

**FT Alphaville US economy**

## America: a healthy or healthcare economy?

The sickness at the heart of US GDP



Tej Parikh JUNE 11 2024

Here's a thought. Could bad health outcomes, like the high prevalence of chronic illness or obesity, actually prop-up a nation's gross domestic product by maintaining high levels of healthcare-related expenditure, and jobs? The US may offer an answer.

While most were gawking over the latest bumper non-farm payrolls data, FT Alphaville did some digging beneath the headlines.

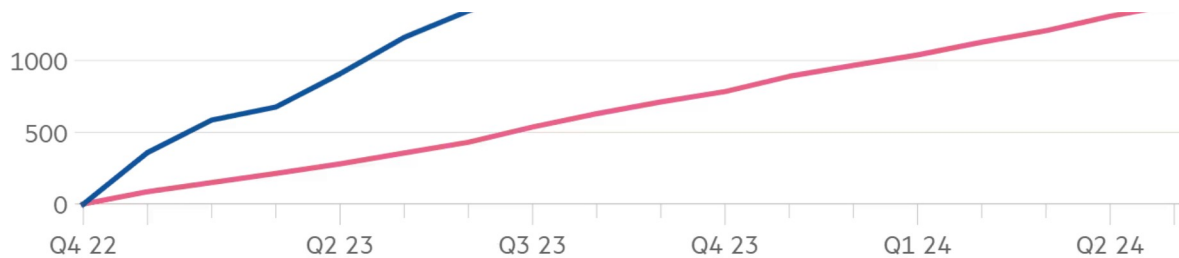
Over one-third of private sector jobs added in May came from healthcare and social assistance. Of the 3.3mn jobs added by US private employers since the beginning of 2023, 40 per cent has been driven by the health sector.

## America's healthcare jobs boom

Cumulative jobs, thousands

— Total private sector — Health and social care



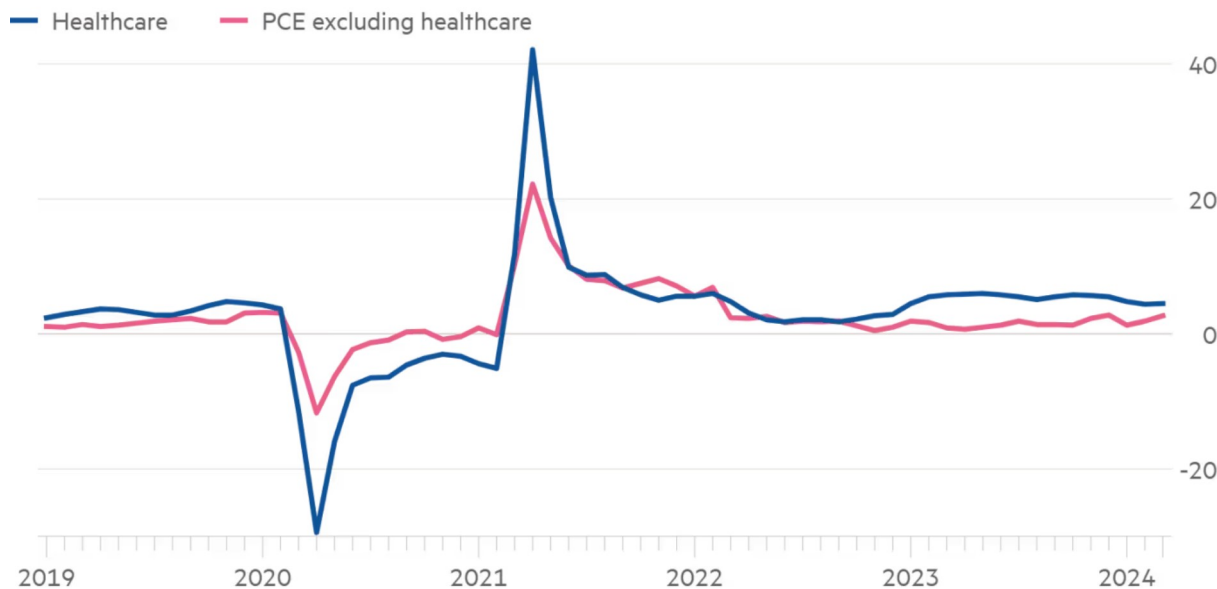


Source: BLS

MainFT was all over this [earlier this month](#). A lot comes down to catch-up treatments that could not take place during the pandemic, it reported. Indeed, real personal consumption expenditures on healthcare outpaced annual growth in other spending categories over the past 18 months.

### Growth in healthcare consumption is outpacing gains in other spending categories

Real personal consumption expenditures (% y/y)



Sources: Capital Economics, Refinitiv

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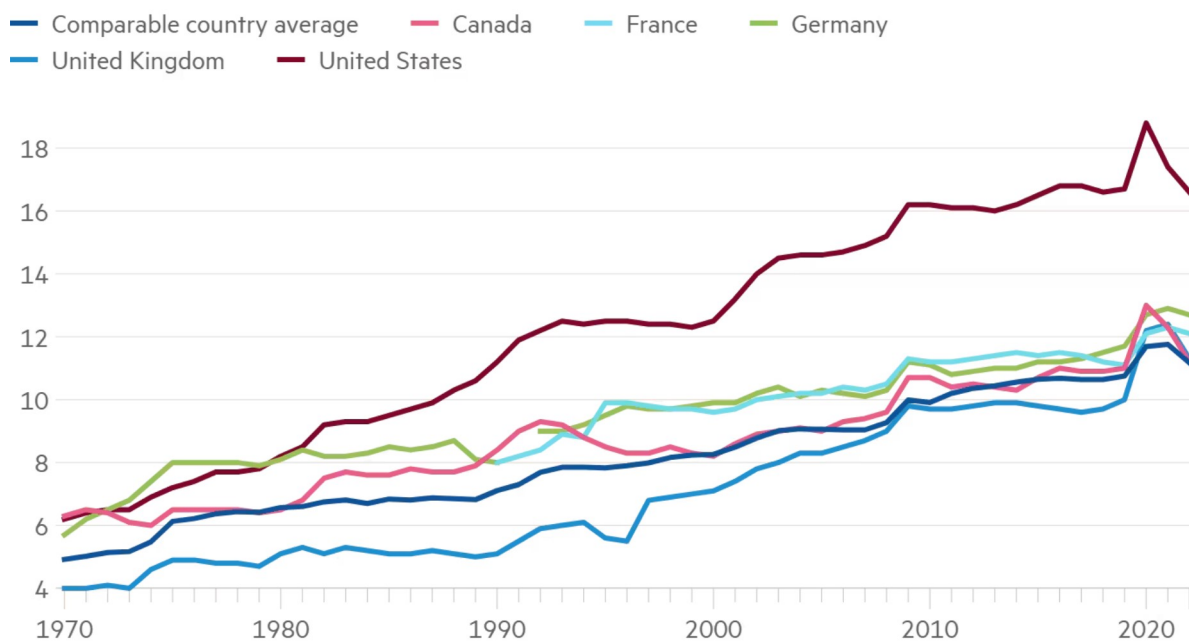
Fine. We should not be too surprised that spending and jobs growth in healthcare are contributing to America’s sturdy economy right now. But is it still possible that the US economy is bumped up by poor health and a bloated healthcare sector? Possibly.

First, some facts. America spends over \$4tn annually on healthcare, or around 17 per cent of its GDP — well above the share in other comparable economies. On a per capita basis, expenditure is almost double the average of peer nations.

On the jobs side, Eric Pachman, chief analytics officer at Bancreek Capital Advisors, has created some [nifty visualisations](#). He finds that healthcare and social assistance jobs have grown four times faster than other nonfarm jobs since 1990.

## America: world-leading in health spending

Percent of gross domestic product



Source: : KFF analysis of OECD data

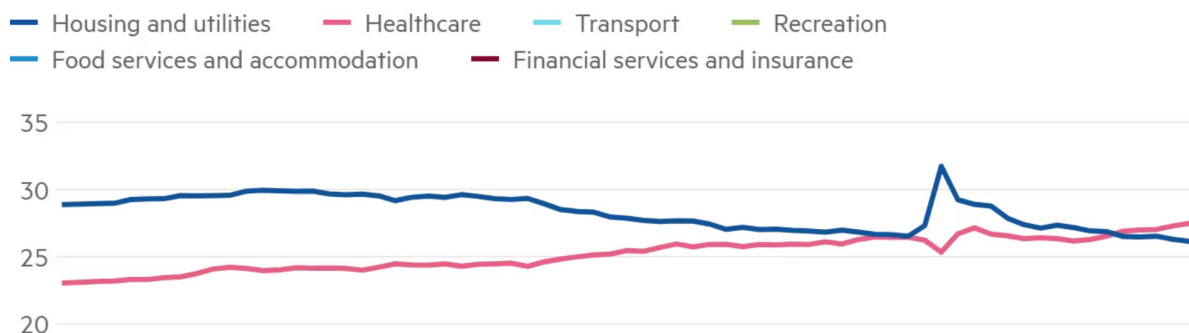
The US is the only major advanced economy that does not have universal health coverage. Provision is private, and paid via insurance. It is generally expensive too. Per capita spending on prescribed medicines is around double that in other developed economies.

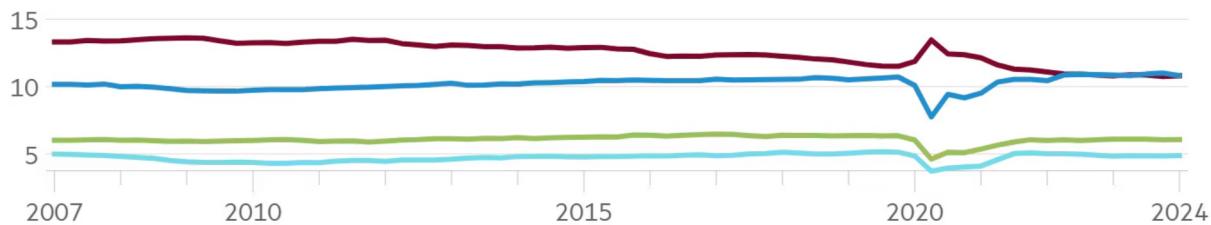
In fact, that “strong” American consumer — and service sector — you are hearing about is largely coming from spending on healthcare services.

The industry is doing handsomely too. The top US industries by revenue are: commercial banking, hospitals, health insurance, and pharmaceutical wholesaling.

## Healthcare is a rising portion of Americans' household services spending

Real Personal Consumption Expenditures, share, per cent





Source: BLS

So what? Well, despite all that spending and earnings, America’s health outcomes [are terrible](#). Its life expectancy is well below the OECD average and its obesity rate is almost double. Compared to other advanced nations, Americans are also more likely to have multiple chronic conditions, and die from a preventable or treatable malady.

One interpretation is that America’s healthcare system generates more jobs and spending — and hence, GDP — in part by being inefficient and ineffective in the first place.

Affordability may have something to do with the poor outcomes. Around 7 per cent of Americans are uninsured. The US has among the lowest rates of physician visits and practising physicians among advanced nations. High costs can act as a disincentive to get check-ups, which can perpetuate illness. (High costs are itself often attributed to administrative waste and a lack of competition.)

Mark Duggan, a health economist at Stanford University, adds that high prices in turn lead to stronger incentives to treat intensively. “There is a “perfect storm” of four factors — higher price, higher quantity, more admin costs, and lower average health status, due to things like obesity” he says. “This drives healthcare spending to be higher here than anywhere else.”

Country	Life expectancy	Health spending, per capita (2022, PPP)
US	77.5	12,555.26
Germany	80.7	8,010.94
UK	80.925	5,492.64
Canada	81.34	6,319.04
Comparable Country Average	82.2	6,651.46

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Of course not all spending goes towards unproductive ends like the perpetual treatment of preventable illness... treatment... For instance, the commission of

treatment or preventable illnesses or overtreatment. For instance, the expansion of the Affordable Care Act and Medicaid, and an ageing population, also contributes to the strength in hiring and spending, and new technology and R&D is costly.

Stephen Brown, deputy chief North America economist at Capital Economics, is more sceptical over the direct link between poor health outcomes and higher US GDP. “You would need a situation where the illnesses were only mild and so did not prevent anyone from working, and where the spending on the additional medicines etc caused lower saving, rather than displacing spending elsewhere,” he said.

But given the high healthcare expenditure per capita, poor health outcomes, and high prices — relative to peers — clearly there is enormous inefficiency. Further research is needed to discern just how much of it could be self-perpetuating. FTAV welcomes any insights and tips.

At the very least one can say that if healthcare was cheaper, spending might be better deployed to other more productive activities.

The upshot? For now, we should perhaps exercise caution before proclaiming an economy is strong until we have assessed precisely where the spending and jobs are coming from — and why.

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