown reflect merely short-term effects of the financial crisis of 2007-2009 and subsequent years of slow economic growth? Have changes in the health care system more fundamentally altered the mid- and long-term cost trajectory? The implications matter, as a sustained slowdown in health care spending growth would significantly improve the US fiscal outlook.

One consideration that has been largely overlooked in this debate is that the 2007-2009 financial crisis precipitated a deep global recession in which the economies of many industrialized countries shrank far more than in the United States. The variation in countries’ experiences during and after this period—including the effect on health care spending—provides a useful perspective for understanding the US experience.

Data published by the Organisation for Economic Co-operation and Development (OECD) allow for such a cross-national health spending comparison. As is well known, health spending in the United States far exceeds that in the rest of the industrialized world, making up nearly twice as large a share of the economy as in the median OECD country. However, health spending in all countries has increased over the past several decades, as nations have become richer and as medical technology has advanced.

One useful way to assess a country's health care spending growth is by measuring the degree to which it exceeds growth of the economy—what has been termed excess health spending growth (Figure). In the 1980s, US excess growth far exceeded the OECD median excess growth. Over the past 20 years, however, the US and OECD median rates of excess growth have tracked each other quite closely. Furthermore, in recent years, rates of excess health care spending in the United States and OECD have declined below their historical norms; in 2010 and 2011 (and 2012 for countries with available data), excess spending was either negligible or negative. The slowdown in health care spending growth has been a global phenomenon; in fact, US excess growth in 2010 and 2011 was slightly higher than average relative to other industrialized countries.

What does this observation imply about the US slowdown? It suggests that the factors that stimulated the slowdown in the United States also affected other industrialized countries. The most obvious possible explanation is the 2007-2009 financial crisis. According to this scenario, the recession placed tremendous financial pressure on all affected countries to constrain growth of their health systems. But there are other possible explanations. A slowdown in the introduction of expensive new technologies could have affected spending growth in all OECD countries because such technologies tend to spread across national boundaries. However, given that the United States generally adopts new health technologies faster than elsewhere, if availability of new technologies were the key factor in the slowdown, the tight international correlation in excess health care spending growth that is observed would not be expected.

Correlation does not establish causality. Other unmeasured factors besides rates of economic growth and technology introduction may be affecting health spending similarly in the United States and abroad. Furthermore, even if the global health spending slowdown was significantly influenced by prevailing economic conditions, this does not imply that the recession’s health system effects have been the same in each country. The US system has several unique characteristics, including far higher levels of health care spending: a largely private, market-based insurance system for most nonelderly adults; and tens of millions of uninsured and underinsured citizens. As a result, the recession for many in the United States translated directly into greater exposure to the cost of care through increased coinsurance and deductibles and the loss of health insurance coverage as workers were laid off or companies stopped offering coverage. This was generally not true in other wealthy countries, where health insurance coverage is universal and not tied to employment. These nations tended to restrain health care spending through global health care budgets, price controls for health care services and goods, and limiting salary growth for publicly employed health care professionals. Such tools allow the public sector to rein in spending without shifting costs to patients.

The close relationship between health spending and economic growth may not persist in the future—the past is not always a prologue. It is possible that the effects of the recession led to lasting changes in the United States or other health care systems. It is also possible that the reforms recently introduced by the Affordable Care Act and private payers may temper the cost increases that
would otherwise have been expected as the US economy continues to recover.

Nevertheless, a continued global slowdown in the growth of health care spending seems unlikely, as it would require a simultaneous disruption of the historic link between gross domestic product and health spending in the majority of industrialized countries. What is more, there is some evidence that health spending in the United States increased in recent months.9 Should this occur and health spending resume its historic patterns, the United States will face formidable health care challenges that will place increasing pressure on stakeholders to institute substantial changes in the organization and financing of care.

ARTICLE INFORMATION
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