

## ObamaCare Is Slowing Health Inflation

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*The president's reform is contributing to an historic slowdown in spending, which is good news for wages.*

For decades a common refrain was that the rapid rise in health spending hurt the competitiveness of American businesses and ate into workers' take-home pay. Businesses and politicians from both sides of the aisle agreed that something had to be done to slow the growth of health-care costs. New data Monday from the Centers for Medicare and Medicaid Services show that we are making important progress. From 2010 to 2012, health spending grew at an annual rate of just 1.1% in real per capita terms—the lowest rate in the 50 years we have been collecting these data, and a small fraction of the 6% rate that inaugurated the past decade.

This historic but largely unheralded slowdown in health spending, which is thanks in part to the Affordable Care Act (ACA), is helping to boost employment, lower deficits and bolster wage growth as the job market strengthens. The lack of attention to this dramatic change results in part from the perception that the slowdown is a transitory byproduct of the Great Recession. But with each passing year it becomes clearer that factors beyond the recession are contributing to this good news.

Notably, the rise in Medicare costs has slowed, with real Medicare spending per beneficiary essentially unchanged from 2010 to 2012. Historically, trends in Medicare spending have little to do with the strength of the overall economy.

In the past few years, the slowdown has in significant part been reflected in the price of health care, rather than the quantity of health care that patients receive. Since the ACA was signed into law in March 2010, prices for health-care goods and services have risen at a 1.8% annual rate, the slowest rate for a comparable period in nearly 50 years, and just 0.2% above general price inflation, a gap that has only been as narrow on one other occasion since the 1970s. Many factors, including the recession and one-time developments like blockbuster drugs coming off patent, have contributed to the slowdown, which started in the middle of the last decade. But the slowdown has deepened since the ACA passed, and evidence shows the law has made a meaningful contribution.

The ACA is directly responsible for a substantial portion of slowdown in Medicare's growth over the past few years, with the Congressional Budget Office (CBO) estimating that the ACA would reduce Medicare spending by \$17 billion in fiscal 2013 by reducing overpayments to private plans and providers and by shifting toward paying for value rather than for services.

For example, Medicare now penalizes hospitals if too many patients need to be readmitted—a change that helped reduce hospital readmission rates by more than one percentage point through 2013, corresponding to 130,000 avoided readmissions. In addition, more than 360 organizations

serving five million Medicare beneficiaries have adopted the ACA's Accountable Care Organization models, letting them share in savings created by improving the efficiency of care, so long as they also provide high-quality care.

The ACA-created Center for Medicare and Medicaid Innovation is driving experimentation with other reformed payment models, including bundled payments—initiatives that will pay growing dividends over time. Crucially, when new models save money without hurting quality, Medicare can bring them to scale without congressional action.

There is good reason to believe that at least some of these gains are spilling over to the private sector. Recent economic studies have found that efforts by Medicare to reduce excessive payments generate corresponding savings for private insurers and their enrollees. History also shows that Medicare can use its scale to implement reforms that are eventually adopted by the private sector, as in the 1980s when Medicare shifted from paying hospitals for the services they provide to paying for the conditions they treat. Overall, the CBO-estimated Medicare savings correspond to a 0.2% reduction in the growth of health-care prices from 2010 to 2013 and plausible spillovers to the private sector would bring the total reduction to 0.5%

This progress provides a powerful answer to those who claimed that the ACA would be a “job killer.” The 7.9 million private jobs added since the ACA became law are themselves enough to disprove claims that the ACA would cause the sky to fall. But rigorous economic research also finds that slower growth in health costs boosts employment growth over the short and medium run because cost savings are partially realized as lower compensation costs. A 2010 study, co-authored by David Cutler, a leading economist, estimated that health-care reform could boost job growth by 250,000 to 400,000 a year later this decade.

Eventually, the full slowdown in health costs will be passed through to workers as higher wages. If even half of the recent slowdown in health spending persists, that would translate a decade from now into an extra \$1,400 per person available annually for purposes other than health care.

The slowdown in the rise of health-care costs is also helping to bring down the deficit. Over the past four years, the deficit has fallen at the fastest rate since demobilization from World War II, and slower growth in health costs will be crucial to maintaining this progress.

CBO has marked down its estimates for Medicare and Medicaid spending in 2020 by about 10% since its August 2010 forecast, about 0.6% of the economy. The CBO has also projected that the Affordable Care Act will make a growing direct contribution to deficit reduction, averaging about 0.5% of the economy per year over its second decade, amounting to more than \$1 trillion in total. As a result, additional fiscal adjustment of just 0.9% of the economy would be enough to stabilize the debt for 25 years, considerably better than estimated a few years ago.

To be sure, the ACA's measures to expand and improve coverage will temporarily increase the growth of national health expenditures, but they will not negate these trends toward slower growth in prices and cost per beneficiary throughout the health system. Nevertheless, even with Monday's good news, growing health costs still present challenges to families, businesses and the economy. For this reason, President Obama continues to support policies that build on the

progress made by the Affordable Care Act. But these new data show clearly that the trends are moving in the right direction. Improving rather than repealing the Affordable Care Act will be critical to sustaining this progress.

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