A Dog in the Healthcare Fight

By Andrew Biggs

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With alarm, Consumer Reports magazine notes rising healthcare costs:

"Increasing prices and advances in treatment pose new dilemmas for . . . the nation's 143 million"

Dogs and cats that is. Apparently it's not just those of us who walk on two legs who face a healthcare cost crisis, and spending on veterinary medicine may tell us something about rising costs in healthcare for humans.

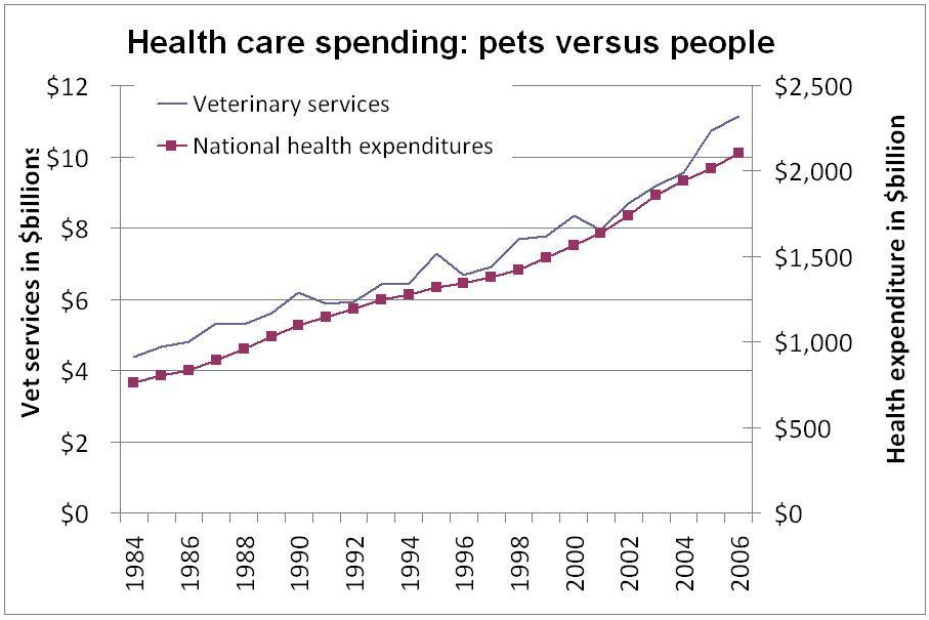
As I noted in a previous post, the Obama administration has pegged healthcare cost growth as the largest threat to the federal budget. David Brooks takes up this argument in the New York Times, urging us to "Whip Inflation Now."

I argued that the U.S. rate of healthcare cost growth hasn't been radically higher than other countries' in recent years and that there are some good reasons we would want to spend more on healthcare. Among these are rising incomes, which make health spending more attractive relative to other goods and services, and new technologies, which give us something to spend those rising incomes on.

The same factors impact healthcare services for our pets. And unlike human healthcare, veterinary care has almost no government provision and very little insurance. In other words, almost all health spending on Fido is paid out of pocket.

And yet we continue to spend more.

The chart below shows spending on veterinary care, which I pulled from the Consumer Expenditure Survey, and national health expenditures (for people) from the National Income and Product Accounts. Two things are interesting here: first, the rate of growth of spending from 1984 to 2006 wasn't all that different—and in both cases, spending grew faster than the rate of economic growth. As new technologies are developed for humans, we adopt them for Bowser and Fifi—because we can afford to and we think it's worth it. I personally took my Alaskan Malamute to a Washington-area practice that was known as the "Mayo Clinic of veterinarians" —and I suspect this *wasn't* because, like the real Mayo Clinic, it keeps costs low.



But second, the *level* of spending was very, very different: we spend hundreds of times more on ourselves than on our pets. The main reason for this is obvious: we value our own lives and those of our families more than we do our pets or other animals. At the same time, however, veterinary care is one of the few areas of health where we are directly confronted with difficult decisions regarding the costs and benefits of additional treatments. As the famed RAND health experiment showed, out-of-pocket costs can significantly affect the level of health spending without changing health outcomes.

This again highlights that the real issue with healthcare may not be the rate of growth but the level of health spending—and the fact that so much of it seems to be wasteful. This distinction is important because it shapes our policy priorities. The level of spending has different causes than the rate of growth of spending, among them our healthcare system's structural incentives to overspend. Rather than attempting merely to temper cost growth, plans that remove incentives for overspending, improve consumer choice, or pay doctors based on quality rather than quantity of service could reduce the overall level of spending