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Acceleration Is Forecast for Spending on Health APRIL 22, 2014

Eduardo Porter The New York Times

WASHINGTON — Standing before a roomful of economists, policy makers and health care experts earlier this month, Amitabh Chandra, director of Health Policy Research at Harvard's Kennedy School of Government, closed a presentation about the slowdown in health care spending over the last decade by citing an article in The New York Times.

"Changes in the way doctors and hospitals are paid — how much and by whom — have begun to curb the steady rise of health care costs in the New York region," the article declared. "Costs are still going up faster than overall inflation, but the annual rate of increase is the lowest in 21 years."

Then came the punch line. The article, written by my now-retired colleague Milt Freudenheim, was published in December 1993, when the so-called managed care revolution promised for a few hopeful years to change the way doctors practiced medicine and curb the breakneck rise in health care costs for good.

It is a sobering reminder that the recent improvements could wither away just as they did two decades ago.

Slowdown in Spending

After an encouraging decadelong slowdown in health care costs, experts are worried that the pace of spending is about to increase again.

And that experience undergirds, in part, a fairly ominous forecast by Mr. Chandra, Jonathan Skinner of Dartmouth College and Jonathan Holmes of Harvard that spending on health care, which already consumes nearly 18 percent of the nation's gross domestic product, will continue to grow 1.2 percentage points faster than the economy over the next 20 years.

"It's very scary," Professor Chandra told me.

At the very least, it suggests that health care reform is by no means over. The Affordable Care Act may well be on track to meeting its primary goal of providing coverage for most uninsured Americans and protecting everyone against the risk of losing their insurance. But for all its innovative proposals to flush waste out of the system, reining in health care spending still appears well beyond the grasp of Obamacare.

“We have been consistently bending the cost curve over the last 20 years, but the kinds of things that we do don’t tend to be permanent,” said Charles Roehrig, who runs the Center for Sustainable Health Spending at the Altarum Institute, a nonprofit based in Washington. “It will take a lot of work just to stay on the same curve we have been on for a while.”

The evolution of the American medical-industrial complex has been driven by two critical dynamics. The first is the development of new technologies. The second is our willingness to pay for them.

Consider what happened in the 1990s, when pretty much anyone with a heart ailment had a stent implanted. It turns out, though, that stents aren’t universally useful. A study a few years ago discovered stents “did not reduce the risk of death, myocardial infarction, or other major cardiovascular events” for patients with stable coronary artery disease.

Still, until recently, doctors prescribed them and we got them. Often, an insurer or the government picked up the bill, whether the treatment helped our health or not.

Research by Louise Sheiner of the Federal Reserve found that Americans’ out-of-pocket spending actually declined over the last half-century as a share of the nation’s gross domestic product, even as health care spending soared. That’s because Medicare and Medicaid shouldered much of the increased burden.

The Next Big Thing

Hospitals are rushing to build proton beam accelerator facilities to treat prostate cancer, despite their offering no proven advantage over cheaper traditional treatments.

With no incentive to say no, the medical industry has little cause to be cautious. And though stents seem to be on their way out for most people, the Next Big Thing is coming into focus. At the conference, which was sponsored by the Brookings Institution, there was much talk of proton beam accelerators for cancer treatment, which cost hundreds of millions of dollars to install yet offer no established advantages to patients. In 2010, nine facilities were operating, planned or under construction across the country. This year there are 20.

Can this be stopped, or at least slowed? Forces encouraging restraint have not been very successful. Medicare has pushed cheaper generics to replace brand-name drugs. Nurse practitioners have taken over tasks formerly performed by more expensive doctors. But the savings have proved fleeting.

The question is whether the innovations in the Affordable Care Act can consistently bend the cost curve.

Most health care economists agree that the Affordable Care Act, along with other forces, will help reduce waste, pushing the industry to drop the “fee for service” model that encourages doctors and hospitals to spend more whether it is useful or not.

Last November, President Obama's Council of Economic Advisers issued a hopeful analysis, which posited that structural changes flowing from the act were helping push the growth in health care spending to its slowest on record.

David Cutler of Harvard points to studies that suggest that straightforward changes, such as improving the dismal management of American hospitals, could cut health care costs by 25 to 50 percent. "Getting better is not rocket science," he said.

But that optimism might be premature. Mr. Roehrig argues that the decade-long slowdown in spending growth reflects a response to the two recessions that provided the economic bookends to the first decade of the new century; not a fundamental shift in the way the system operates.

During that period, employers pushed workers to take insurance with higher out-of-pocket payments, which discouraged use. Medicaid in financially troubled states has cut provider fees and limited access to high-cost services. And, of course, many unemployed workers who lost their company health insurance cut back on visits to the doctor.

These effects, Mr. Roehrig noted, have by now mostly petered out. As the economy recovers, spending growth will resume its climb, reinforced even more by the understandable demands from the eight million newly insured Americans under the health law for services they couldn't afford previously. He forecasts that health spending will grow substantially faster than G.D.P. in the near future, but expects the gap to shrink gradually to below one percentage point over time. In the long run, he projects that health care spending could consume 30 percent of G.D.P.

Mark McClellan, a former administrator for the Centers on Medicare and Medicaid Services under George W. Bush, and Alice Rivlin, a former vice chairwoman of the Federal Reserve, point out that innovations that improve health or reduce the cost of medical services may also increase demand.

"It would be a mistake to assume that slow growth in health care spending will continue," they wrote, "or that spending reflects high-value care and therefore, health care delivery reform is no longer an urgent priority."

Professor Chandra calls himself "extremely optimistic" about the government's efforts to move the health care industry away from the wasteful fee-for-service model. His forecast that health care spending will exceed G.D.P. growth by 1.2 percentage points may indeed be scary, but it amounts, in fact, to an amazing improvement over the status quo.

Over the last 40 years or so, health care spending has been growing 2.4 percentage points faster than the economy, on average.

But that slowdown still isn't good enough. By 2032, health care will consume almost a quarter of the nation's economic production, taking an even bigger bite from workers' wages and either forcing taxes up to pay the government's share, adding more to the national debt, or squeezing other important public services.

So, if Americans really want to win the health care spending war, it may take more than reform. It may still take a revolution.

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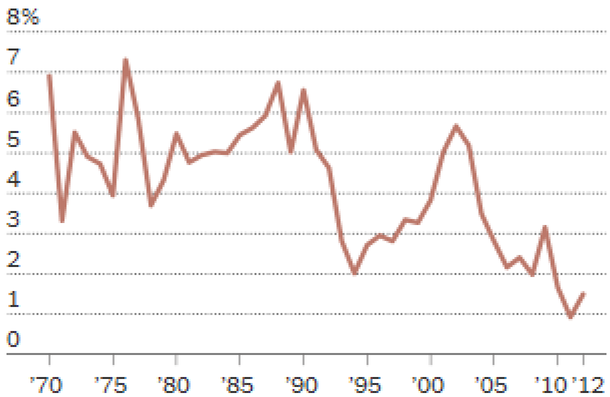
Annual growth in per capita health spending, adjusted for inflation



Source: Louise Sheiner, Federal Reserve Board

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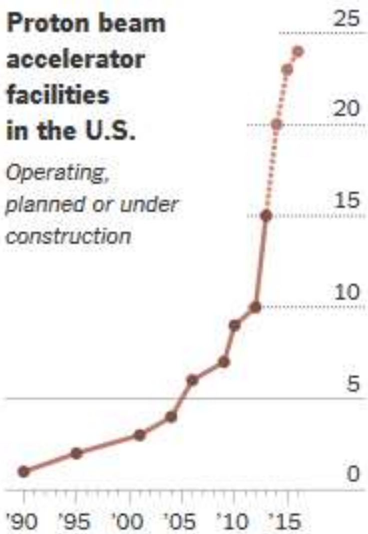

Source: Amitabh Chandra