Cite this article as:
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Health Affairs, , no. (2002):

doi: 10.1377/hlthaff.w2.83

The Sad History Of Health Care Cost Containment As Told In One Chart

Managed care is not alone in its failure to solve the health care cost problem.

by Drew E. Altman and Larry Levitt

The problem of rising health care costs is re-emerging as a national issue. Unfortunately, costs are rising as the economy sputters, the federal surplus dwindles, and the nation is focused on the war against terrorism and its ripple effects here at home. It will now be much harder to make much progress on big-ticket health problems such as expanding health coverage for the uninsured and providing drug coverage for seniors.

Many lament what they believe has been a failure of managed care to control health costs. That criticism may or may not be accurate or fair, but it is almost certainly short-sighted. What the analysis of private health spending reported in Exhibit 1 shows is that no approach our nation has tried, over the past thirty-five years, to control health costs has had a lasting impact. When Medicare and Medicaid passed in the mid-1960s, the new public programs took some of the burden of health spending off of the private sector, but only temporarily. By the late 1960s the rate of increase in private health spending per capita shot up. In the early 1970s wage and price controls had a dramatic impact on health care costs. But again, the impact was short-lived, and the rate of increase in private health spending rose dramatically after a few years. When President Jimmy Carter threatened tough cost containment regulation in the late 1970s, the health care industry organized what it called the "Voluntary Effort." The rate of increase in per capita private-sector health spending fell rapidly but then bounced back within a few years. Managed care and the threat of the Clinton health care reform plan appeared to have had a dramatic impact on the rate of increase in private health spending in the mid-1990s, but by the late 1990s it was on the rise again, reaching double-digit rates of increase by 2001.

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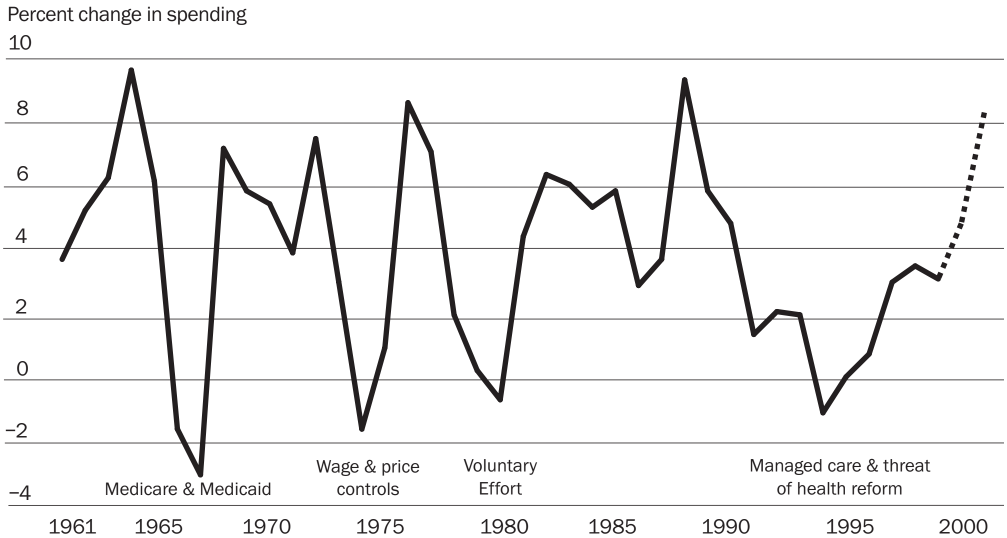
EXHIBIT 1
Annual Change In Private Health Spending Per Capita (Adjusted For Inflation), 1961–2001



SOURCES: Henry J. Kaiser Family Foundation analysis. Private health expenditures per capita, 1960–1999, are from the Centers for Medicare and Medicaid Services (CMS). Change in private spending per capita, 2000–2001, is estimated based on average premium increases for employer-sponsored coverage from the Kaiser/HRET Survey of Employer-Sponsored Health Benefits.
NOTES: Real change in spending is calculated using the Consumer Price Index (CPI-U) all items, average annual change for 1961–2000 and July-to-July change for 2001. This analysis was inspired by an analysis done by Jeff Merrill and Richard Wassermann more than fifteen years ago. See J.C. Merrill and R.J. Wassermann, "Growth in National Expenditures: Additional Analyses," *Health Affairs* (Winter 1985): 91–98.

In sum, neither regulation, voluntary action by the health care industry, nor managed care and market competition have had a lasting impact on our nation's health care costs. Some might argue that we were not serious or comprehensive enough about any one of these approaches for them to have had a lasting impact. On the other hand, it could be argued that the point is academic; we were as serious as public and political support for any one approach would allow.

Some believe that we will not get a handle on health care costs as a nation until we are ready to make tough decisions about rationing medical care. An equally plausible scenario is that the apparent failure of all approaches reflects the American people's uncontainable desire for the latest and best health care, and that what we will do in the future is try small things that will work at the margin, complain a lot, but ultimately pay the bill. Whichever view is right, the historical data, while certainly open to different interpretations, show that managed care is not alone in its failure to solve the health care cost problem. Indeed, history suggests that it may be folly to expect that there are any easy or magic answers to this problem. When it comes to controlling health care costs, reformers should not overpromise.