Study finds rapid growth in health costs hurts economic performance of US industries

July 23 2009

A first-of-its-kind RAND Corporation study has linked the rapid growth in health care costs in the United States with job losses and lower output among industries that commonly provide workers with health insurance.

Researchers examined the economic performance of 38 industries from 1987 through 2005 and compared changes in employment, gross economic output and the value added to the gross domestic product for industries where a large number of workers have employer-sponsored health insurance to those industries where few workers have job-based health insurance.

They found that, after adjusting for other factors, industries where a larger percentage of workers received employer-sponsored health insurance had significantly lower employment growth during the study period than industries where health benefits were less common. Industries with a larger percentage of workers receiving employer-sponsored health insurance also showed lower growth in their contribution to the gross domestic product over time.

"This study provides some of the first evidence that the rapid rise in health care costs has negative consequences for several U.S. industries," said Neeraj Sood, the study's lead author and a senior economist at RAND, a nonprofit research organization. "Industries where more workers receive employer-sponsored health insurance are hit the hardest by rising health care costs."

The RAND study, published online by the journal *Health Services Research*, is the first to attempt to assess the economic impact of "excess" growth in health care costs on U.S. industries. Excess growth is defined as the increase in health care costs that exceeds the overall growth of the nation's gross domestic product.

The rapid growth in health care costs and health insurance premiums in the United States over the past two decades has raised concern that the trend is harmful to the nation's economy. Many observers argue that rapidly rising health insurance premiums force employers to increase employees' total compensation, since employers cannot easily reduce wages to completely offset premium increases. For some employers, explicit contracts such as those with labor unions may preclude wage cuts; other employers may be prevented from reducing wages by the need to pay competitive wages or a desire to avoid damaging worker morale.

Pressure to increase compensation, in turn, may lead employers to reduce health benefits, cut employment and raise prices, ultimately resulting in lower output and profits. Industries where large percentages of workers receive employer-sponsored health insurance face more pressure to increase compensation and as a result are more likely to face adverse consequences from health care cost growth, according to the study.

"U.S. employers have limited wage growth and reduced health benefits to deal with rising health insurance premiums, but such strategies have not completely offset the growing burden of health care costs," said study co-author Dr. José J. Escarce, a RAND researcher and a professor at the David Geffen School of Medicine at UCLA. "Job losses and worse economic performance have been the additional consequences for industries that provide insurance to most of their workers."

While some worry that the growth in spending on health care is bad for the nation's economy, others argue that it causes no fundamental harm because more people become employed in the health care industry as such spending grows.

"Of course, health care cost growth increases employment in health care, but other industries face job losses as a consequence" Sood said.

RAND researchers underscore that their findings do not necessarily mean that rapid growth in health care costs results in large job losses in the overall economy, since losses in industries that provide a high proportion of their workers with employer-sponsored insurance are likely to be at least partially offset by gains in industries that provide a low proportion of their workers with insurance.

"Nonetheless, our findings clearly show that the rapid rise in health care costs has a measurable impact on many industries, and that it leads to a redistribution of workers from industries that provide insurance to their workers, such as manufacturing, to those that do not provide insurance," Escarce said.

Researchers also point out that their study does not assess the relative impact on the overall economy of the employer-based system of health insurance in the U.S. compared with alternative approaches to financing and providing health insurance, such as the public system in Canada. Rather, what the study demonstrates is that the employer-sponsored system hurts the economic performance of some industries more than others.

Source: RAND Corporation

Citation: Study finds rapid growth in health costs hurts economic performance of US industries (2009, July 23) retrieved 5 May 2024 from https://medicalxpress.com/news/2009-07-rapid-growth-health-economic-industries.html

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