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Health Spending Hits 17.3 Percent of GDP In Largest Annual Jump

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Despite the most severe economic downturn in 80 years, healthcare spending in the U.S. rose an estimated 5.7 percent to $2.5 trillion in 2009, according to Medicare's actuaries. Even more alarming, the percentage of the GDP spent on healthcare jumped to 17.3 percent from 16.2 percent in 2008-the largest one-year increase since 1960. At the current rate of growth, healthcare costs are predicted to nearly double to $4.5 trillion in 2019. At that point, they will account for 19.3 percent-almost a fifth-of our GDP.

Before delving into the details, I'd like to point out that if, there's one factor (aside from public ignorance) that is preventing healthcare reformers from restraining this cost growth, it is the very size of the healthcare sector. The bigger it grows, and the more people and capital it employs, the harder it is for anybody or any institution to rein it in. It's like "the sorcerer's apprentice," only the sorcerer is nowhere in sight.

Anyway, here are the grim facts: First, largely because of people losing their jobs and ending up on **Medicaid**, government health spending is growing much faster (8.7 percent) than spending by private payers (3 percent). In fact, the researchers project that, if, Congress restores planned **Medicare** reimbursement cuts to doctors, the federal and state governments will be funding the majority of healthcare by next year. And, mind you, that's without the reform legislation that Republicans claim would represent a government takeover of healthcare.

The cost of Medicaid grew an estimated 9.9 percent in 2009, the fastest growth rate since 2002. Even with Federal aid, this represents a huge burden on most states, which are staggering from the impact of big declines in tax receipts. This is one reason why states have resisted the Medicaid expansion that the reform legislation would entail.

Medicare spending is estimated to have increased 8.1 percent in 2009, compared to 8.6 percent in 2008. The decline is attributed to slower growth in prescription drug and hospital costs. But as the baby boomer generation retires, it is anticipated that Medicare spending will continue to grow an average of 7.4 percent annually from 2011 to 2019.

The amount spent on private insurance rose only 3.3 percent in 2009. That may look like a good sign, but it's actually the opposite, because the low rate of increase is attributed to widespread layoffs. With many small firms dropping coverage for the workers they still employ, it is likely that we'll see more workers becoming uninsured or being covered by Medicaid. This was a big issue for Wal Mart a few years ago, before it improved coverage of its low-wage workers.

The increasing reliance on government programs is also a bad sign. State governments are already cutting back on Medicaid, with predictably bad results not only for patients, but also for safety-net providers. When Uncle Sam ends its extra Medicaid subsidies in December, that trend should accelerate. And Medicare's hospital fund is still projected to go bankrupt in 2017. That, of course is a harbinger of even worse things to come: Unless healthcare spending is controlled, it will bankrupt the the whole government.

What will that mean for the healthcare business? If government funds the majority of healthcare, and it is forced to cut back or go bankrupt, hospitals, physicians, and other healthcare providers will be in a world of hurt. It's past time for Congress to move the reform bill on its desk, so we can start to restructure healthcare.

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