Chapter 7: Who Produces Health Services?

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Medical Industry Leadership Institute Open Education Hub

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Chapter 1

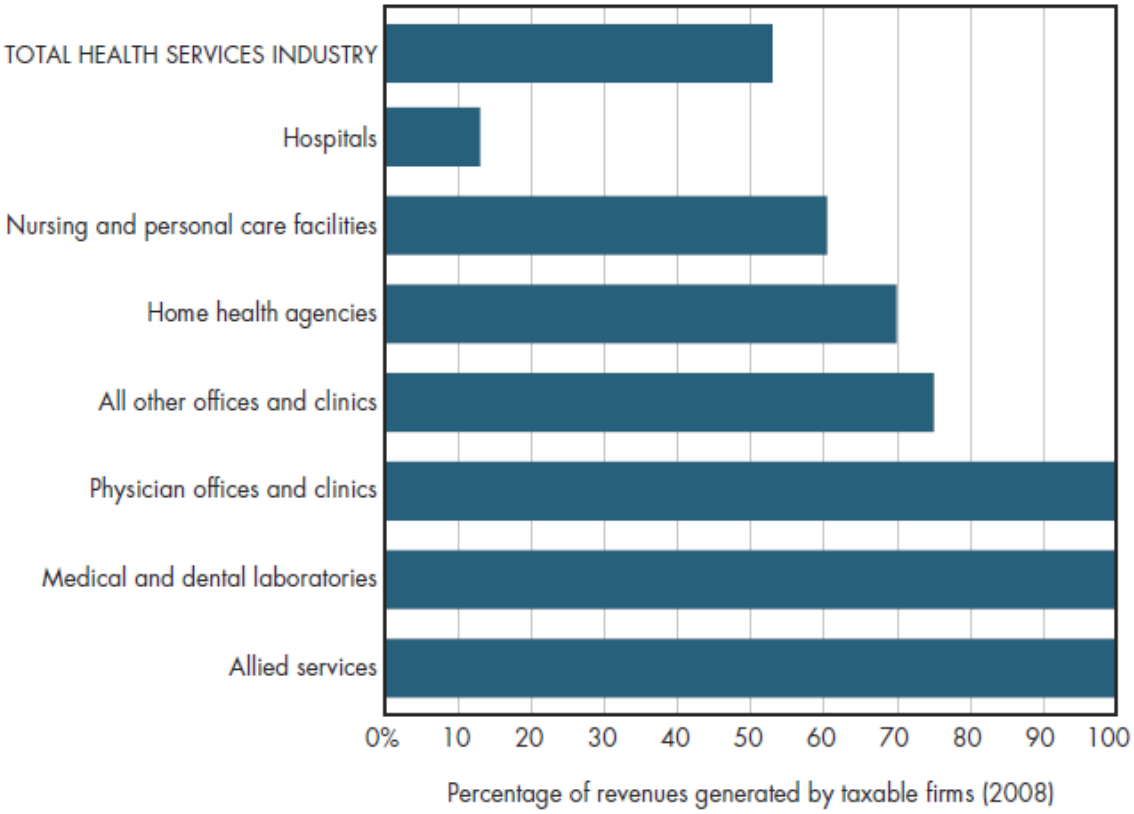
7.1 Non-Profit Organizations or Public Owned Enterprises Provided Larger Share of Health Output[1]

Almost half of all revenues in the health system are generated by tax-exempt organizations, including both those that are publicly owned or are organized as non-profit firms. The share of revenues flowing through such enterprises is far larger in the hospital sector than in any other area of health care delivery. The relative importance of government-owned firms varies by subsector.

On average, 40 percent of nursing home care is provided through tax-exempt firms, but this is a blend of nursing homes — where for-profit firms account for 75 percent of revenues — and various types of residential care facilities for the elderly, along with those requiring care for mental health, mental retardation, or substance abuse. The tax-exempt share among such facilities is approximately 65 percent. Among home health agencies, the tax-exempt share is less than 30 percent (figure 7.1).

[1]This content is available online at <https://hub.mili.csom.umn.edu/content/m10045/1.2/>.

7.1 Public and non-profit owners dominate the hospital sector and provide a large fraction of nursing home and home health care



Note: "Health services" includes ambulatory health care services and hospitals, nursing, and residential care facilities. It does not include pharmaceuticals, medical devices, non-durable medical products, or the health insurance industry.

It has been postulated that non-profit or public enterprises might be attractive in sectors such as health care in which consumer trust is an important factor. Many studies compare the performance of non-profit firms relative to for-profit firms in terms of various measures of efficiency, profitability, access to care, and similar metrics. Although the evidence is mixed, with neither form having a clear advantage, the performance has been sufficiently similar that it has prompted IRS scrutiny of whether tax exemption is warranted for hospitals. Current federal tax rules require hospitals to demonstrate that the dollar value of the community benefits they provide equal or exceed the amount of tax savings resulting from exemption. A far smaller literature compares the relative performance of government-owned firms with either for-profit or non-profit health care organizations.

1.1 Downloads

Download Excel tables used to create figure: Figure 7.1 Table[2] . Figure 7.1 was created from the following table (the workbook includes all supporting tables used to create this table):

- Table 7.1. Share of Total Health Services Industries Revenues Generated by Tax-Exempt Firms, by Industry, 2008

[2]https://hub.mili.csom.umn.edu/content/m10045/latest/7.1TAB.xls

Download PowerPoint versions of figure.

- Figure 7.1 Image Slide (as it appears above)[3]
- Figure 7.1 Editable Slide (can be formatted as desired)[4]

1.2 References

A. Department of Commerce. Bureau of the Census.

[3]https://hub.mili.csom.umn.edu/content/m10045/latest/7.1IMG.ppt
[4]https://hub.mili.csom.umn.edu/content/m10045/latest/7.1DATA.ppt

Chapter 2

7.2 Government-Owned Firms Account for Low Share of Activity[1]

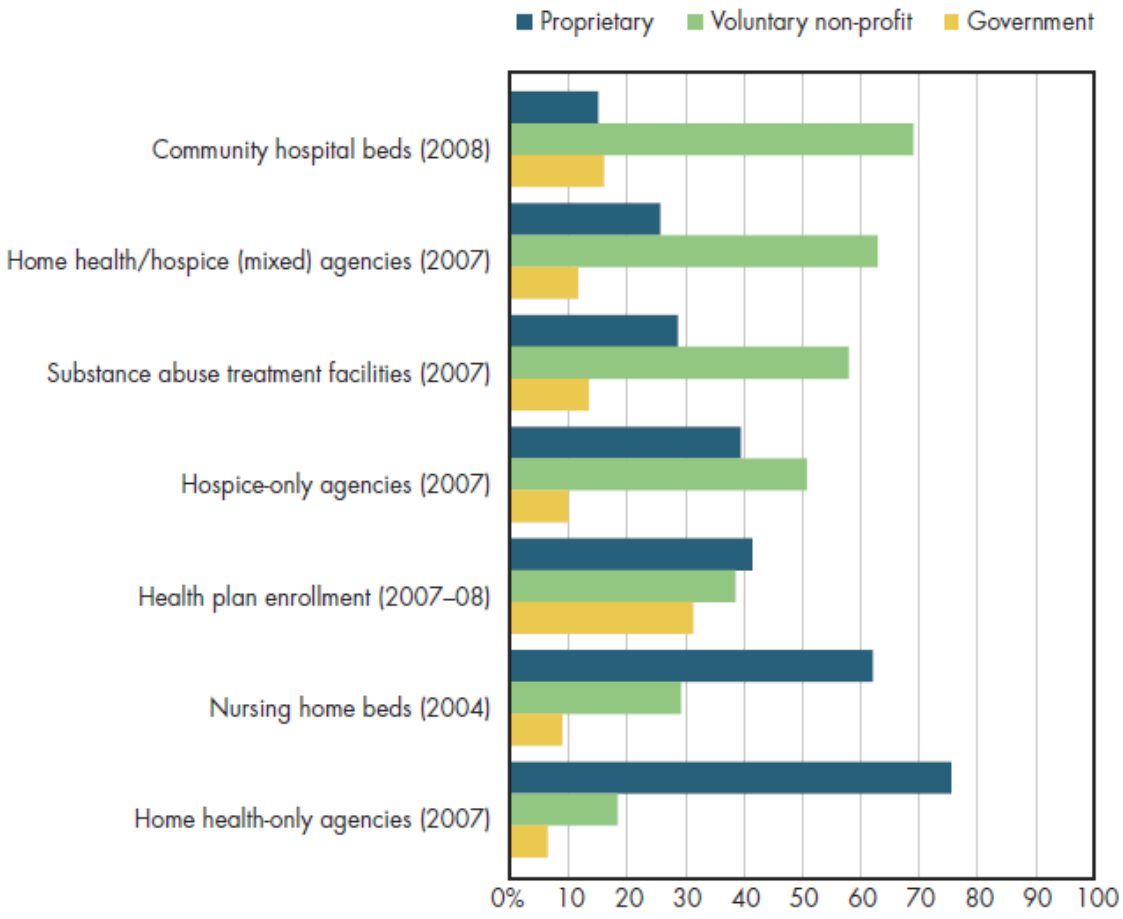
Government's role in the production of health services is far smaller than its role in health care financing. In most subsectors, government-owned firms account for approximately 10 percent of overall activity, the chief exception being the health insurance industry. These observations require several important caveats.

First, there is no standardized way to measure the relative importance of government-owned firms in health care. The previously cited numbers on revenues by ownership permit only a clear division between firms subject to federal taxes and those that are not. To understand the relative importance of government-owned firms compared with non-profit firms requires data on activity that differ by industry. As shown in figure 7.2, the available measures of "activity" range from firms, to beds, to enrollment, none of which is entirely satisfactory.

Second, ownership is not equivalent to management. Many county- or city-owned hospitals, for example, have their day-to-day operations managed by either for-profit or non-profit firms. More than 20 percent of all hospitals, including federal, state, and local (city or county) facilities, are publicly owned. However, this includes military and specialty hospitals (for example, psychiatric, tuberculosis). Among so-called community hospitals, only approximately one in six beds is publicly owned—almost identical to the share owned by for-profit facilities (figure 7.2).

[1]This content is available online at <https://hub.mili.csom.umn.edu/content/m10046/1.2/>.

7.2 Most tax-exempt firms are voluntary non-profit agencies; government accounts for only approximately 10 percent in most subsectors



Note: Medicare, Medicaid, and SCHIP are categorized as government health plans. Percentages for health plan enrollment add to more than 100 percent because of duplicate coverage.

In the health insurance industry, the public sector role is defined in terms of enrollment in public health plans such as Medicare and Medicaid. However, government does not "own" any Medicare plans. All claims processing for those using fee- for-service Medicare is handled by private-sector intermediaries such as Aetna or Blue Cross and Blue Shield. Either many states permit those eligible for Medicaid or SCHIP to enroll in private health plans such as HMOs or they contract out their claims- processing to private insurance companies or third-party administrators. Based on membership, approximately half of the insurance business is handled by non-profit firms such as Blue Cross and Blue Shield plans, Kaiser Permanente, and HIP Health Plan of New York. Non-profit Blue Cross and Blue Shield plans alone cover more than 30 percent of the private health insurance market.

2.1 Downloads

Download Excel tables used to create figure: Figure 7.2 Table[2] . Figure 7.2 was created from the following table (the workbook includes all supporting tables used to create this table):

[2]https://hub.mili.csom.umn.edu/content/m10046/latest/7.2TAB.xls

- Table 7.2. Distribution of Total Health Services Industries Expenditures, by Industry and Ownership Type, 2007

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- Figure 7.2 Image Slide (as it appears above)[3]
- Figure 7.2 Editable Slide (can be formatted as desired)[4]

2.2 References

A. Department of Commerce. Bureau of the Census.

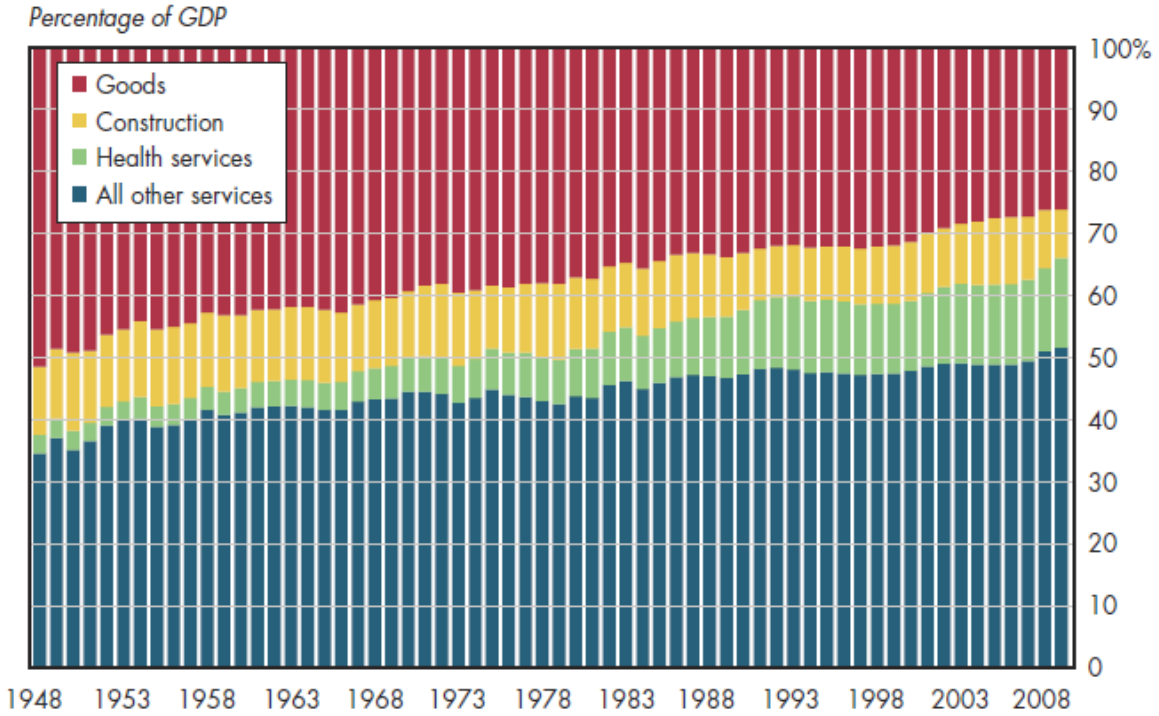
[3]https://hub.mili.csom.umn.edu/content/m10046/latest/7.2IMG.ppt
[4]https://hub.mili.csom.umn.edu/content/m10046/latest/7.2DATA.ppt

Chapter 3

7.3 Health Industry Has Produced Large and Growing Amount of Output[1]

Since 1948, more than 40 percent of the growth in the services share of the economy can be attributed to the rapid growth in health services (figure 7.3a). America has become a service economy, with an expanding health sector an important driver of that trend. Some components of personal health care are counted as goods (pharmaceuticals, non-durable medical products, and durable medical equipment) and other components of national health spending fall under construction. The rest is labeled health services in figure 7.3a.

7.3a Since 1948, rapid growth in the health sector has been a major factor in the increasing share of total national output purchased for services



Final demands take into account personal consumption by households, government purchases, and private

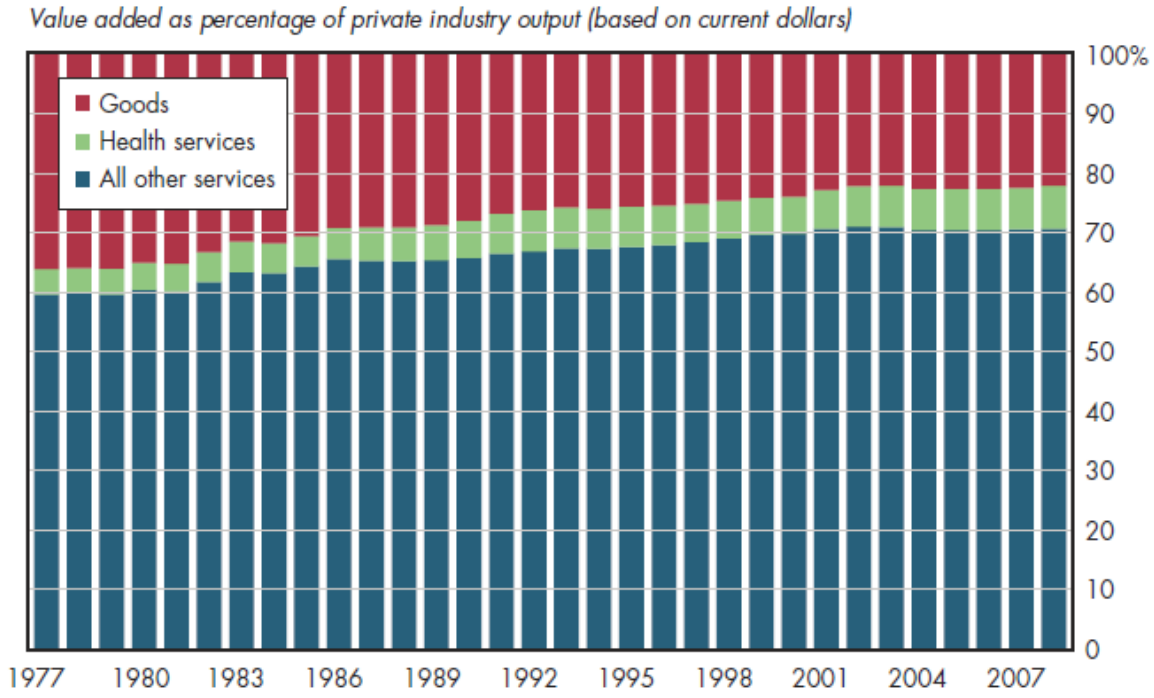
[1]This content is available online at <https://hub.mili.csom.umn.edu/content/m10047/1.1/>.

and public investments. From 1948 to 2009, all services excluding health grew from just over 30 percent of the economy to more than 50 percent. Thus, the shift to services would have happened — albeit less rapidly — even had health services remained at its 1948 level of 3 percent of GDP. Services now constitute almost 65 percent of final purchases, but an ever-increasing share of that is accounted for by health care. Currently, that share is more than 20 percent of all services, compared with only 6 percent in 1929.

Another way to decompose total output (GDP) is in terms of the industries that produce it. The consumer who purchases health care — a final demand — might rely on the output of many other industries such as transportation, real estate, finance, and manufacturing. Value added is simply an industry's gross output minus all the resources produced by other industries that were used to create it. In this view, the share of output attributable to goods equals the value added from the industries that supply the goods. These include agriculture, forestry and fisheries, mining, construction, and manufacturing. In this alternative way of breaking down output, all other industries are classified as services.

Unfortunately, detailed value-added data are available only for private output, so the scenario is incomplete. Services overall account for almost 80 percent of private business output (figure 7.3b). The health services contribution is much more modest and growing much less rapidly from this producer view (i.e., "supply-side" view) than the demand-side perspective described previously.

7.3b As a producing industry, the value added by health services has grown more rapidly than for goods or non-health services



3.1 Downloads

Download Excel workbooks used to create Figure 7.3a Table[2] and Figure 7.3b Table[3] . [Note that you'd have separate links for each set of tables] Figures 7.3a and 7.3b were created from the following tables (the workbook includes all supporting tables used to create these tables):

- Fig. 7.3a: Table 7.3.1. Gross Domestic Product by Major Type of Product, 1929-2009

[2]https://hub.mili.csom.umn.edu/content/m10047/latest/7.3aTAB.xls
[3]https://hub.mili.csom.umn.edu/content/m10047/latest/7.3bTAB.xls

- Fig. 7.3b: Table 7.3.2. Private Industries Value-Added for Selected Goods and Services, 1977-2012

Download PowerPoint versions of both figures.

- Figure 7.3a Image Slide (as it appears above)[4]
- Figure 7.3a Editable Slide (can be formatted as desired)[5]
- Figure 7.3b Image Slide (as it appears above)[6]
- Figure 7.3b Editable Slide (can be formatted as desired)[7]

3.2 References

A. Department of Commerce. Bureau of Economic Analysis.

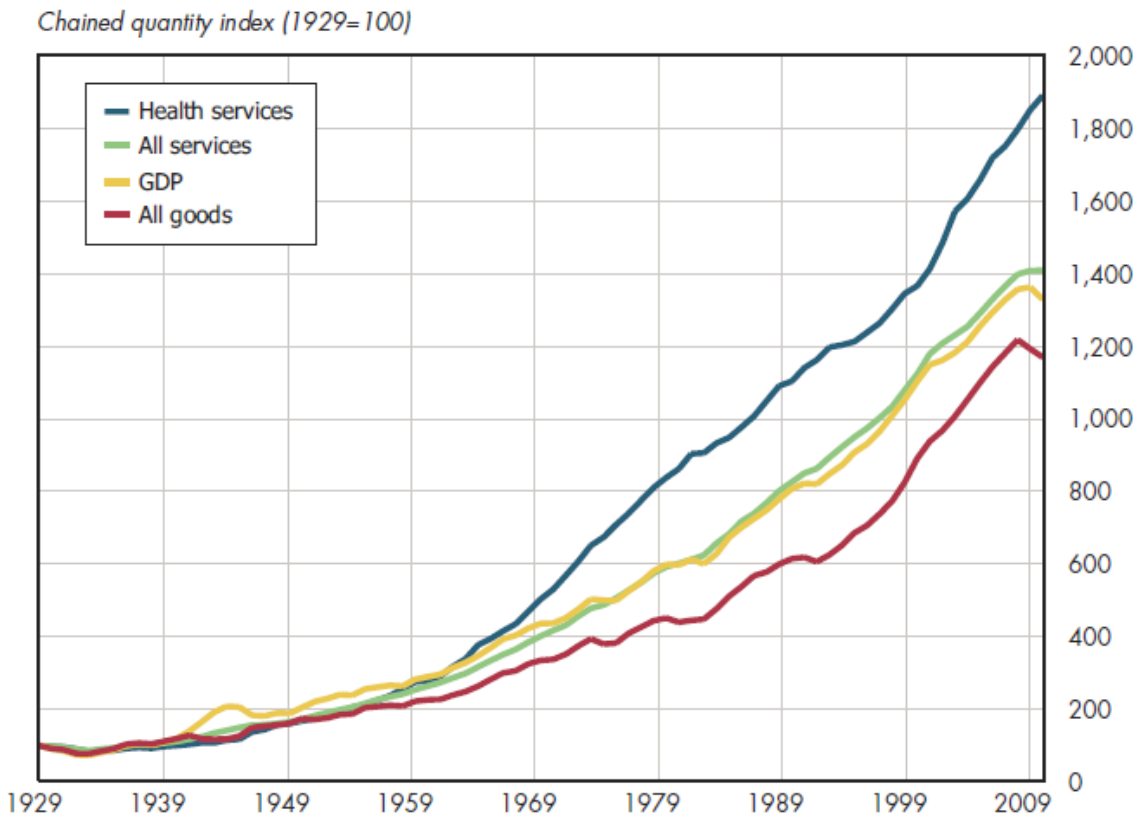
[4]https://hub.mili.csom.umn.edu/content/m10047/latest/7.3aIMG.ppt
[5]https://hub.mili.csom.umn.edu/content/m10047/latest/7.3aDATA.ppt
[6]https://hub.mili.csom.umn.edu/content/m10047/latest/7.3bIMG.ppt
[7]https://hub.mili.csom.umn.edu/content/m10047/latest/7.3bDATA.ppt

Chapter 4

7.4 Health Services Output, 1929-2009[1]

Overall output for health services has increased 19-fold since 1929. In contrast, GDP rose only 13-fold. The numbers shown in figure 7.4 remove the effects of inflation and are intended to measure the net increase in quantity of goods and services produced relative to the base year. As with the numbers for workers' compensation, these estimates exclude some important components of health sector output, including pharmaceuticals, medical devices, non-durable medical products, and output for government-run enterprises such as publicly owned hospitals.

7.4 Output in the health sector has increased much more rapidly than in goods-producing industries, the service sector or the GDP



[1]This content is available online at <https://hub.mili.csom.umn.edu/content/m10048/1.2/>.

Until the early 1960s, the rate of increase in health sector output did not diverge substantially from growth in economy-wide output (that is, GDP). The introduction of Medicare and Medicaid substantially expanded the number of individuals who have health insurance coverage, producing a surge in added demand for health services. With the exception of a brief period in the mid- to late-1990s, health services output almost invariably has grown faster than real GDP. In contrast, the real quantity of all services (inclusive of health services) rose almost in lockstep with GDP, while output in goods-producing industries lagged behind GDP growth. This might seem inconsistent with the previous data that America has increasingly become a service economy. The numbers shown in figure 7.4 isolate the quantity of output from the cost of providing it. It is possible to infer from the difference that prices in the service sector (including health) have increased much more rapidly than in the economy overall.

It is noteworthy that although GDP and output in goods-producing industries declined during the most recent recession (and real output in the service sector remained flat), health care output continued to rise. While past recessions have tended to slow the rate of growth in real health output, they rarely have resulted in an actual downturn. This is discussed further in chapter 16.

Even under the most ambitious versions of health reform, long-term trends in health spending are likely to absorb a growing share of GDP (chapter 20). Thus, the divergence in growth rates between health care and the rest of the economy is extremely likely to grow larger, certainly within the next decade or two.

4.1 Downloads

Download Excel tables used to create figure: Figure 7.4 Table[2] . Figure 7.4 was created from the following table (the workbook includes all supporting tables used to create this table):

- Table 7.4. Changes in Production of Health Care, Goods, Services, and GDP

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- Figure 7.4 Editable Slide (can be formatted as desired)[4]

4.2 References

A. Department of Commerce. Bureau of Economic Analysis.

[2]https://hub.mili.csom.umn.edu/content/m10048/latest/7.4TAB.xls
[3]https://hub.mili.csom.umn.edu/content/m10048/latest/7.4IMG.ppt
[4]https://hub.mili.csom.umn.edu/content/m10048/latest/7.4DATA.ppt

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