Balancing Investments in Health Care and Social Determinants—The Need for Benefit-Cost Analysis

Sherry Glied, PhD; Lisa A. Robinson, MPP

Improving health through policies outside the health care system vastly expands the scope of levers policymakers can consider and raises questions about how best to organize health-producing activities. This requires taking a serious look at how to balance investments in health care and social determinants of health, using methods to rationally balance investments across sectors.

In November 2023, the US Office of Management and Budget released revisions of Circular A-4, which governs federal agency analysis of major regulations, and Circular A-94, which similarly governs analysis of federal programs. These circulars are the bibles of policy wonks in the federal executive agencies, who must conduct benefit-cost analyses of substantial new policies under the circulars' rules. These analyses use well-established methods to formally assess the strengths and weaknesses of a policy relative to alternatives. More than half the states incorporate similar processes for their regulatory actions, and they are increasingly used in global health.

These November updates have been long anticipated and include some controversial changes. They have attracted attention because the assessments they govern are an important component of the policy development process. For example, recent evaluations of policies addressing social determinants of health have covered topics ranging from ozone emission standards to the provision of legal representation in foster care, from highway safety to mask requirements in Head Start programs during a COVID-19 outbreak to programs that help low-income housing assistance recipients achieve economic self-sufficiency. But while analyses cover many policies affecting social determinants of health, benefit-cost analysis rarely plays an important role in the annual debates over interventions implemented within the health care system. That needs to change. As the scope of health policy broadens, all policies that aim to improve health should be evaluated using benefit-cost analysis.

**Why Benefit-Cost Analysis?**

Benefit-cost analysis differs from how health policymakers have looked at social determinants of health to date. Much of the literature documents associations between social factors and health outcomes, which has led to a focus on interventions aimed at the strongest associations. By contrast, benefit-cost analysis focuses on a comparison among interventions. An effective intervention to address a minor risk factor may generate much larger net benefits than a less effective intervention targeted at a major risk factor.

Another key difference is in the breadth of the analysis. Health policy assessments are often couched in terms of return on investment for the health sector. As Butler has noted, this perspective, under almost any payment system, omits key gains achieved in other sectors—described as “the wrong pocket problem.” For example, investments in local school infrastructure may not only generate better asthma outcomes (counted in a health care sector return on investment), but may also contribute to higher graduation rates and subsequent economic outcomes (not counted). Return on investment criteria often place little weight on gains anticipated in the future because decision-makers (such as health plans) typically have short time horizons. In contrast, benefit-cost analysis is generally conducted from a societal perspective and considers benefits and costs across

Open Access. This is an open access article distributed under the terms of the CC-BY License.
all sectors and populations and over extended time horizons with appropriate discounting of future benefits and costs.

**How Benefit-Cost Analysis Works**

Benefit-cost analysis requires analysts to estimate the value of benefits and costs in monetary terms, including the benefits and costs that are not obviously economic (e.g., the value of reducing the risk of death, illness, or injury; the value of environmental improvements). That is critical to allow direct comparisons of interventions within and across policy sectors and jurisdictional boundaries.

Benefit-cost analysis focuses on the absolute difference between benefits and costs. As discussed in Office of Management and Budget Circular A-4, this preference for an absolute difference stems from concerns about the sensitivity of ratios, including return on investments, to decisions about what belongs in the numerator and denominator. Benefit-cost differences also highlight the challenges in scaling an intervention. Consider, for example, an intervention to provide rental vouchers to hospitalized patients with unstable housing. At a small scale, such a program might generate substantial net benefits if there is a sufficient supply of housing units. However, the net benefits of such a program at a citywide scale might be dissipated through increases in rents if housing is in short supply.

Benefit-cost analyses can, and should, assess effects on equity by documenting the distribution of the impacts across advantaged and disadvantaged groups. The health care literature has largely examined programs that benefit disadvantaged groups but has almost always ignored the distributional allocation of the costs of such programs. Although estimating the distribution of costs is challenging, this is an active area of research, as well as a substantial focus of the changes in the 2 Office of Management and Budget circulars.

Benefit-cost analysis is an essential first step in balancing health care and social spending. The societal net benefits of alternative interventions should guide decisions about public action and how to develop incentives for private action, including health care payment methods where appropriate. The broad, societal, long-term approach of benefit-cost analysis is much more likely to promote social welfare than strategies focused solely on incentives.

**ARTICLE INFORMATION**

**Published:** December 7, 2023. doi:10.1001/jamahealthforum.2023.5055

**Open Access:** This is an open access article distributed under the terms of the CC-BY License. © 2023 Glied S et al. JAMA Health Forum.

**Corresponding Author:** Sherry Glied, PhD, Robert F. Wagner Graduate School of Public Service, New York University, 295 Lafayette St, New York, NY 10012 (sherry.glied@nyu.edu).

**Author Affiliations:** Robert F. Wagner Graduate School of Public Service, New York University, New York, New York (Glied); Harvard T. H. Chan School of Public Health, Harvard University, Boston, Massachusetts (Robinson).

**Conflict of Interest Disclosures:** Dr Glied reported being a member of the board of directors for Geisinger. No other disclosures were reported.

**REFERENCES**


