

UNDERSTANDING GROWTH PATTERNS IN US HEALTH CARE EXPENDITURES

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Abstract

We study the steady upward trend of Health Care Expenditures (HCE) over GDP for a sample of OECD countries between 1970 and 2007. While the US is clearly an outlier, almost all of the additional increase in US HCE happened during the 1978–1990 period. We perform two growth accounting exercises to explore sources of variability of HCE over GDP across countries. In the first growth accounting exercise based on value added we find that factor accumulation is unable to replicate the observed growth patterns. We also show that the additional increase in markups in the US corporate medical sector mimics well the ratio of HCE over GDP in the US. This suggests that differences in the relative price of health care – rather than technology, product quality, and factor accumulation – could explain the divergent growth patterns of HCE over GDP across these countries. In the second growth accounting exercise, we filter out prices from HCE over GDP, and confirm that there is very little variability for the product quality residual to explain the variation in HCE across countries. (JEL: I10,I11,I18,E31)

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