CPB Netherlands Bureau for Economic Policy Analysis

Health spending and public finance

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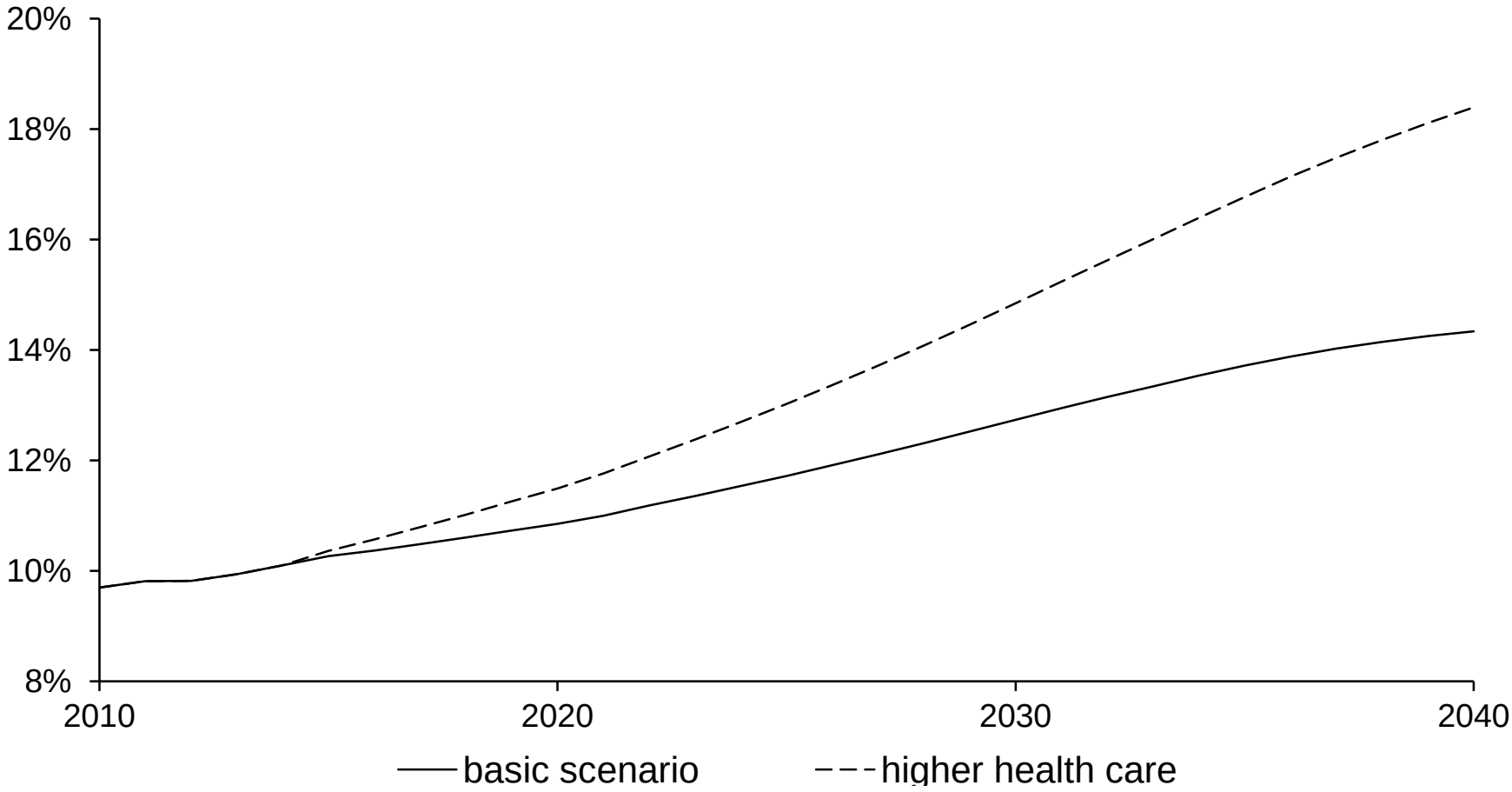
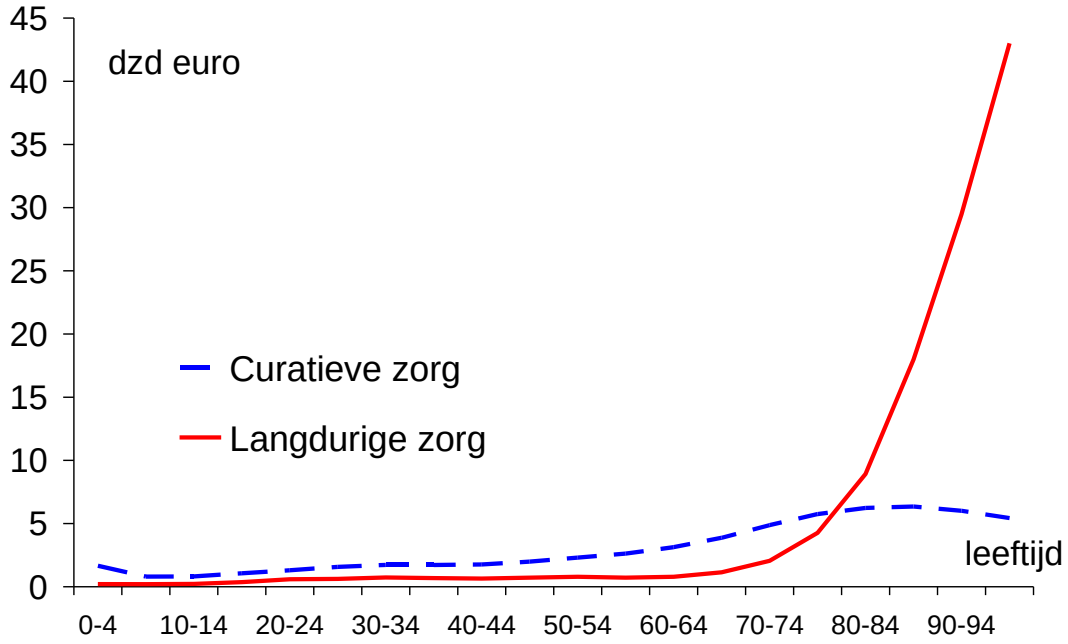
CPB long term scenario's for health care



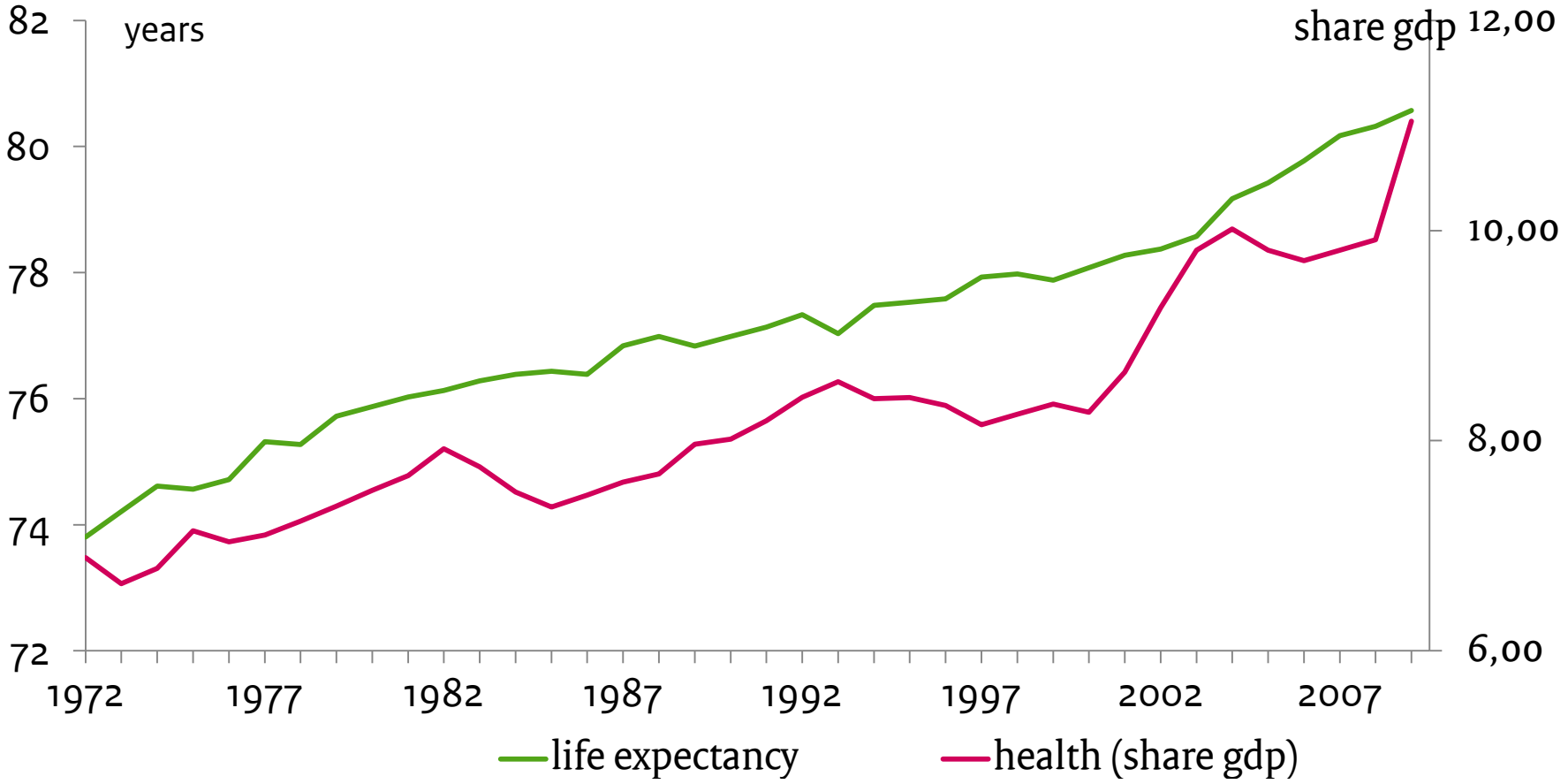
Large intergenerational transfers:
no age specific contributions while costs rise with age



Rise in health costs larger than in public pensions 2011 - 2040

health care (low)	+ 4.5% GDP
health care (high)	+ 8.0% GDP
public pension (AOW)	+ 3.6% GDP

Not necessarily bad: increasing health



But can we afford it ?

2009

- average spending 5000 euro per adult
- gross minimum wage 18 000 euro, modal income 32 500

health care costs % gross income

- 2 minimum wage earners with 2 children 42%
- 2 modal income with 2 children 23%

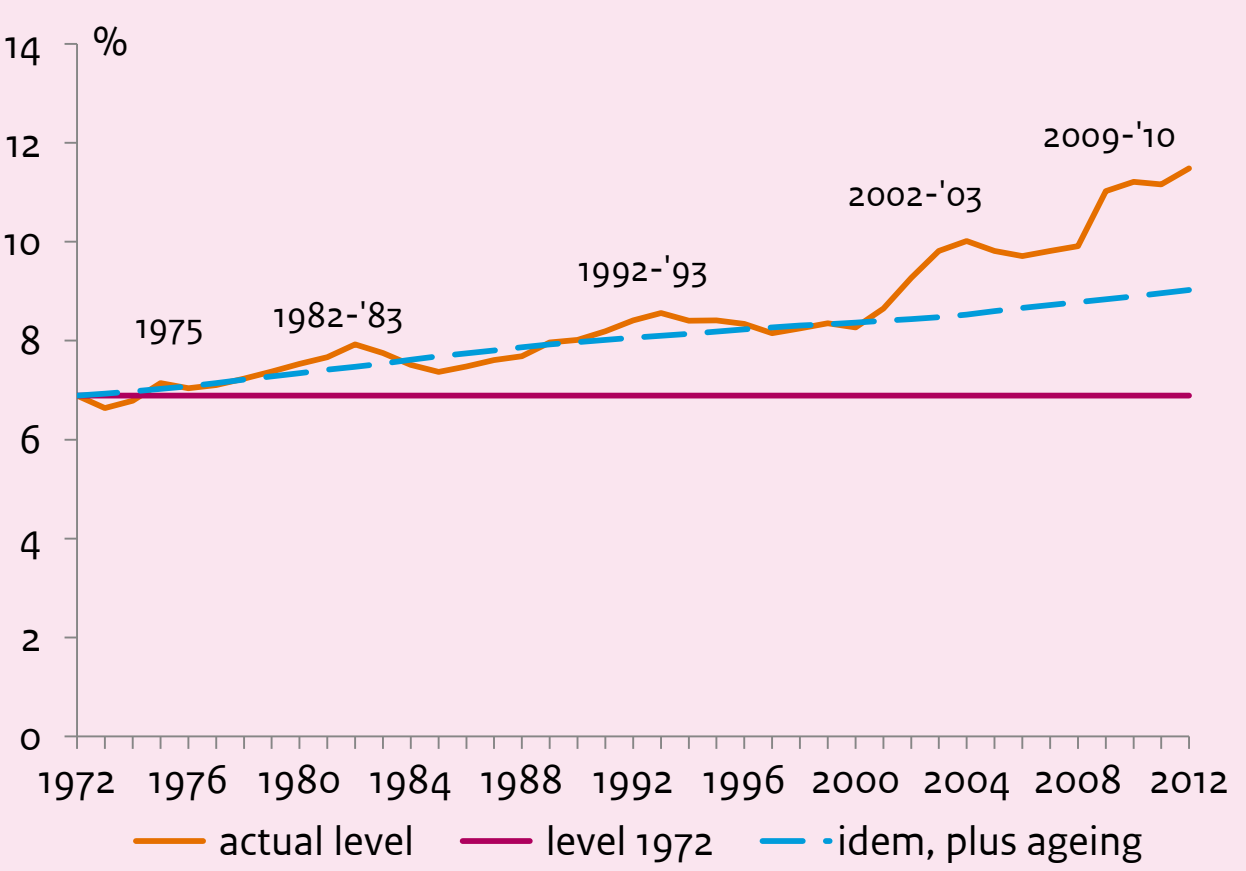
2040 *high growth scenario*

2 minimum wage earners with 2 children: 83%

2 modal income earners with 2 children: 46%

Absolute decrease in non health consumption for minimum income ! (unlikely to happen)

Background: What growth in health care ? (% 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 2000-2007	*change 1993-2000*
United Kingdom	7,0	8,4	1,4	*0.2*
Spain	7,2	8,4	1,2	*-0.2*
Japan	7,7	8,1	0,4	*1.2*
Netherlands	8,0	9,7	1,7	*-0.5*
Denmark	8,3	9,7	1,4	*-0.3*
Switzerland	10,2	10,6	0,4	*-0.2*
Germany	10,3	10,4	0,1	*0.7*
United States	13,4	15,7	2,3	*0.0*

Acceleration around 2000: could be an international phenomenon

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

	demography	living healthier	policy	residual	total
Cure	0,9	-0,1	-0,4	3,9	4,3
Long term care	1,5	-0,4	0,9	2,5	4,2

Summarizing

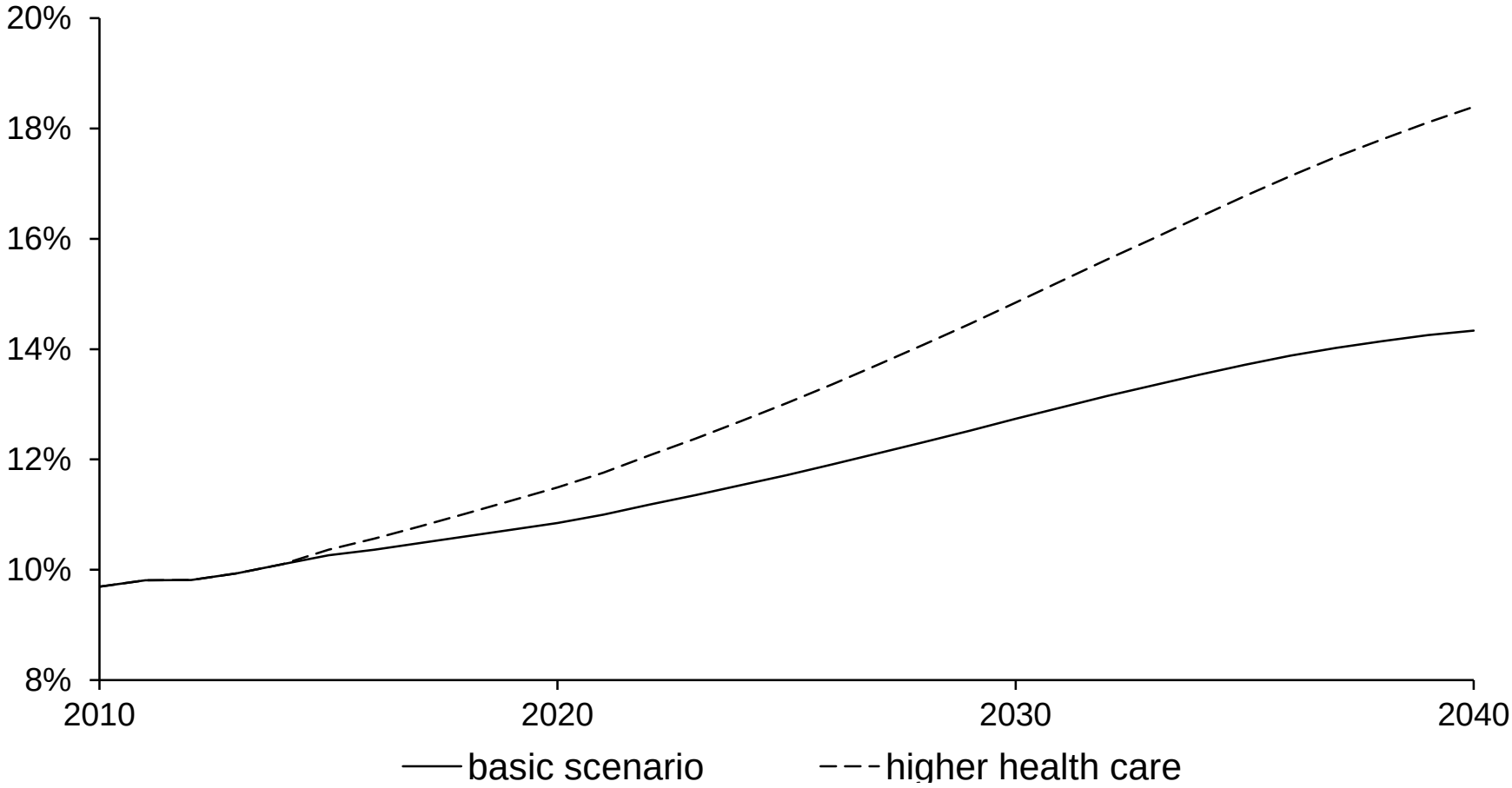
- real growth more than 4% (both in care and cure)
- impact of ageing about 1% (more in care than in cure)
- income growth almost 2%
- actual growth more than 1% in excess of income growth plus ageing

Therefore**: two scenario's**

I. demography + income growth

II. demography + income growth + 1% extra (Baumol, technology)

What if health expenditures continue to grow fast?



Is spending growth a problem?

- Because it creates labour market shortages?
- Because it undermines our competitive position?
- Because we can't afford it?

- Not in long run. Market is flexible.
- No, but may reduce growth (see later)
- No, if we really want it.

But do we really want it?

Can health care growth be too high?

1. Biased technology
   - possibly wrongly directed incentives:
     race to the top: "too much" innovation

2. *Mandatory* health care may crowd out other expenditures
   - in particular a problem for low incomes
   - because social insurance: => overconsumption

Tendency for (marginal) tax rates to rise

Simple calculation: if financed by raising marginal tax rates

rise in health care spending from 10% gdp in 2011 to 18% gdp in 2040

- marginal tax rates should increase by 12 % points
- this would produces a gdp loss of 4% (quite similar to Skinner) in 2040

Issue: this is second best policy

better not to finance this all by raising marginal tax rates: also raise individual (out of pocket) contributions

and rethink the health care system (as social insurance)

Raising private contributions

- Currently, about 80% of health care is publicly financed

- Consider a scenario where
  - total health spending grows with 4% per annum
  - public health spending is a fixed share of gdp

- Then, in 2040, only about 40% of health care is publicly financed

- Health care divide
  - which may (partly) be compensated using income transfers ('zorgtoeslag')

How can we afford to care a lot?

1. *In general: reduce the burden of ageing*
   better health : retire later !
   by aiming at a government surplus already in the near future

2. *More efficient health care*
   improve incentives for efficiency and cost saving innovation
   but can we do more than in the past?

3. *Reduce or redistribute public health care*
   cure: restrict quality: difficult, we cannot isolate Netherlands from the rest of the world
   care: differentiate according to income (like 2nd pillar pensions) : "health care divide"

Conclusion: rethink the health care system

what should be public / uniform (basic cure?)

and what should be income related (care?)

and use taxes - not expenditures - for redistribution

financing: higher benefit = higher (individual) payments

efficiency: right balance between insurance and incentives