

Study shows health care spending spurs economic growth

December 14 2009

As the national discussion of health care focuses on costs, a new study from North Carolina State University shows that it might be more accurate to think of health care spending as an investment that can spur economic growth. The study also shows that government projections of health care costs and financing may be unduly pessimistic.

"Health care spending should be viewed as an investment in future capital, contributing to a productive workforce, rather than merely as an expenditure," says Dr. Al Headen, associate professor of economics at NC State and a co-author of a paper appearing in the Dec. 15 issue of *Proceedings of the National Academy of Sciences*. The paper was co-authored by researchers from Duke University, Brigham Young University and the National Council of Spinal Cord Injury Association.

People are living longer, Headen says, and are retaining their ability to be productive members of society - they are able to work, pay taxes, consume goods and go on vacation. "But a lot of projections by the government of the future work force are not accounting for improved health and productivity of older Americans. People will be paying into government programs, such as Medicare, for a longer time - while simultaneously delaying the point where they need to draw on those programs. Our research suggests that if the government's projections had accounted for this improved productivity, those projections would have been less pessimistic."

For example, the researchers found the Congressional Budget Office's

(CBO) projected costs for Medicare and Medicaid from 1994-2004 to be substantially overestimated. In 1994, CBO projections of Medicare expenditures for 2004 for persons 65 and older were \$361 billion, but the actual 2004 expenditure was only \$268 billion - an error of 35 percent.

"Our projections adjust for improved quality of health and functioning, indicated by declines in disability among the 65 and older age group from 1994 to 2004 in data from the National Long Term Care Surveys linked to Medicare files," Headen says. "Our health quality adjusted Medicare expenditures projection over the same decade covered by the CBO projections is \$253 billion, an error of 5.6 percent. Thus, the projection error rate for the CBO, which did not adjust for improvement in the quality of health and functioning among elders, was over six times larger than the projection error rate that explicitly adjusted for improvement in the quality of health and functioning among elders."

One implication of the study's findings, Headen says, is that "some programs that the government has said will be in deficit in the near future may actually have a surplus, once you account for improved health and productivity. For example, we project a \$242 billion surplus for Medicare by 2020, not a deficit.

"Spending on health care productivity, biomedical research and universal health care should be considered an investment that will eventually lead to increased [economic growth](#)," Headen says. "Improvements in human capital related to health are important, and need to be accounted for when doing projections of costs and benefits related to [health care](#)."

More information: "Long-term economic growth stimulus of human capital preservation in the elderly," Al Headen et al., [Proceedings of the National Academy of Sciences](#)

Source: North Carolina State University ([news](#) : [web](#))

Citation: Study shows health care spending spurs economic growth (2009, December 14)
retrieved 8 May 2024 from <https://phys.org/news/2009-12-health-spurs-economic-growth.html>

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