

What Drives Health Care Spending

Health care spending around the world has increased significantly in the past 40 years.¹ Many factors have contributed to this trend.

People in developed countries are living longer and requiring more health care services and products as they age. People over the age of 65 typically need four times more medical services and products than younger people.

In addition, chronic diseases such as asthma, cancer, diabetes and heart disease are on the rise in both developed and developing countries. In the U.S. alone, chronic diseases are responsible for more than half (56 percent) of the \$200 billion rise in health care spending in the United States from 1987 to 2000.² In emerging markets, chronic disease is also increasing, as newly middle-class people adopt less healthy lifestyles.

Another reason why health care costs are rising is simply that new medical technology is making it possible to treat many more diseases than in the past. Being able to treat a disease effectively stimulates demand. New therapies based on advanced technologies are typically more costly than old ones, though they may reduce costs in other parts of the health care system. The U.S. Congressional Budget Office found that roughly half of the increase in health care spending is associated with technological advances.³

Increases in health care costs may also be due to inappropriate care. There are wide variations in the care delivered for the same medical condition in different places.

Another driver of health care costs, in the U.S., is the liability system. For example, fear of lawsuits may stimulate extra tests to be ordered, fees may be higher to cover insurance costs, and innovations may be slowed because of liability concerns.

Finally, overall health care costs are affected by the considerable administrative expenses associated with paper-based records and an aging health care infrastructure.

1 OECD, Economics Department Working Paper No. 149: "Health Care Reform: Controlling Spending and Increasing Efficiency." Available at http://www.oecd.org/LongAbstract/0,3425,en_2649_201185_1862393_1_1_1_1,00.html.

2 Thorpe, K., et al. "Which Medical Conditions Account for the Rise in Health Care Spending?" *Health Affairs (Web Exclusive)* Aug. 25, 2004. Available at www.healthaffairs.org.

3 "Technological Change and the Growth of Health Care Spending." U. S. Congressional Budget Office, January, 2008