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Who Bears the Burden of Rising Health Care Spending in the US? Evidence from Hospital Mergers

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PRELIMINARY DRAFT — DO NOT CITE OR CIRCULATE

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Abstract

We analyze how increases in health care spending on the privately insured in the US impact labor market outcomes. We use price increases caused by horizontal hospital mergers as an instrument for local health care spending, and trace the incidence of rising health spending through the labor market using the universe of individual and business tax filings from the IRS. We find that a 10% increase in health care spending (roughly $500 per person) lowers income by 2.7%, increases the unemployment rate by 0.7 percentage points, and lowers federal income tax receipts by 2.8%. These effects are driven by a worsening of labor market outcomes in non-health-care industries. Our results imply that workers shoulder the majority of additional health spending. The job losses we observe are concentrated among individuals in the bottom third of the income distribution. We find that the same increase in health care spending leads to 3.8 additional deaths from overdoses and suicides per 100,000 individuals each year, which implies that individuals who lose their jobs die at a rate of approximately 1 in 200.

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