

The Hidden Cost to American Industry

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A NEWS SERIES ABOUT HOW WE GOT HERE - AND HOW WE MIGHT FIX IT

ARTICLE 8

The Hidden Cost to American Industry

Healthcare is not only a medical expense. When employers finance coverage, healthcare becomes part of the economic cost of employing American workers.

Imagine two factories selling similar products in the same world market. Both must buy machinery, energy and raw materials. Both must pay skilled workers. Both must invest in technology and quality. But the way each country finances healthcare can place those costs in very different places.

That does not mean foreign manufacturers receive healthcare for free. Their workers and societies pay for healthcare through taxes, social-insurance contributions, premiums and other arrangements.

The important economic question is not whether healthcare is paid for.

It is where the cost appears - and who carries it.

In the United States, employers have long played a major role in financing health insurance for workers and their families. That means healthcare is not confined to the hospital budget. It reaches the payroll department, the bargaining table, the worker's paycheck and potentially the cost structure of American business.

The Price Attached to a Job

Employer-sponsored health insurance is often discussed as though it were separate from wages. Economically, both are forms of employee compensation.

In 2025, KFF's national employer survey found that the average annual premium for employer-sponsored coverage was \$9,325 for a single worker and \$26,993 for family coverage.

Workers paid an average of \$1,440 toward single coverage and \$6,850 toward family coverage. Employers financed the remaining premium on average.

For family coverage, that means the employer portion averaged roughly \$20,000 a year before considering other possible health-benefit expenses.

The employer is not buying the employee's surgery or becoming the customer receiving medical treatment. As Article 3 explained, the employer is financing coverage.

But financing coverage still costs money.

To a business, health benefits are part of the total cost of employing people even though the

employer is not the patient.

Who Really Pays the Employer Contribution?

Calling part of a premium the “employer contribution” can also hide an economic reality.

The check may come from the employer, but businesses must ultimately finance compensation from revenue, productivity and the value created by their workforce.

Economists therefore generally analyze employer-paid benefits as part of total compensation rather than as money appearing from nowhere.

Over time, higher benefit costs can interact with wages, hiring, prices, profits and investment. The precise effect varies by employer, labor market and industry.

This is why the healthcare debate cannot be limited to the question, “How much does the patient pay at the doctor's office?”

A worker may pay part of healthcare through a premium deduction, another part through deductibles and copayments, and another part indirectly through the compensation package offered by an employer.

A Factory Competes With More Than Another Factory

Manufacturing competitiveness is complicated.

American factories compete on productivity, automation, worker skill, energy costs, transportation, taxes, regulation, financing costs, exchange rates, supply chains, product quality, intellectual property and many other factors.

Healthcare should not be blamed for every factory closure, trade deficit or movement of production overseas.

But healthcare belongs on the list of costs worth examining because the United States devotes an unusually large share of its economy to medical care.

As Article 7 showed, OECD comparative data put U.S. healthcare spending at roughly 17 percent of gross domestic product in 2024, far above the OECD average.

When one sector absorbs a very large share of national resources, the effects do not remain inside that sector.

Money spent in one place cannot simultaneously be spent somewhere else.

The Opportunity Cost of Healthcare

Economists call that tradeoff opportunity cost.

Consider an employer facing another large increase in health-benefit costs. The company might absorb the increase. It might raise prices. It might negotiate harder over wages. It might redesign benefits. It might reduce hiring. It might accept lower profits. It might postpone an investment.

Different companies will make different choices.

At the national level, however, the underlying question remains: what else could resources devoted to unusually expensive healthcare have supported?

- Higher wages or other employee compensation.
- New machinery, automation and factory modernization.
- Research, product development and innovation.
- Expansion of domestic production.
- Lower consumer prices or stronger business margins.
- Household saving and spending outside healthcare.
- Public investment or lower pressure on government budgets.

This does not mean healthcare spending is wasted. Healthcare employs millions of people, saves lives, reduces suffering and creates valuable technologies.

The issue is value: how much health and security does the country receive for the resources it commits?

International Competition Changes the Question

Article 7 showed that other democracies finance universal or near-universal healthcare in different ways.

Some rely more heavily on taxation. Some use social-insurance contributions. Some use regulated private insurers. Most use mixtures.

Those systems still impose real economic costs on businesses, workers and taxpayers. A payroll contribution or business tax can affect competitiveness just as an insurance premium can.

So it would be inaccurate to say that foreign manufacturers simply have no healthcare costs.

The better comparison asks four questions:

- How much does the country spend on healthcare overall?
- How much of that cost is connected directly to employment?
- How predictable is the cost for employers and workers?
- What health outcomes and access does the country receive for the money?

Only after answering those questions can we fairly judge whether healthcare financing gives one country's manufacturers an advantage over another's.

Healthcare Can Affect Trade Without Appearing on a Shipping Invoice

When an American manufacturer exports a product, the invoice does not contain a line labeled "employee healthcare."

That does not mean healthcare is economically absent.

Labor compensation, including benefits, is one component of production cost. Production costs influence the prices companies can charge, the investments they can afford and the locations in which production is economically attractive.

Healthcare costs can therefore affect international competitiveness indirectly.

But the direction and size of that effect must be measured rather than assumed. A country with public healthcare may finance it through taxes that also affect employers. A highly productive American factory may overcome higher benefit costs through automation or worker productivity.

This series is not arguing that healthcare alone determines trade.

It is arguing that a country spending far more on healthcare than its competitors should ask whether it is receiving enough additional value to justify the economic burden.

The Cost Reaches Government and Families Too

Employers are only one channel.

Federal and state governments finance Medicare, Medicaid, veterans' care, public employees' benefits, tax preferences and other health-related commitments.

Households pay premiums, payroll taxes, deductibles, copayments, coinsurance and uncovered medical expenses.

Healthcare costs can therefore reach the same family from several directions: as workers, taxpayers, consumers and patients.

This is why America's healthcare problem cannot be solved merely by shifting a bill from one payer to another.

If an employer stops paying a premium but an equivalent cost simply reappears as a tax with no reduction in total national healthcare spending, the country has changed the financing mechanism but has not necessarily made healthcare more efficient.

A successful reform must therefore address both coverage and cost.

Could Healthcare Reform Strengthen Capitalism?

This brings the series to a conclusion that may initially sound contradictory.

Moving essential healthcare toward a broader social guarantee does not necessarily require weakening capitalism.

It could be argued that separating basic healthcare security from individual employers might allow businesses to concentrate more directly on what competitive businesses do best: design, manufacture, innovate, invest, hire and compete.

Whether that would actually reduce total costs depends entirely on how the replacement system is designed. Taxes would still finance care. Doctors and hospitals would still have to be paid. Waste and fraud would still need to be controlled. Government itself would require accountability.

But the question is worth asking.

Why should a manufacturer need expertise in purchasing health insurance in order to build a competitive machine, appliance, vehicle or electronic product?

Why should a worker's access to essential healthcare depend so heavily upon which employer happens to issue the paycheck?

And if other democratic capitalist nations have found different ways to separate healthcare security from individual employment, what parts of those approaches might help American industry compete?

Protect the Market by Knowing Where Markets Work

The first article in this series began with inelastic demand.

A frightened patient cannot always behave like an ordinary consumer. A manufacturer, however, operates in a world where competition can be extraordinarily productive.

That distinction may be the key to the entire series.

Instead of asking whether America should become capitalist or socialist, perhaps we should ask where each economic tool works best.

Competitive capitalism can remain the engine for manufacturing, technology, agriculture, construction, transportation and innovation.

At the same time, society can consider whether essential healthcare should be financed in a way that protects the patient from fear-based bargaining and protects employers from carrying responsibilities unrelated to the products they are trying to make.

Healthcare reform, viewed this way, is not necessarily a retreat from capitalism. It may become part of a strategy for protecting it.

Sources Behind the Numbers

The employer-premium figures in this article come from KFF's 2025 Employer Health Benefits Survey, based on interviews with private and non-federal public employers. The international spending comparison follows OECD Health at a Glance 2025 data. These figures should be updated when the series is prepared for final publication so readers receive the most current comparable information.

NEXT IN THE SERIES

Social-Capitalism: Protecting Healthcare, Capitalism and Democracy - The final article brings the pieces together. Can America guarantee essential healthcare without government owning the entire medical system? Can physicians remain independent? Can private companies continue to innovate? And can changing healthcare financing actually strengthen manufacturing, competition and democracy?

Editor's note: Healthcare is one of many factors affecting wages, manufacturing costs and international competitiveness. This article does not claim that healthcare alone determines trade performance or business location decisions.

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