

Opinion **Healthcare costs**

Healthcare is driving America's economy

This is a huge industry — and that's not necessarily a good thing

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When we think about what's driving the US economy, we tend to think about AI, technology and all things digital. But in fact the biggest driver of US growth is healthcare. Investors should take note of what this says about America's future.

In last month's job report, healthcare accounted for a whopping 43 per cent of all new jobs added. The sector was a steady driver of growth over the previous year as well, and the Bureau of Labor Statistics says that it will continue to be so in the future. In fact, its 2024 to 2034 projections show that healthcare and the social assistance sector (which includes things that overlap with healthcare, such as vocational assistance and food support, as well as other things like housing aid and childcare) will be the fastest growing sector over the next decade, with an 8.4 per cent predicted job gain.

If the BLS is right, healthcare and social services will add many millions of new jobs to the economy. That's good. But the reasons for the gains aren't so reassuring. As the bureau puts it, "growth in this sector is expected to be primarily driven by both the ageing population and the growing prevalence of chronic conditions such as heart disease, cancer, and diabetes". In short, America is older and less healthy than ever before, and the costs associated with this are creating more spending.

In its most recent quarterly release (Q4 2025), the US Bureau of Economic Analysis found that GDP growth of 1.4 per cent was driven by consumer spending, and spending was driven primarily by increased outlays for healthcare, including things like hospital visits, outpatient services and nursing homes. It's widely known that America spends more on healthcare than any other nation, but the numbers are truly astounding. According to data from the Centers for Medicare & Medicaid Services, US healthcare spending was 18 per cent of GDP in 2024, and will reach over 20 per cent by 2033.

Part of this is down to the wealth of older people, particularly baby boomers. While older people always consume more healthcare, Americans aged over 50 are the dominant force in the economy, holding about 83 per cent of assets and accounting for more than half of consumer spending. Not only do they have most of the wealth, but many of them are also still working. One 2022 study by the Stanford Center on Longevity projected that between 2018 and 2050, the economic contributions of this group could triple to a whopping \$28.2tn. If this group of historically wealthy older people were measured as a nation, its GDP would be the third largest in the world. No wonder healthcare expenditures are rising.

But another part of America's healthcare story is about inequality, poverty and the sort of lifestyle issues — smoking, alcohol abuse, opioid addiction, obesity and lack of exercise or access to fresh food — that are associated with long-term poor health and the deaths of despair that also appear to be on the rise in the US, where life expectancy is falling.

For many, America is simply a stressful place to live. Over half the country has some kind of chronic condition, from hypertension to heart disease, and these types of conditions drive up healthcare costs. The prevalence of GLP-1 weight-loss drugs may well curb some of these conditions over the long term. But it's also likely that they'll push up healthcare spending in the short term, since 12 per cent of Americans are now on them. Indeed, some state and local officials have been pushing back on government subsidies for such drugs.

At the same time, US healthcare is dominated by large, inefficient companies. A wave of hospital consolidation has increased pricing power among providers (labour costs in the US healthcare system are far higher than in many other countries). Prescription drugs also cost exponentially more than elsewhere, where governments with socialised medical systems negotiate directly with providers for discounts.

There is also the huge problem of “shadow work” and administrative costs within the healthcare insurance system. I have excellent (at least by American standards) insurance coverage, yet I regularly spend hours each month dealing with issues like lost claims, incorrect payments and cheques sent to the wrong payee. A full quarter of American healthcare spending goes to things like billing, claims processing and customer service, in large part because we don't have a single-payer system that could be streamlined and more easily digitised.

To be fair, there are some glimmers of hope for America's healthcare economy. AI is transforming the business of drug discovery, and it has the potential to further improve skills in sectors like nursing (which was the single largest source of US job creation last year). Because healthcare productivity is relatively low compared to other parts of the economy, technology adoption will be a huge part of managing the cost curve.

But while AI could make delivery of services easier and (potentially) cheaper, it won't necessarily improve the structural factors — ageing, chronic illness and the larger socio-economic challenges — that drive up healthcare spending in the US. Until we tackle those, a fast-growing sector may not actually be a sign of a healthy economy.

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