Health(care) Economics

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Veronika Dolar
State University of New York
SUNY Old Westbury

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National Economic Education Delegation

- **Vision**
  - One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.
- **Mission**
  - NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.
- **NEED Presentations**
  - Are **nonpartisan** and intended to reflect the consensus of the economics profession.

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Who Are We?

- **Honorary Board: 49 members**
  - 2 Fed Chairs: Janet Yellen, Ben Bernanke
  - 6 Chairs Council of Economic Advisers
    - Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
  - 3 Nobel Prize Winners
    - Akerlof, Smith, Maskin
- **Delegates: 500+ members**
  - At all levels of academia and some in government service
  - All have a Ph.D. in economics
  - Crowdsource slide decks
  - Give presentations
- **Global Partners: 45 Ph.D. Economists**
  - Aid in slide deck development

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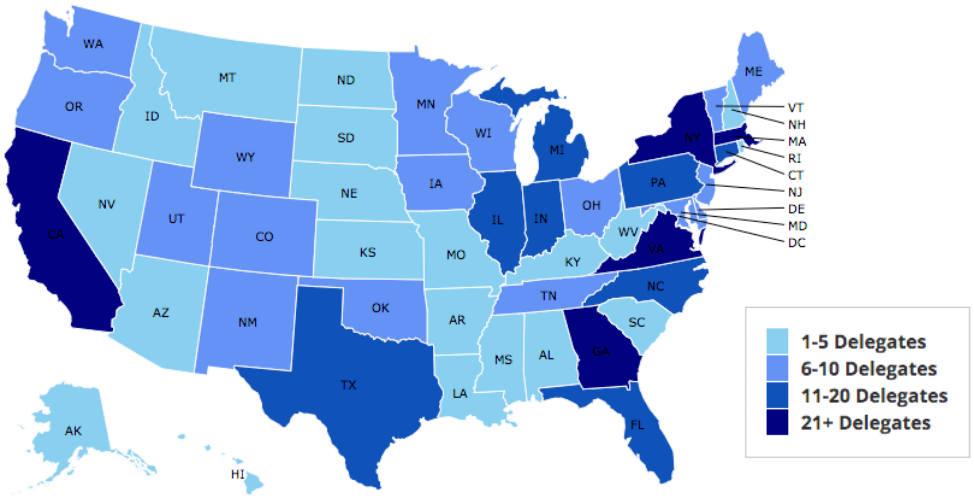
Where Are We?



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Credits and Disclaimer

- **This slide deck was authored by:**
  - Veronika Dolar, SUNY Old Westbury
- **Disclaimer**
  - NEED presentations are designed to be nonpartisan.
  - It is, however, inevitable that the presenter will be asked for and will provide their own views.
  - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).

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Outline

- What is Health(care) Economics?
- Taking the Pulse of the Health Economy
- Health Care Systems and Institutions
- Health Insurance and Reform
- Pharmaceuticals – Big Pharma

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What is Health(care) Economics?

- Health Economics is a special field of (applied) microeconomics that focuses on the health care industry.
- Examples of other subfields of microeconomics are labor economics, industrial organization, economics of education, public economics, and urban economics.

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Health Economics is part of Microeconomics

- Although health economics is part of "micro-" economics, it is actually very big:
- In 2019, U.S. national health expenditure was 17.8% of GDP, which is equivalent to around $3,427 billions.
- For comparison, the entire GDP of Germany in 2019 was $3,845 billions (4th largest economy), GDP of UK was $2,827 billions (6th largest economy), and $2,715 billions in France (7th largest economy).

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What is Health Economics?

- Health economics studies health care resources markets and health insurance.
- Healthcare is the biggest industry and the largest employer in the US.

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What is a Market?

- A market is a group of buyers and sellers of a particular product in the area or region under consideration. The area may be the earth, or countries, regions, states, or cities.
- The concept of a market is any structure that allows buyers and sellers to exchange any type of goods, services and information.
- Markets can be physical and non-physical.
- There are many different types of markets and depending on the type a different rules should be set up for eliciting the best results for the society.

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Markets studied in health economics

- **Markets for:**
  - Physicians
  - Nurses
  - Hospital facilities
  - Nursing homes
  - Pharmaceuticals
  - Medical supplies (such as diagnostic and therapeutic equipment)
  - **Health Insurance**

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Market Economies

- In market economies, prices adjust to balance supply and demand.
- These equilibrium prices are the signals that guide economic decisions and thereby allocate scarce resources.
- The invisible hand works through the price system:
  - The interaction of buyers and sellers determines prices.
  - Each price reflects the good's value to buyers and the cost of producing the good.
  - Prices guide self-interested households and firms to make decisions that, in many cases, maximize society's economic well-being.

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When does "free market does it better" hold?

Two very important assumptions need for this to hold are:

1. Perfectly Competitive Market
2. No Market Failure

What is a Perfectly Competitive Market?

- Many (numerous) buyers – price takers
- Many (numerous) sellers – price takers
- Identical (homogeneous) product
- Free entry and exit
- Both buyers and sellers have perfect information about the price, utility, quality, and production methods of products.

What is Market Failure?

Market Failure is a situation in which the allocation of goods and services by a free market is not efficient, often it leads to a net social welfare loss.

Examples of Market Failure:

- Externalities
- Public Goods
- Asymmetric Information

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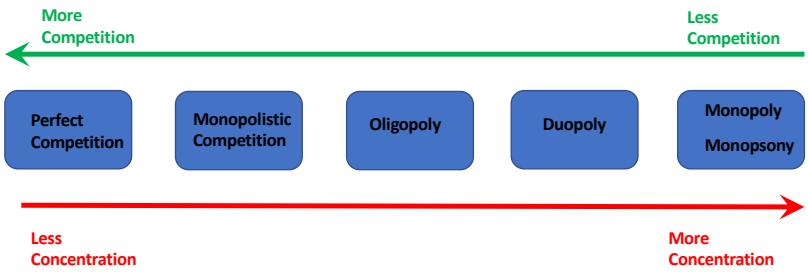
What types of markets are there?



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Hospital Monopolization

- Market consolidation among and between health systems, hospitals, medical groups, and health insurers has surged over the last decade.
- Over an 18-month period between July 2016 and January 2018, hospitals acquired 8,000 more medical practices, and 14,000 more physicians left independent practice to become hospital employees.

Hospital Monopolization: California

- A large Northern California hospital system used its size and influence to achieve a "domination of the market".
- Sutter Health grew into a behemoth hospital system and then, like a classic monopoly, used its dominance in Northern California to raise hospital prices.
- Sutter used its windfall from excessive pricing to acquire more entities and grew into a conglomerate of 24 hospitals, 12,000 doctors and several cancer, cardiac and other specialty centers.
- In some counties, Sutter was the sole hospital for a thousand square miles.

Hospital Monopolization: Florida

- Consolidation among health insurance companies drove a 12% rise in profits for health maintenance organization insurance plans, or HMOs, and South Florida hospitals reported 8% average profit margins, their highest in recent years, according to the Florida Health Market Review. (January 2020)
- Hospital systems grew through new construction and acquisitions.
- The Tennessee-based Hospital Corporation of America, or HCA, one of the nation's largest for-profit systems, and AdventHealth, a nonprofit healthcare system, led the charge in Florida, acquiring hospitals from Community Health Systems, which was once the seventh-largest system in the state.

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Hospital Monopolization: Florida

- South Florida hospitals recorded combined profits of nearly $1.3 billion in 2018 and have posted combined profits above $1 billion for four of the past five years.
- HCA hospitals were the most profitable, with a net income of $363.6 million.
- Baptist Health, a nonprofit and the largest system in the Miami area, had a net income of $142.8 million and Memorial Healthcare System in Broward County, a nonprofit hospital network, had a net income of $158.6 million.

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Hospital Monopolization

- On average hospitals charge patients more than four times the cost of care.
- The top 100 most expensive hospitals this ranges from 1,808 percent at the high end to 1,129 percent at the low end
- Most of the top 100 hospitals are located in states in the west and south. Florida had the highest number, with 40 hospitals. Other top states included Texas with 14 hospitals, Alabama with eight, Nevada with seven, and California with six.

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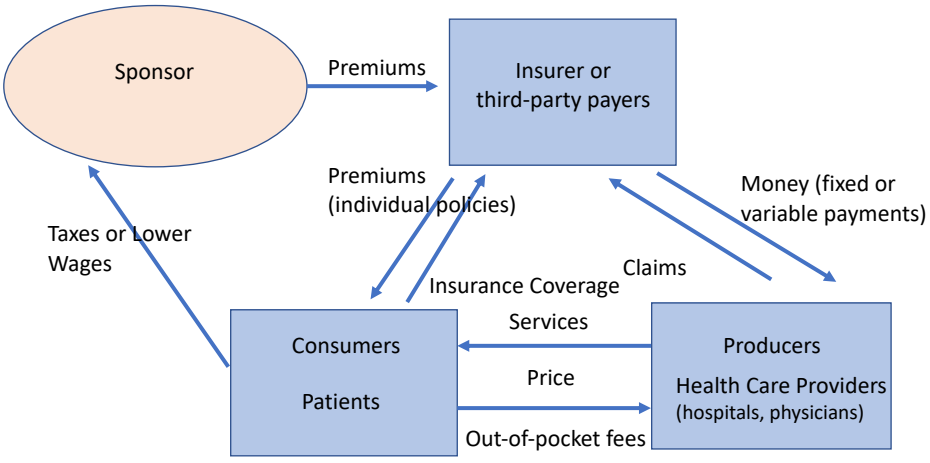
Health Care Markets are Different



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Is there something special about Health Care Markets?

- Market Structure
- Type of products and services
- Principal-Agent Problem
- Asymmetric Information
- Moral Hazard

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Pulse of the Health Economy

- **Health economy involves activities related to population health:**
  - Production and consumption of goods and services
  - Distribution of those goods to consumers
- **Performance indicators of medical care**
  - Costs
  - Quality
  - Access

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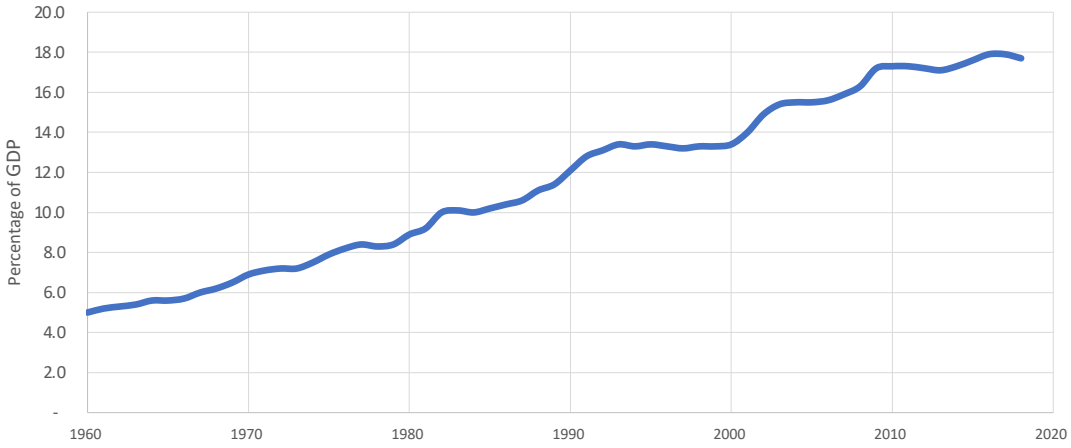
Tradeoffs

Tradeoffs take place among the three legs:

- By increasing quality health care this leads to higher health care costs, which means that some individuals might not be able to afford it and the access may be more limited.
- By increasing access, the costs and/or quality may suffer.
- By decreasing costs, access and/or quality may suffer.

Costs

National Health Expenditure as Percent of GDP



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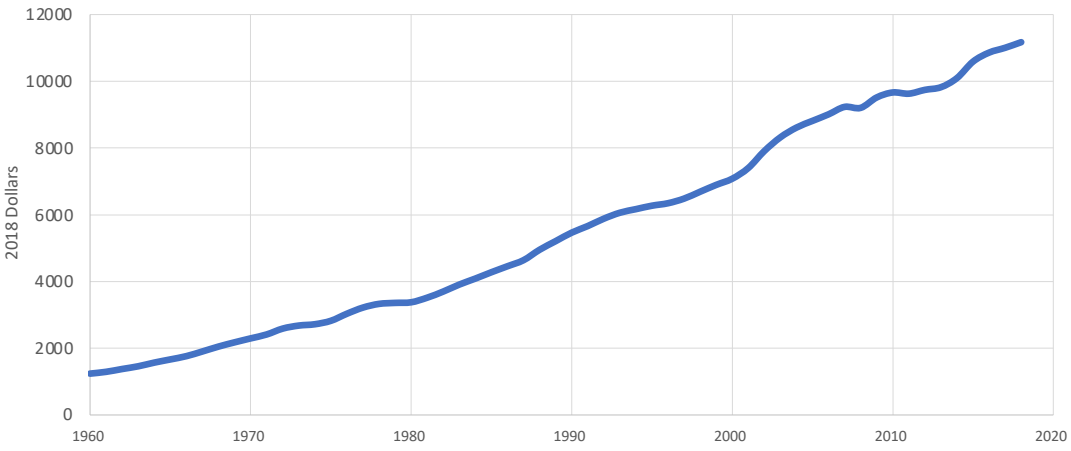
National Healthcare Expenditure Per Capita



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Amount of Medical Care Spending

- **Costs of health care are high and continually rising**
  - U. S. spent 17.7% of GDP or $11,172 per person in 2018
  - Compared to 5.0% of GDP and $1,239 per person in 1960
- **Trade-offs may be involved**
  - High health care costs implies lower amounts of other goods produced and consumed.

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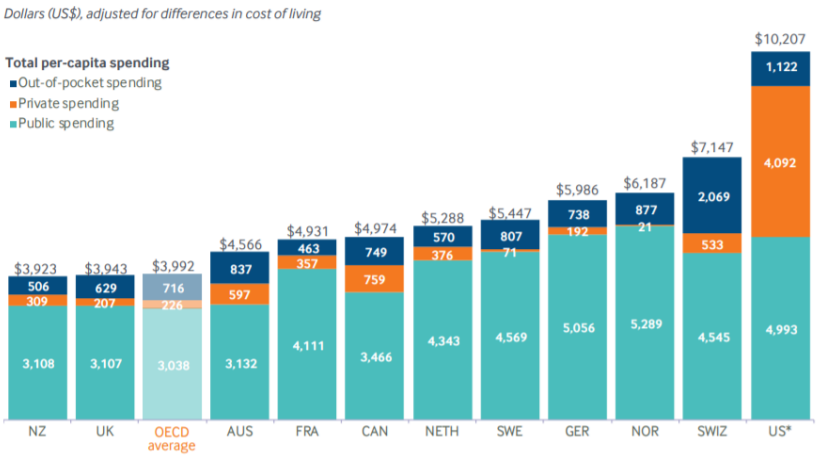
International Per Capita Healthcare Spending



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Source: Roosa Tikkanen and Melinda K. Abrams, *U.S. Health Care from a Global Perspective, 2019: Higher Spending, Worse Outcomes* (Commonwealth Fund, Jan. 2020).

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International Comparison

- Per capita health spending in the U.S. exceeded $10,000, more than two times higher than in Australia, France, Canada, New Zealand, and the U.K.
- At $4,092 per capita, U.S. private spending is more than five times higher than Canada, the second highest spender.
- In Sweden and Norway, private spending made up less than $100 per capita. As a share of total spending, private spending is much larger in the U.S. (40%) than in any other country (0.3%–15%).

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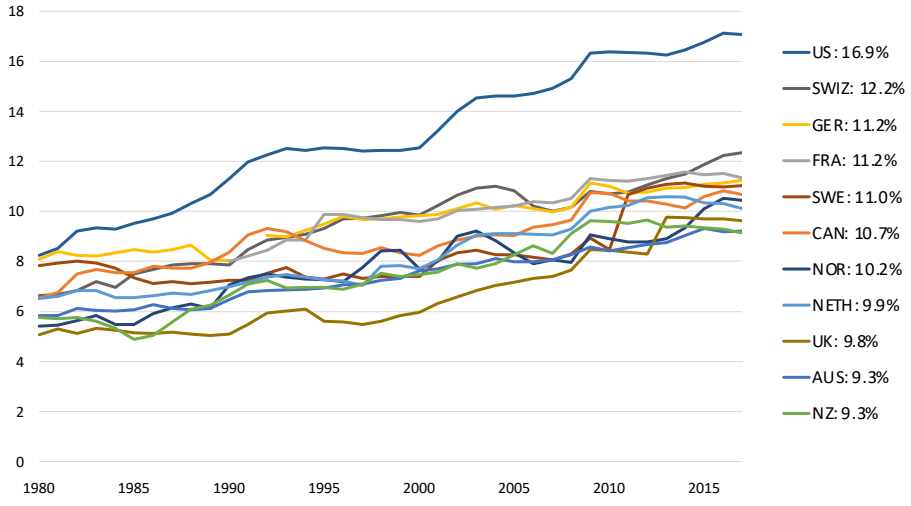
Health Care Spending as % of GDP, 1980–2018



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Source: Roosa Tikkanen and Melinda K. Abrams, *U.S. Health Care from a Global Perspective, 2019: Higher Spending, Worse Outcomes* (Commonwealth Fund, Jan. 2020).

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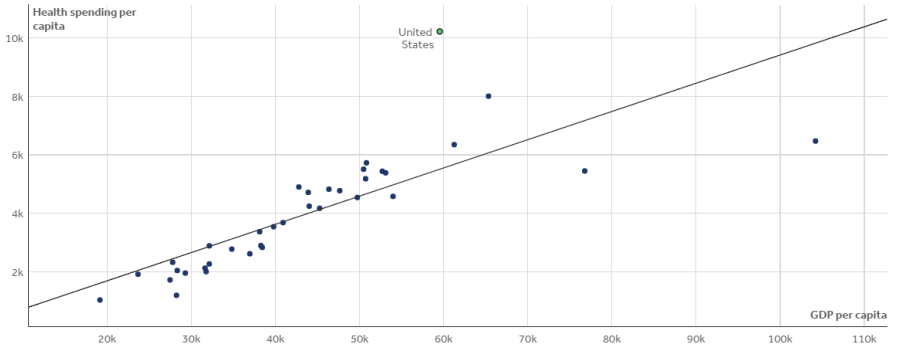
International Comparison

- In 1960, the U.S. was spending a higher percent of GDP on health care compared to other OECD countries, but was still part of the pack.
- In 2018, the U.S. spent 16.9 percent of gross domestic product (GDP) on health care, nearly twice as much as the average OECD country.
- The second-highest ranking country, Switzerland, spent 12.2 percent.
- At the other end of the spectrum, New Zealand and Australia devote only 9.3 percent, approximately half as much as the U.S. does.

GDP per capita and health consumption spending per capita, 2017



Notes: U.S. value obtained from National Health Expenditure data. Health consumption does not include investments in structures, equipment, or research.

Source: KFF analysis of OECD and National Health Expenditure (NHE) data • Get the data • PNG

Peterson-KFF Health System Tracker

Monopolization of Health Insurance Market

- As of 2011, there were close to 100 insurers in Switzerland competing for consumer health care dollars, forcing firms to compete by setting prices to just cover costs.
- In the United States, markets are state specific and consumers may choose from plans available in the state in which they reside.
- In 2014, of the 50 states and the District of Columbia, 11 had only 1 or 2 insurers, 21 had 3 or 4, and only 19 states had 5 or more.
- As of July 2019, the number of states with only 1 or 2 insurers had increased from 11 to 20, indicating a growing divide between ACA exchanges and competitive markets.

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Thank you!

Any Questions?

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Veronika Dolar
dolarv@oldwestbury.edu

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