Seeing healthcare as a burden to be funded blinds us to its potential as a productive source of economic growth, argues **Craig Ryan**.

False economies

Healthcare is expensive. People are living longer and treatments keep getting more sophisticated and costly. In the US, healthcare consumes 18% of national income (GDP). In the UK it's only half that, but it's rising fast, especially as a proportion of shrinking government spending. In France, Europe's biggest healthcare spender, it's gone from 7% of GDP in 1980 to almost 12% today. Healthcare is a drain on the economy. A worthwhile drain, but a drain nonetheless.

But is this the right way to look at it? Why is healthcare seen as a dead cost and not as investment? In fact, why do we see healthcare as something we have to spend money on in order to be productive, and not as *production* itself?

We don't say construction costs 6.7% of GDP, we say it *contributes* 6.7%. The same goes for transport, agriculture, leisure or culture. Perhaps this is because people like their cars, their food, telly and going to the theatre. No one likes going to hospital or being told to eat salad. Perhaps it's also because – in Europe at least – most healthcare spending comes from the government and is financed by taxes on other economic activity.

But if healthcare is not exactly a product like any other, it's a product all the same. It's something people want. And like other economic activities, it creates jobs, pays wages, and supports a long chain of suppliers (everything from paper merchants to computer programmers – hospitals are in the market for almost everything), stimulates investment and encourages workers to acquire new skills. People are organisms, they get sick, and they need treatment. Just as they need somewhere to live, ways to move about and protection against risk. Healthcare is just as much production as building houses, making cars or providing insurance.

Tonio Borg, the European Commissioner for Health, says he wants 'to shift the still widely held perception of health expenditure as primarily a "cost" rather than an investment, and to pass across the message that health contributes to inclusive economic growth.'

> "Why do we see healthcare as something we have to spend money on in order to be productive, and not as *production* itself?"

In the depths of our 21st century great depression, NHS funding was seen as part of the problem, rather than part of the solution. But healthcare spending can be a highly effective way of stimulating a dormant economy.

Research published in *Globalization and Health* last year by a team of researchers, including Professor Martin McKee of the London School of Hygiene and Tropical Medicine and University of California economist David Stuckler, calculated the "multiplier effect" for different forms of government spending among 25 EU countries from 1995 to 2010. They found the multiplier for healthcare was 4.32, compared to an average 1.61 for all government spending. This means that for every £1 spent on healthcare by government, GDP grew on average by £4.32 once all the knock-on effects had worked their way through the economic system.

This is a much better return than for defence (where the multiplier was actually negative), housing, industrial support or even "social protection" like unemployment benefits. Only spending on education and environmental projects matched the power of healthcare as an economic stimulus.

Why? Firstly, in advanced economies

at least, most of the money is spent at home — healthcare workers generally work where the services are provided. This is why the multiplier for defence spending is usually negative: most of the money gets spent on expensive imported equipment (although our big defence industry means this is less true for the UK than many others). The UK, with relatively large medical equipment and pharmaceutical industries, is well-placed to take advantage of health-care's capacity for economic stimulus.

Secondly, healthcare remains relatively labour intensive. Around 55-60% of the NHS's £110bn budget goes on staff costs (the Department of Health won't disclose exact figures). Health and social care, particularly for the very young and the very old, is a people business. In one of those paradoxes in which economics abounds, healthcare's low productivity means it is good at creating jobs. You need to employ a relatively large number of extra people to achieve a given increase in output.

Furthermore, many of these jobs are relatively low paid. Lower paid people tend to spend their wages rather than saving them, and are less likely to spend them on foreign holidays or imported cars.

Of course, money spent on health-care is money not spent on something else. The government could, as Keynes facetiously suggested in the 1930s, pay people to dig holes and fill them in again. In a slump, this would be better than nothing. But if we're going to spend money creating jobs, we might as well spend it on something worthwhile, which will bring long-term economic benefits when the recession is over.

Investing in healthcare services, public health programmes and research can increase labour supply, productivity, skill and education levels, and reduce inequality, poverty and the cost of sick pay and welfare benefits. This helps to offset the undoubted tendency for healthcare costs to rise faster than general prices.

This is why the European Commission designated healthcare as "growth-

friendly" spending and made investment in public health a cornerstone of its "Europe 2020" ten-year economic growth strategy.

The Commission's paper, *Investing in Health* said: 'Health is a value in itself. It is also a precondition for economic prosperity. Investing in people's health as human capital helps improve the health of the population in general and reinforces employability, thus making active employment policies more effective, helping to secure adequate livelihoods and contributing to growth.'

None of this means a blank cheque for healthcare services. Much as spiralling house prices do nothing to solve the housing crisis, simple inflation in healthcare costs does nothing to improve health outcomes or bring long-term economic benefits. The US spends almost 50% more on healthcare than anyone else, but with decidedly mediocre results. Costs keep rising, but the returns — better treatments, better survival rates, a healthier population — lag far behind.

The European Commission recognised this in its 2012 survey, *The Quality of Public Expenditures in the EU*: 'The relatively large share of healthcare spending in total government expenditure... requires more efficiency and cost-effectiveness to ensure the sustainability of current health system models. Evidence suggests there is considerable potential for efficiency gains in the healthcare sector.'

Professor Michael Stople of Kiel University, Germany, a leading expert on Europe's healthcare economy, believes Europe's ageing population and its relatively low level of investment in health-care research, means healthcare has a major role to play in reviving European economies. 'In the aftermath of the financial crisis, the growing size of Europe's elderly cohorts is boosting the social rate of return on health-related public-good investments at a time when the borrowing costs of many European governments are at record lows,' he says.

'With sufficient translation of health improvements into longer, more productive working lives, Europe's currently depressed economies can thus be supported in returning to sustained long-term growth and in generating the additional tax revenue that will eventually help governments balance their books.' ■

Craig Ryan is a freelance writer and associate editor of *Healthcare Manager*. Read Craig's blog at: www.craigryan.eu/blog