CPB Netherlands Bureau for Economic Policy Analysis

Health spending and public finance;

what will bring the future?

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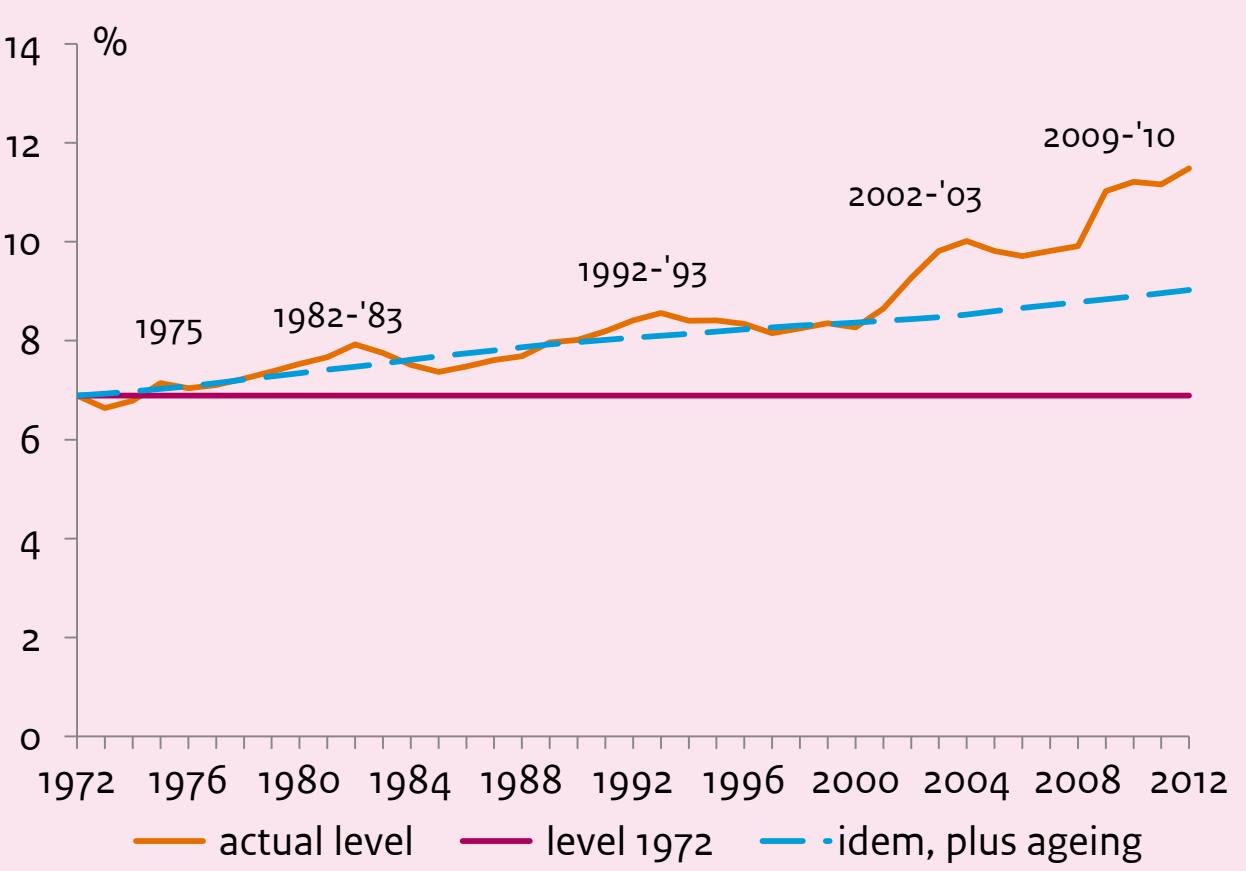
Health care spending (OECD definition, % gdp)



Around 2000:

introduction of care as a 'right' rather than a 'provision';

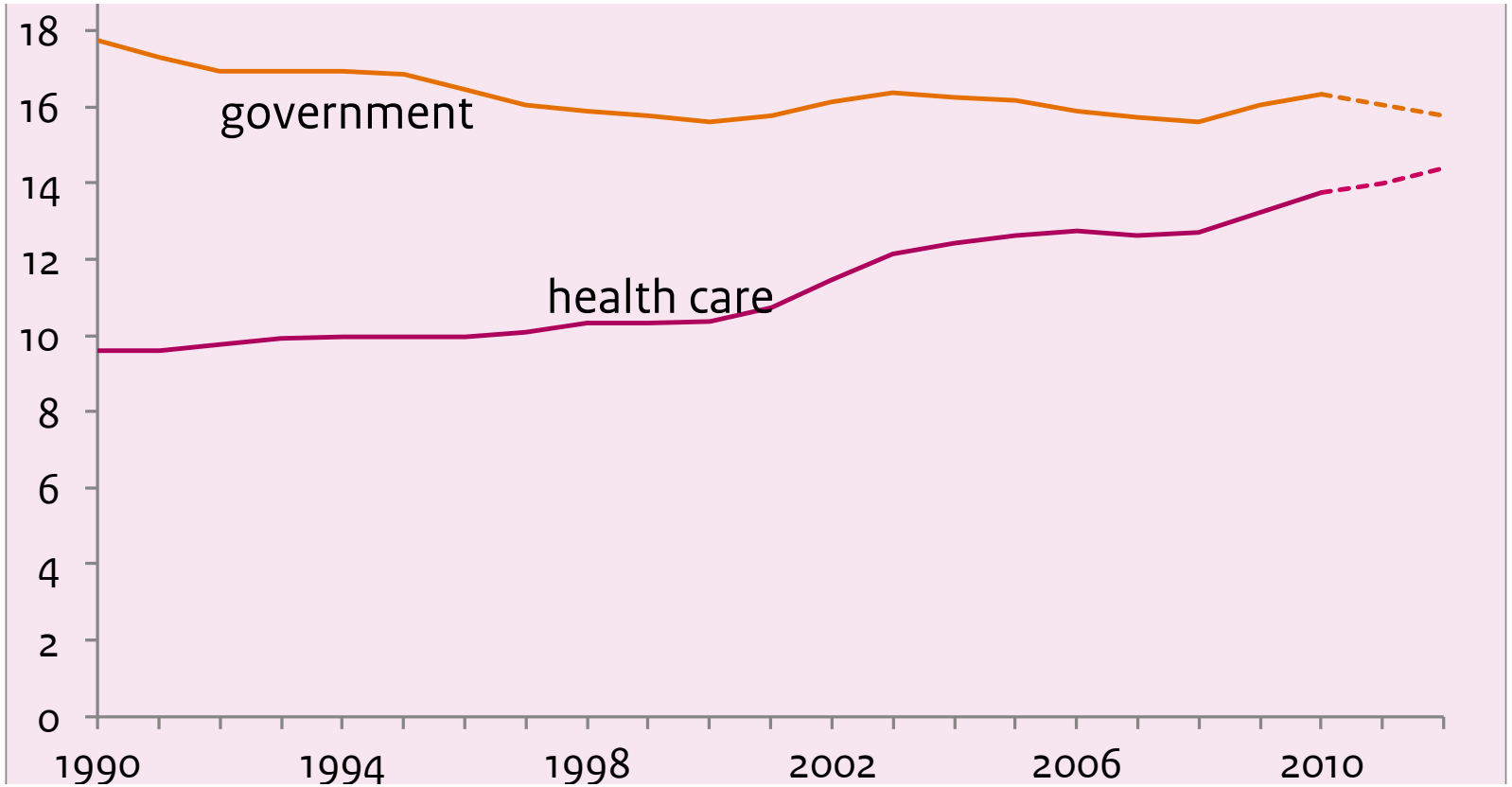
the end of strict budgets, the start of soft budgets

Recent health care spending trends, internationally (% gdp)

	2000	2007	change
United Kingdom	7,0	8,4	1,4
Spain	7,2	8,4	1,2
Japan	7,7	8,1	0,4
Netherlands	8,0	9,7	1,7
Denmark	8,3	9,7	1,4
Switzerland	10,2	10,6	0,4
Germany	10,3	10,4	0,1
United States	13,4	15,7	2,3

No clear sign that the acceleration around 2000 is an international phenomenon

Employment government vs health care (% of total)



Decomposing real spending growth 2001-’08 (% p.a.)

	population growth	living healthier	govern’ policies	residual	real spending
Hospitals and specialists	0,9	-0,1	0,3	3,3	4,4
GP, dentists, paramedics	0,7	-0,1	-0,9	3,0	2,8
Psychiatric care	0,3	0,0	2,1	3,6	6,0
Medicines and appliances	1,1	-0,1	-3,7	6,3	3,6
Other expenses on cure	0,4	0,0	-1,1	5,5	4,8
Total cure sector	**0,9**	**-0,1**	**-0,4**	**3,9**	**4,3**
Care and nursing homes	1,9	-0,6	0,1	2,1	3,6
Care for handicapped, pgb’s	0,3	0,0	2,6	2,3	5,3
Total long-term care	**1,5**	**-0,4**	**0,9**	**2,5**	**4,2**

Note: average gdp growth 1,9% p.a., labour productivity growth in health care 0,3% p.a.

Characteristics of 2001-2008 growth in spending

Determinants of the residual trend:

1. demand side: income growth
2. supply side : medical technology (mostly in cure)
3. supply side : Baumol's disease (mostly in long-term care)

Summarizing

- real growth more than 4% (both in care and cure)
- impact of ageing about 1% (more in care than in cure)
- income growth almost 2%
- actual growth more than 1% in excess of income growth plus ageing

Government spending 2011-2040 (% gdp)

	2011	2040	change
Social security	12.6	15.3	2.7
Public health care	9.8	14.3	4.5
Education	5.5	5.5	0.0
Others	19.9	18.1	–1.8
Interest payments	2.6	4.4	1.8
	50.3	57.7	7.4

Source: CPB, 2010, Vergrijzing verdeeld; Toekomst van de Nederlandse Overheidsfinanciën.

Health care 2011-2040

in the reference scenario:

- spending per age cohort 1,7% p.a. (= income growth)
- impact of ageing is about 1,3% p.a.
- total spending growth 3% p.a.
- share of *public* health care in gdp rises from 9,8% to 14,3%

in sensitivity analysis

- spending growth 1% p.a. more than in the reference
- share in gdp risis not to 14,3% but to 18,4%

Is spending growth a problem?

- Because it creates labour market shortages? No
- Because it undermines our competitive position? No
- Because we can't afford it? No, if we really want it.

But do we really want it?

1. Health care suffers from information asymmetry
   - ➢ *possibly* more supply driven than demand driven
2. Health care is insured
   - ➢ moral hazard produces wrong incentives
3. Health care is *social* insurance, nearly all costs are paid out of taxes
   - ➢ voters do see clearly the benefits but not the costs of health care
   - ➢ taxes introduce more adverse incentives

Dead weight loss of higher taxes

According to the Ageing study (table 6.2):

1% gdp increase in average tax rates in 2011
produces a gdp loss of 0,5%

So, financing the increase in public health care spending
from almost 9,8% gdp in 2011 to 18,4% gdp in 2040
produces ceteris paribus a gdp loss of 4,3%.

(Or more than 4,3%? Because of non-linearities of distortions and progressivity of taxes. However, good health care might raise labour supply and productivity)

This is about equal to the 4,5% gdp cost of ageing itself.

Distributional effects of 4% real growth

- total health care spending in 2009 > 70 bln
- 15 mln adults (children 1/2 adultequivalent)
- average spending 5000 euro per adult
- gross minimum wage 18 000 euro, modal income 32 500

- income growth 2011-2040 1,75% p.a.
- health care spending growth 4% p.a.

Health care spending (% of gross income):
2 minimum wage earners with 2 children: 42% > 83%
2 modal income earners with 2 children: 23% > 46%

A uniform quality of health care requires more and more redistribution

Conclusions

- the current system with a uniform quality of health care for all requires a considerable redistribution of incomes.
- the current 4% growth rate of spending leads to a doubling of the share of health care in gdp in the decades to come
- this would, ceteris paribus, require much more than a doubling of the redistribution (if low-income earners cannot pay a higher share of income)
- this would lead to
  - ➢ either crowding out of other government services and social security
  - ➢ or a considerable gdp loss