



National Economic Trends



Medical Care Price Increases: A Long-Running Story

The rate of increase in medical care prices is presently nearly double the rate of increase in the general level of prices. An understanding of the importance of these price increases for the typical consumer and the underlying trend in this industry is crucial for coherent policymaking. Two aspects of inflation measurement are important in this regard.

First, the consumer price index (CPI) is composed of seven major components, each weighted according to its importance in the consumer's "basket" of goods and services purchased. Of these seven components, the weight attributed to medical care is 6.7 percent. This makes it the fourth most important component, though it is significantly less important than housing (41.5), food and beverages (17.6) and transportation (17.0).

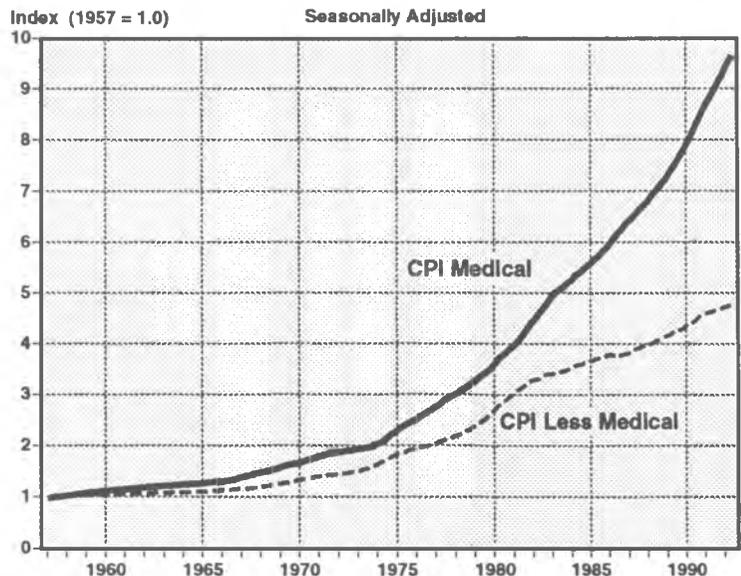
A second aspect, often overlooked, is that the rate of increase of medical care prices has historically exceeded the broad inflation rate and is not just a recent development. For example, from 1957 to 1968, consumer prices less medical care increased at an annual rate of 2 percent, while medical care prices rose at a 4 percent rate (see figure). This was followed by a 7.2 percent rate of increase in consumer prices less medical care and an 8.4 percent rate of increase for medical care prices over the period 1968 to 1983. For the whole period,

from January 1957 to June 1992, the CPI less medical care has increased at a 4.6 percent rate, while medical care prices have risen at a 6.7 percent rate.

Given the relative stability of overall consumer prices recently, the relative weight of medical care in the basket of consumer prices, and the historical trend for medical care prices to increase faster than the general inflation rate, it is arguable whether rising costs in the health care sector are of great concern. A higher rate of increase of medical care prices may simply represent the effects of a resource allocation by consumers who demand a high standard of medical care.

—Kevin L. Kliesen

CPI for Medical Care and CPI Less Medical Care



Views expressed do not necessarily reflect official positions of the Federal Reserve System.