

8.4 CORPORATE PROFITS HAVE REACHED PEAK SHARE OF HEALTH SERVICES INCOME*

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Abstract

Corporate profits before and after taxes have now reached their highest share of health services income in the past 50 years.

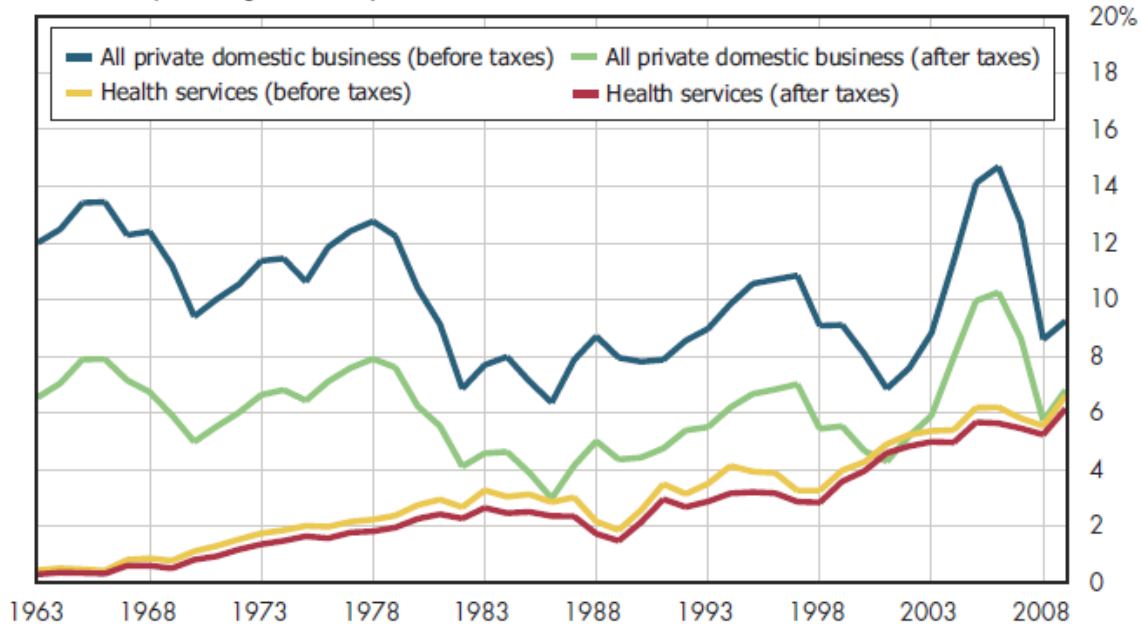
After-tax corporate profits for health services now exceed \$58 billion. This is a large number in absolute terms but accounts for only 6.1 percent of health services-related national income. The share of such income accounted for by profits has grown considerably since 1963, when both pre-tax and after-tax profits were less than 0.5 percent of health care's national income (figure 8.4a).

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8.4a Health services profits have increased substantially since the advent of Medicare and Medicaid but still are below average

Profits as a percentage of industry's own national income



These numbers reflect the growing share of health services provided by for-profit organizations and the declining share of health-related national income accounted for by proprietors' and rental income. These numbers do not include profits in pharmaceuticals or medical devices, or they assuredly would be higher.

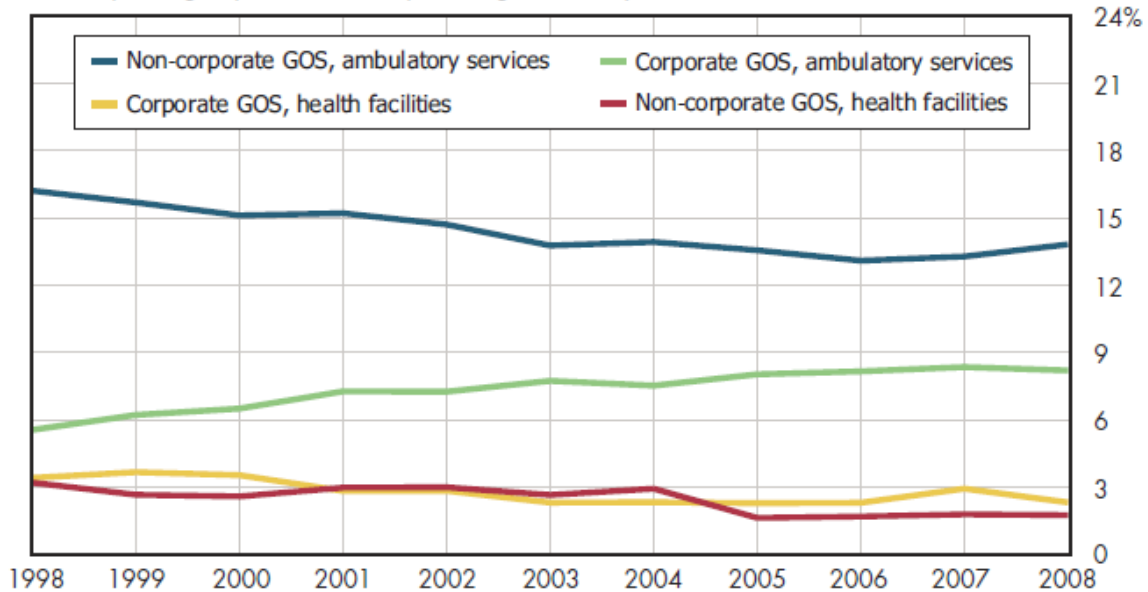
Corporate profits in most of the rest of the economy tend to be highly sensitive to changing business conditions. Little evidence of parallel fluctuations in health services profits exists. The decline in profits starting in 1983, for example, occurred after the deep recession of 1981-1982 had ended. It can be attributed to the introduction of the Medicare PPS for hospitals, which limited payments to a fixed amount that varied by diagnosis. In contrast to the earlier cost-based reimbursement system, PPS forced hospitals to economize by limiting lengths of stay and reducing the intensity of care per admission.

Likewise, much of the downturn in profits starting in 1997 is likely caused by the Balanced Budget Act of 1997 (BBA97), which included the largest cuts in Medicare's history. BBA97 included payment cuts for hospitals and home health agencies that sharply crimped their profitability. In late 1999, Congress passed legislation to ameliorate some of BBA97's harshest fiscal consequences. As expected, profitability again started to increase. Nevertheless, the most recent decline in profitability started in 2006, long before the most recent recession started.

Although parallel profitability numbers are lacking at a more fine-grained level, approximate measures such as gross operating surpluses suggest that profits are higher in the ambulatory health sector than in health facilities (figure 8.4b). In ambulatory care, corporate profits appear to be increasing in importance.

8.4b Gross operating surpluses—an extreme approximate measure of profitability—are higher in ambulatory care than in health facilities

Gross operating surplus (GOS) as a percentage of industry's own national income



Note: GOS is the share of industry's national income remaining after deducting compensation for employees and indirect business taxes (for example, privilege licenses). GOS is somewhat more than pre-tax corporate profits because it includes net interest payments and adjustments for capital consumption and inventory valuation.

1 Downloads

Download Excel workbooks used to create Figure 8.4a Table¹ and Figure 8.4b Table². [Note that you'd have separate links for each set of tables] Figures 8.4a and 8.4b were created from the following tables (the workbook includes all supporting tables used to create these tables):

- Fig. 8.4a: Table 8.4.1. Corporate Profits Before and After Taxes as Percentages of National Income Related to Health Care, 1963-2008
- Fig. 8.4b: Table 8.4.2. Gross Operating Surplus as a Percentage of National Income for Ambulatory Health Services and Hospitals and Nursing Facilities, 1998-2008

Download PowerPoint versions of both figures.

- Figure 8.4a Image Slide (as it appears above)³
- Figure 8.4a Editable Slide (can be formatted as desired)⁴
- Figure 8.4b Image Slide (as it appears above)⁵
- Figure 8.4b Editable Slide (can be formatted as desired)⁶

¹<http://https://hub.mili.csom.umn.edu/content/m10112/latest/8.4aTAB.xls>

²<http://https://hub.mili.csom.umn.edu/content/m10112/latest/8.4bTAB.xls>

³<http://https://hub.mili.csom.umn.edu/content/m10112/latest/8.4aIMG.ppt>

⁴<http://https://hub.mili.csom.umn.edu/content/m10112/latest/8.4aDATA.ppt>

⁵<http://https://hub.mili.csom.umn.edu/content/m10112/latest/8.4bIMG.ppt>

⁶<http://https://hub.mili.csom.umn.edu/content/m10112/latest/8.4bDATA.ppt>

2 References

- A. Department of Commerce. Bureau of Economic Analysis.