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the most desirable alternative that they can afford. They 
look for the best deal on the latest high tech devices, 
medical procedures, and wonder drugs, they ask, when we 
could be using that money to make the economy more 
productive and competitive?

The reason, according to two economists, is that we 
are getting something for all of the money we’re spending on 
health care. As Americans have become wealthier overall, 
we have chosen to devote more of our resources to leading 
longer, healthier lives. In essence, we’re buying ourselves 
more time.

In their recently published paper, Robert Hall of Stanford 
University and Charles Jones of the University of California 
at Berkeley build upon a large body of work on the value of 
life and the willingness to pay to 
avoid death. They note that several 

studies have shown that increases 
in longevity have been roughly as 
important to welfare as increases in 
consumption for things unrelat-
ed to health care. One study used a 
model in which health investments 
reduced the “depreciation rate” of 
the knowledge capital acquired 
through schooling.

Hall and Jones developed their 

own model to describe how the 
nation divides its resources between health and nonhealth 
spending to maximize social welfare. Using mortality rate and 
health expenditure data, the model projects that health 
care services will account for roughly one-third of the United 
States’ gross domestic product by the middle of the 21st century. That would be double the share of GDP 
in the United States might result in overuse of expensive new 
technologies do not need to be used just because they are 
invented,” the economists wrote in their paper published in 
the Quarterly Journal of Economics. 

This brings up another problem for higher health care 
costs — the third-party payer system, which puts govern-
ment and employer-funded health insurance between those 
who buy medical services and those who sell them. Most 
economists would agree that the system interferes with the 
usual interaction between the price of goods and the amount 
of goods demanded.

Hall and Jones focused on investigating what the optimal 
level of health care spending should be, regardless of what 
type of payer system is in place. Their conclusion is that 
deeper economic forces are at work to drive up health care 
spending globally. “Although distortions in health insurance 
in the United States might result in overuse of expensive new 
technologies, health shares of GDP have risen in virtually 
every advanced country in the world, despite wide variation 
in systems for allocating health care.”