Measuring Productivity for the US Health Sector

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U.S. health care expenditures as a share of gross domestic product (GDP) reached 17.9 percent in 2011. That share will continue to grow significantly, according to recent studies by the Congressional Budget Office. This trend has raised questions about the sources of this growth, whether the spending is worth it, and whether we can afford it.

Data in the National Accounts can help improve our understanding of the sources of cost growth. BEA's accounts currently focus on separately measuring the output of each type of provider (e.g., physicians, hospitals, outpatient facilities, pharmaceutical manufacturers and distributors, etc.). However, both academics and policy makers have advocated for more detailed statistics on health-care expenditures centered around the ultimate goal: disease treatment. Restating the commodity in these terms would provide one relevant information on the sources of cost growth by answering questions like "What medical conditions are driving medical care costs?"

It also represents the first step in addressing questions about the benefits of the spending; as national statistics develop, focusing on spending by disease rather than by service is an essential step for connecting spending with associated health outcomes and improving our understanding of productivity in the health sector.

Changing how one defines the service provided to patients and properly accounting for improvements in health outcomes will almost surely increase measured real GDP growth. That will, in turn, translate into faster measured productivity growth in the economy. Incorporating these changes in to the spending side of the National Accounts is relatively straightforward once one has the new deflator in hand: one simply redefines the good and applies the new deflator.

However, the faster measured real GDP growth must be reflected in the industry accounts as well. Incorporating those changes will require that one take a stand on which industry (or industries) should be credited with the productivity gains currently not shown in the industry accounts.

This paper provides a formal statement of the problem and discusses alternative strategies one might take to ensure that measured real GDP growth as measured in the spending side of the NIPAs equals that measured using the industry accounts.