



Healthcare Market

Why Rising Healthcare Costs Can Also Be Good News

29.09.2026

At a glance

- The Baumol effect is a consequence of economic progress and makes labor-intensive services such as health care and nursing care relatively more expensive.
- Rising healthcare costs are not automatically a sign of inefficiency, but also a reflection of higher wages and medical advances.
- Digitization, scalable services, and increased competition can help mitigate cost pressures.

Healthcare costs have been rising for decades. This quickly leads to calls to curb cost growth. However, the level of spending alone says little about whether our healthcare system is operating efficiently. Rising costs can even be the result of successful economic development. This is demonstrated by the so-called Baumol effect.

Why Haircuts Are Getting More and More Expensive

As early as the 1960s, economist William Baumol observed that productivity does not grow at the same rate everywhere. In manufacturing, machines, automation, and digitization make it possible to produce more and more with the same number of workers. In the personal services sector, this is more difficult. A haircut today takes about the same amount of time as it did decades ago. Nevertheless, a hairdresser earns significantly more today. More productive companies can pay higher wages. Other industries must follow suit, or else workers will leave. That is why labor-intensive services become relatively more expensive as prosperity increases. This also applies to the fields of nursing, education, and a significant portion of the healthcare sector.

The Baumol effect is good news

It sounds paradoxical: The more productive an economy becomes, the more expensive certain services become. Without productivity gains, the so-called Baumol effect would indeed be less pronounced, but income and prosperity would also grow more slowly. For Switzerland, a competitive export economy is of central importance in this regard. Companies that hold their own in global markets face intense pressure to innovate and boost productivity. Their productivity gains enable high wages and prosperity, from which domestically oriented services also benefit. The fact that care services, for example, are becoming more expensive is thus the flip side of what is fundamentally a positive development.

Baumol is not a free pass to higher costs

However, this does not mean that we have to accept every increase in costs. There are limits to how much human care can be streamlined. A nurse cannot simply care for twice as many people. But not every healthcare service needs to be provided in person. Digital consultations, automated processes, or AI-assisted diagnostics can ease the burden on healthcare professionals. Prevention and follow-up care can be scaled digitally to some extent. Bundling medical services also enables economies of scale.

The key question, therefore, is: Which services require personalized care, and which can be scaled? The better we are able to make this distinction, the more the healthcare system can increase its productivity and mitigate the Baumol effect.

Innovation Instead of Endless New Regulations

Increasing regulatory burdens stand in the way of such productivity gains. Additional administrative burdens tie up skilled workers, while detailed government regulation can hinder the development of new care models. Digitalization and artificial intelligence, on the other hand, can scale tasks that lend themselves to standardization, thereby freeing up more time for personal interaction. The Baumol effect, therefore, does not justify every additional expenditure. Duplication, misguided incentives, and inefficient structures result in avoidable costs. Instead of ever-increasing regulations, we need entrepreneurial freedom, innovation, and competition based on performance.

The Baumol effect remains a reality. This makes it all the more important to consistently take advantage of opportunities for innovation, competition, and productivity gains.



Fridolin Marty
Head of Health Policy

© economiesuisse | www.economiesuisse.ch