P resident Biden has promised an economic plan to Build Back Better. After the disaster wrought by the coronavirus disease 2019 (COVID-19) pandemic, that is absolutely necessary. But rebuilding involves more than just repairing the damage from the virus itself. The US economy had glaring weak points before COVID-19, and President Biden will need to address those flaws. Of necessity, this will take the president into the economics of health care.

The 2 central features of an economy are how much income it produces and who receives the income. Even before COVID-19, overall income growth was not particularly rapid. From 2007 to 2019, the 2 most recent business cycle peaks, the growth of inflation-adjusted GDP per person averaged only 1% annually. That is down from 2.2% per year in the 1990s.

An enormous share of this economic growth was taken by health care, about 32% of increased GDP between 2007 and 2019 and an even larger share, 39%, between 2000 and 2007. Put another way, roughly one-third of every additional dollar earned in the economy during the past 2 decades was used to pay for medical care. Families experience this in every way possible. Paychecks are smaller because employers pay for health care and, as a result, defer wage increases. The amount paid out of pocket for insurance premiums and direct medical care rise as well. Governments also spend more on health care, raising taxes or cutting other spending to do so.

In addition, the richest US individuals received the vast bulk of the benefit from the income growth that was not taken by medical care. Income of wealthy individuals has increased, whereas income in the lower and middle income parts of the distribution has stagnated. Adjusted for inflation, the median US household earned less in 2015 than in 2000.

If President Biden wants to improve the economic fortunes of people with low or middle incomes, he will have to address the cost of medical care—and doing so is not easy. For example, some of the increase in medical spending over the past decade reflects more treatment for people with opioid addiction. There is no scenario in which that money should be cut. Another component is related to implementation of electronic medical record systems. That too is valuable. And who doubts that more should be spent for public health during the next few years? In addressing health care spending, there is a need to tread carefully.

**Areas to Save**

There are 3 areas that the Biden administration could focus on for health care savings that could improve health even as they save money. These are administrative expenses, excessively high prices, and overuse of health care services.

**Administrative Expenses**

Administrative expenses command about one-quarter of total health care spending in the US; in other countries, even those with multipayer systems, administrative expenses comprise less than one-eighth of their total health care spending. Advocates of a single-payer system note that their plans would reduce administrative costs. Those who are opposed to single-payer health care need to demonstrate that health care can be made administratively more efficient or the chorus for a single-payer approach will continue to grow.

Few doubt that administration can be standardized and made significantly cheaper. In recent work, I estimated that borrowing common practices from other industries (such as banking and retail) could reduce overall medical spending by 5% to 10%, including in billing, prior authorization, and electronic medical record interoperability.

The second area the Biden administration should look to for curbing spending is the excessively high prices related to health care in the US. The cost of brand-name pharmaceuticals, hospitals, and physicians are all higher than elsewhere. The irony of the high prices paid in the US is that in almost every other industry, bigger purchasers get lower prices than smaller purchasers. Health care is a major exception. Indeed, in the case of pharmaceuticals, US regulations have purposely prevented the government from using its buying power to pay less.

The third area where savings may be found is reducing unnecessary medical care. People in the US receive more care than people do elsewhere, not all of
which is necessary. Opioids are a prominent example. Use of opioids soared in the 1990s and 2000s, much more so than in other countries. Unfortunately, this use was not only unproductive in treating pain, but it led to hundreds of thousands of overdose deaths. Opioids are an extreme example, but study after study show overused care in the US.

Helping the Less Fortunate First

Tackling these issues will take time. No industry as big as health care changes rapidly, but that does not mean that short-term savings are impossible. One concrete step that can be taken in the interim is to link payments for pharmaceuticals with income. The idea is that US residents with low incomes should be charged no more than people in lower-income European countries, and US residents who have middle incomes should be charged no more than people in the richer European countries.

The Medicaid drug rebate program provides a mechanism to do this by guaranteeing a 23.1% discount on brand-name medications or the best market price, if lower. The Medicaid drug rebate could be extended to all people with incomes below the Medicaid eligibility threshold, even those not on Medicaid. Further, the price could be linked to international prices rather than a percentage of average prices in the US. A second tier could be created for people with somewhat higher income, for whom the discount would be smaller. This is one proposal; there are others as well.

The Biden administration is putting all resources possible into the fight against COVID-19, something everyone hopes is successful. But that is not the only health care challenge that the administration will need to tackle. It should devote just as many resources to lowering unnecessary spending on medical care. Doing so is among the most important steps the new administration can take to promote widespread economic prosperity.

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