JOINT ECONOMIC COMMITTEE

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Are Socialized Health Care Systems Controlling Costs?

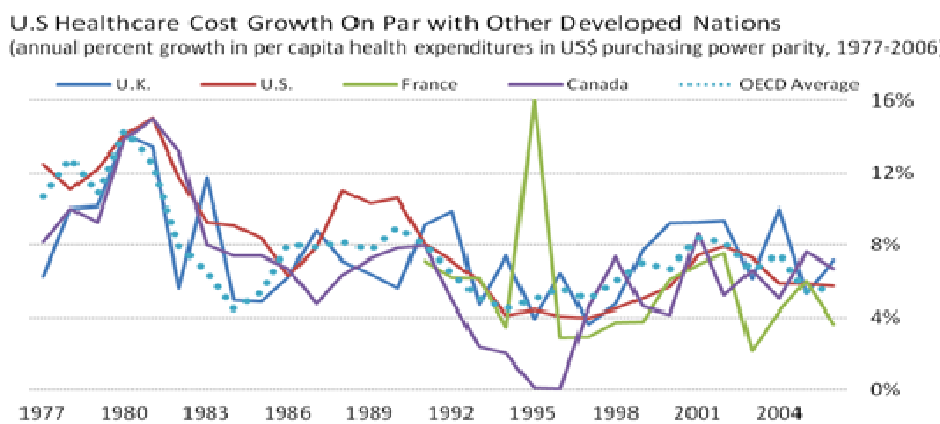
Critics of the American health care system are quick to point out that the U.S. spends more per capita, and more as a percent of GDP, on health care than any other nation. According to the President's budget director, Dr. Peter Orszag, the only way to reduce costs and create a more affordable health care system in the United States is to "bend the cost curve."

The argument goes like this: Simply squeeze all of the inefficiencies, waste, and excess out of our current system, and voila! we can control costs and provide coverage for a large number of the uninsured (and solve our long-term entitlement challenges, to boot).

Sounds great – but is it valid? Advocates of this idea often point to the socialized health care systems of other countries as examples of how the U.S. could rein in healthcare costs. While it is certainly true these countries spend less than we do, it is also the case that they face many of the same challenges we do in limiting the rate of growth in their health care costs.

While the initial level of spending is important, it is the *rate of growth* in costs that is the more important factor in determining overall long-run costs. It is those higher rates of cost growth that make the promises of government provided health care benefits essentially unsustainable.

A review of the latest evidence reveals that the annual percent change in per capita health care costs in the U.S. has not been any higher than that of other developed nations that have primarily government-run health care systems.



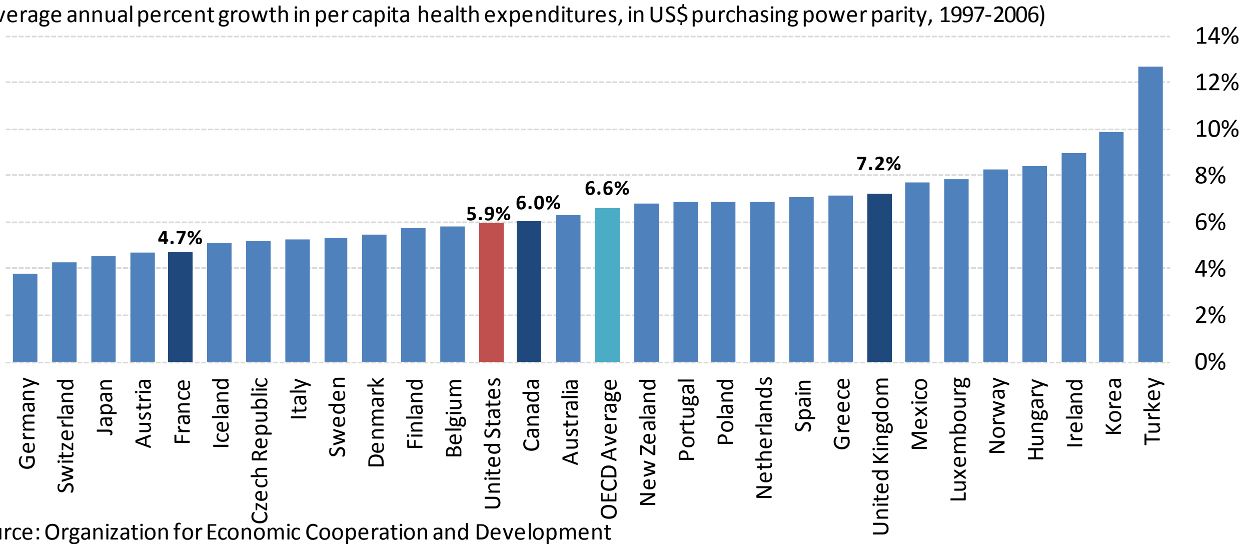
*Prior to 1998, data was not available for all OECD countries. The OECD average is based on available data.
Source: Organization for Economic Cooperation and Development

In fact, over the past decade U.S. growth has actually been lower than the average growth in all of the nations of the OECD (Organization for Economic Cooperation and Development). During the 1970s and '80s, U.S. health care costs were rising faster than in other countries, contributing in part to our overall higher level of costs today. However, over the past decade and a half, *the U.S. has done a better job of reining in healthcare costs than the average OECD nation.*

Between 1997 and 2006, health care cost growth in the U.S. averaged 5.9%, compared with an average for all OECD countries of 6.6%. During this period, the U.S. growth rate was below that of the U.K. (7.2%) and Canada (6.0%), and above that of France (4.7%).

U.S. Healthcare Cost Growth Lower than the Average OECD Country Over the Last Decade

(average annual percent growth in per capita health expenditures, in US$ purchasing power parity, 1997-2006)



Source: Organization for Economic Cooperation and Development

Despite the proven ability of some other nations to hold down their overall level of *government* health care spending, largely through government-imposed-rationing, the evidence does not suggest that those government-run health care systems have succeeded in “bending the cost curve.” To the contrary, health care costs are growing in those countries, just as they are in the United States. The evidence does not support the notion that we can “bend the cost curve” by giving the government more control over our health care.