VIEWPOINT

Health Care Employment Growth and the Future of US Cost Containment

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In 2013, the growth rate in US health care spending of 3.6% was the lowest in 50 years. Health policy experts and the media viewed the "unprecedented" decline as demonstrating that growth in health care costs had finally slowed.[1] However, one number that was not consistent with this popular narrative was employment growth in the health care sector. In 2013, health care jobs continued to increase by 1.4%, slightly below the annual average of 1.9% during the prior 5 years.

As it turned out, health care employment growth was in part a good predictor of future cost growth. Since 2013, health care costs have renewed their relentless growth, increasing from 17.3% of GDP to 18.0% in November 2017, with health care jobs continuing to increase at an annual rate of 2.1%.[2] From December 2007 to December 2017, the health care sector has added 2.8 million jobs, or nearly 1 in every 3 new jobs in the United States.[3]

It is not surprising that employment growth should be a bellwether for rising health care expenditures because salaries and wages account for an average 55% of operating expenses for hospitals, physician offices, and outpatient care,[4] and nearly 70% of hospital expenses.[5]

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The problem is that the United States cannot reduce growth of health care costs without a corresponding moderation in the growth of health care employment.[6] In the health care industry, this association is particularly strong because most hospitals have not-for-profit status. Unlike for-profit industries that will reduce employment and return profits to shareholders, not-for-profit entities cannot return their profits; instead they expand services. For example, a recent study[7] found that hospitals experiencing an unexpected 10% boost in Medicare reimbursement rates added new technology, boosted nursing staff by 16%, and increased their payroll by nearly one-third.

The health care sector is characterized by ever-new technological innovations, but most are labor intensive, cannot be outsourced, and their extra costs can be passed along to third-party payers and consumers, especially when hospitals have market power to raise prices. Unlike retail and manufacturing industries in which technology changes enhance labor productivity, electronic health records (EHRs) have added to the required human workload, whether this involves physicians and nurses spending many more hours entering information into the EHR, hiring scribes to accompany clinicians to enter this information, or paying support staff for EHR infrastructure investments.[4]

The correlation between employment and spending is illustrated in the **Figure**, which uses 2014 state-level data (the most recent available) on health care spending and 2014 health care employment to make the point that jobs and spending move together in this industry.[8] (The exception is Alaska where wages are high.) This is an association and not causation so the reverse could also be true with increased spending associated with more jobs. However, the point remains that efforts to reduce costs are unlikely to be successful without scaling back job growth in health care.

Controlling cost growth was a central motivation behind the Affordable Care Act. A variety of cost-saving strategies are still in place, including accountable care organizations and bundled payments. Others propose restructuring health care delivery by changing where and how patients receive care. Even though all of these strategies are designed to reduce costs, they could have paradoxically added to employment growth. Employees of hospitals and clinics are busy and because they do not have time to effect cost-saving innovations, these organizations often hire new employees to implement the cost-saving innovations. It is certainly possible that the innovations will lead to longer-term reductions in the number of employees by reducing redundancy, increasing care coordination, and improving efficiencies, but there is no evidence to date (at least in the aggregate) to support that possibility. Moreover, these new tasks such as care coordination and population health may improve health outcomes but represent new salary expenses, thus reducing the likelihood that overall spending will decline or plateau.

That the health care sector is an engine of job creation is excellent news for the macroeconomy. Through 2 major recessions, the US health services sector continued to add employees. No other sector has experienced such stable growth rates, and many US households are now supported by good jobs in the health care industry.[9] The challenge of job gains in the health care sector is higher health care costs, job loss in other sectors (eg, teachers are not hired or rehired because school budgets are being eroded by ever-rising health insurance premiums), and stagnant take-home pay for those who manage to keep their jobs. For example, Auerbach and Kellermann[10] found that nearly all of the potential wage gains of US households during 1999 through 2009 were absorbed by higher health insurance premiums and

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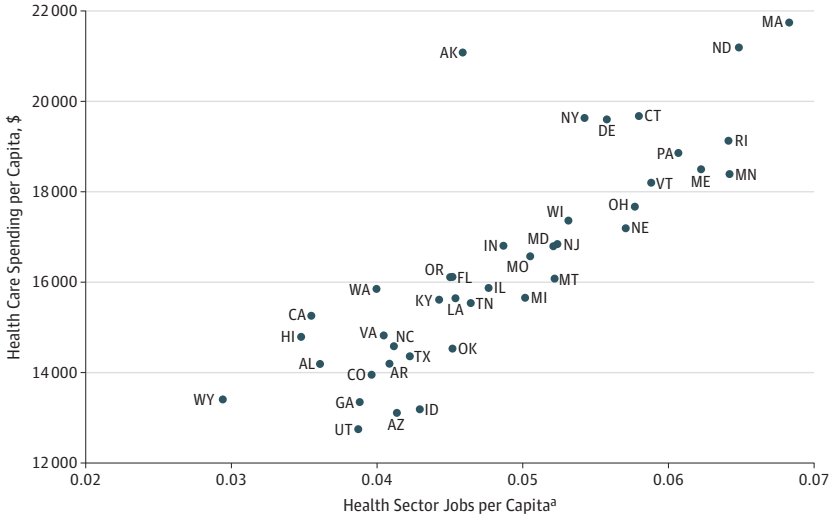
Figure. Health Care Sector Jobs and Spending per Capita by State, 2014



The employment data are from the Bureau of Labor Statistics and the state-level health spending data are from the US Centers for Medicare & Medicaid Services and are based on where the health care worker is located.[8] The states with high spending and employment often benefit from inflows of health care spending from nearby states. Nine states were excluded because they did not report health care jobs separately from social assistance or other types of jobs.

[a] The x-axis is the fraction of health care jobs relative to the state population.

out-of-pocket payments, and the tax hikes necessary to pay for increased Medicare and Medicaid spending. Whether similar financial challenges will occur in the current US health care and economic environments seems possible but is unknown.

Any improved cost control necessarily requires a slowing of the growth that has protected health care workers and sectors from reorganization. One barrier to change is the tendency of politicians and hospital executives to think of health care as a jobs program rather than a means to improving health, forgetting that these health care jobs are paid for by paychecks from other workers. However, even as there was a large shift away from hospitals and into home health in the past, layoffs and restructuring have been largely avoided because overall growth was fast enough to prevent any one sector from contracting in absolute terms.

For systemwide change, the key focus should be the human resources department. This department, at least in most hospitals, has rarely had to lay off employees because health care has been a recession-free industry for several decades. This will eventually change either because of private efforts, government efforts, or both. Short-sighted policies like hiring freezes are unlikely to be successful because they simply keep in place outmoded worker allocations, preventing the hiring of needed workers, and lead to increased strains on existing employees. Another approach to cutting labor costs is to reduce excessive salaries for hospital administrators. While laudable, such cuts will have only a trival effect on the billion-dollar budgets of large hospitals. Instead, the focus should be on restraining overall hiring by right-sizing jobs to employees who can best perform them at the lowest cost or by closing inefficient facilities. Similarly, the urge to expand employment using unexpectedly healthy profit margins should be resisted because it is easier to create new positions than it is to lay off workers in a less sanguine future.

Now that the current US labor market has reawakened after a decade of slumber, there is an opportunity for non–health care sectors of the economy to become the engine of employment growth. It is perhaps not a pleasant future, but surely preferable to one in which the US health care system collapses under the weight of ever-rising employment costs.

ARTICLE INFORMATION

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