

From health to wealth



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What is at issue?

Good health is crucial to individual and social welfare around the world

- ❑ Health expenditure in OECD-area is nearly 600 euros per month for each family of four
- ❑ Education expenditure is similar

Need to distinguish input from output

- ❑ Expenditure is input into health care
- ❑ The output is the health care itself
- ❑ Output is key, input is not

Expenditure on health care

Same applies to education

Expenditure is a poor indicator of output because its efficiency is uneven

Iceland: substantial hike in expenditure, but chronic shortage of health care

- ❑ Queues, central planning: inefficient

Allocation of resources in health care could be made more efficient through market solutions

- ❑ Greater efficiency means more and better care for given resources

Expenditure on health care

Same applies to education

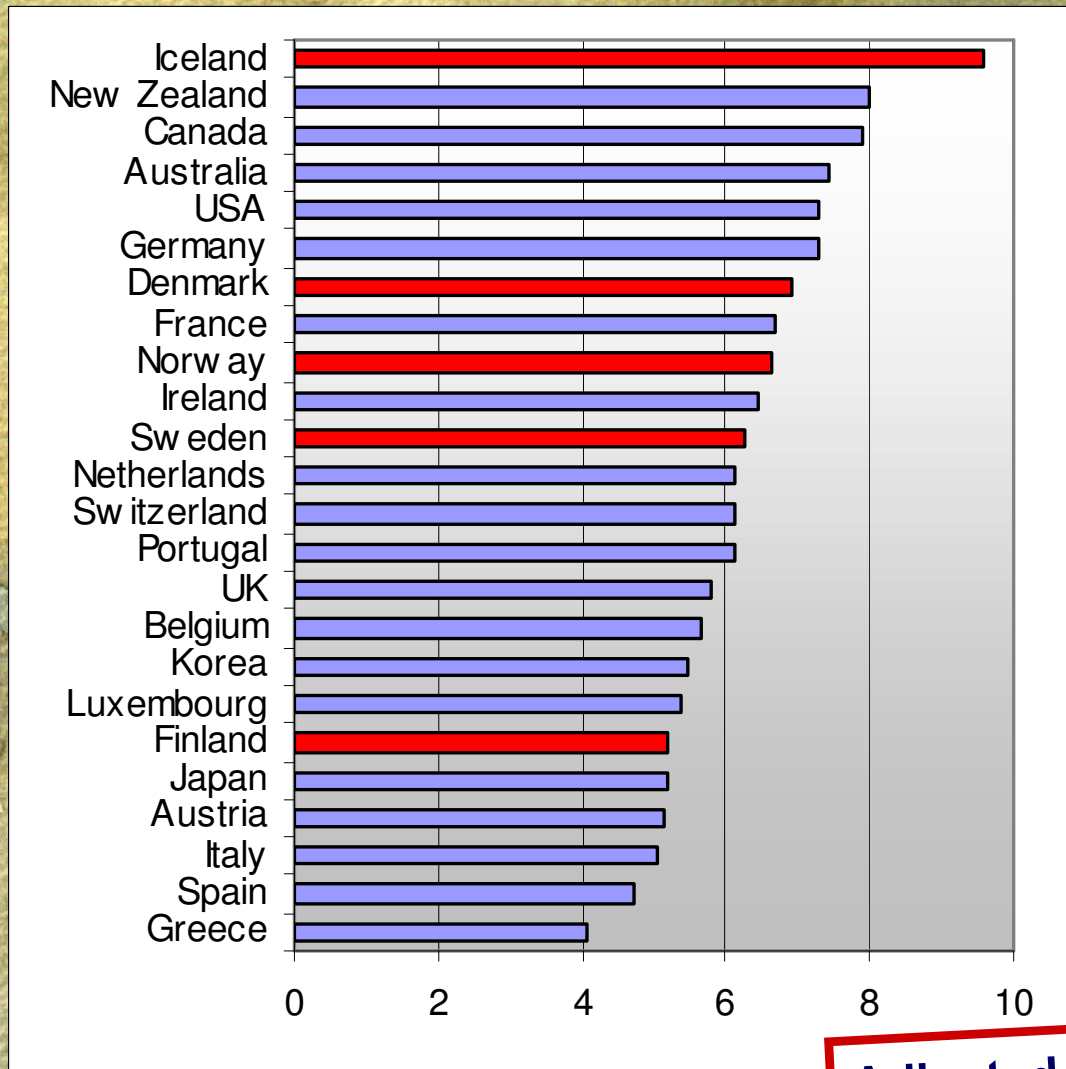
Allocation of resources is more efficient in a market economy, requiring

- ☐ More private enterprise
- ☐ More competition between providers
- ☐ More allocation by price
- ☐ Keener awareness of cost

Central planning is not an efficient way of securing greater social equality

- ☐ There are better ways, through social insurance, education, and fiscal policies

Public expenditure on health care 2001 (% of GDP)

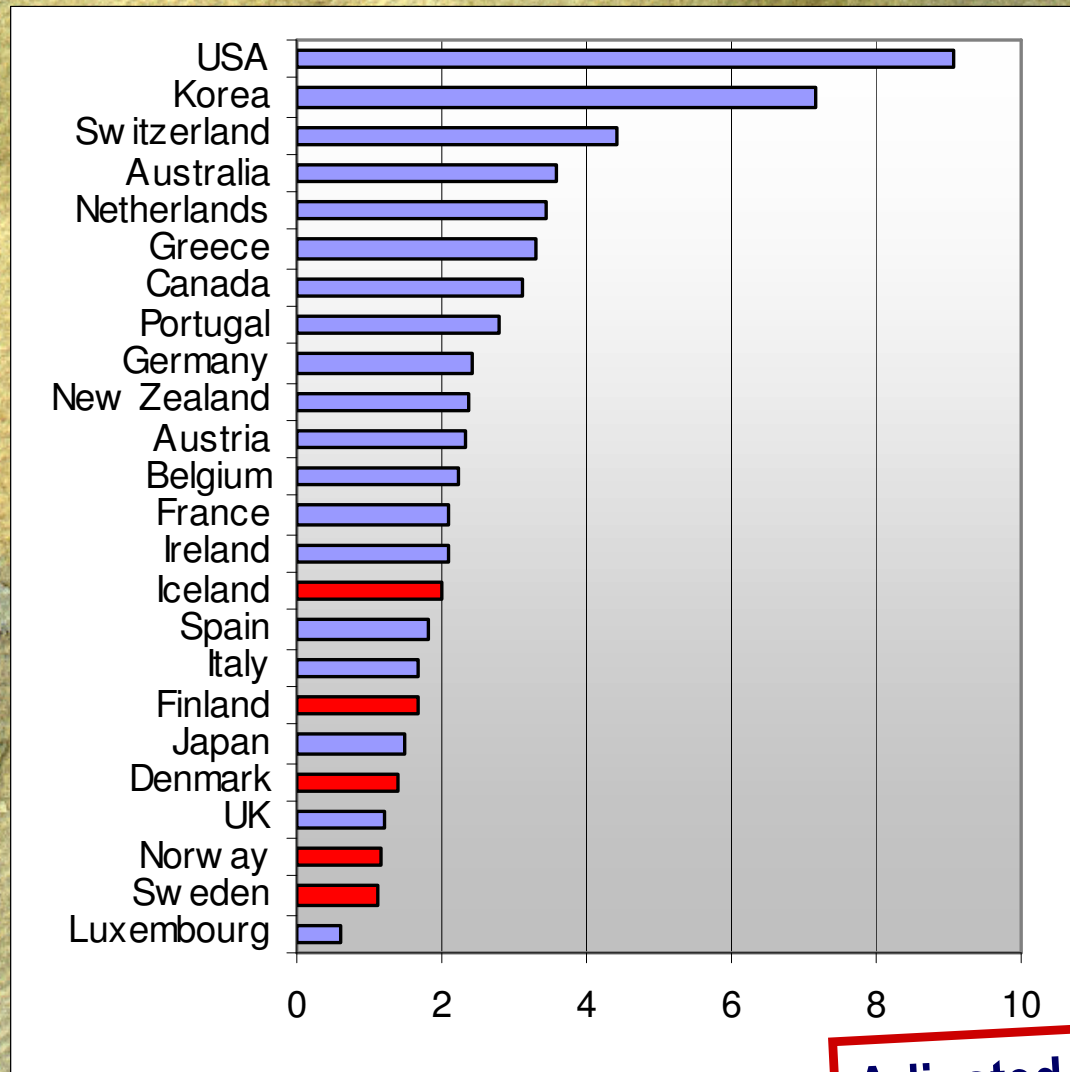


Iceland, with its young population, in first place within OECD

Other Nordics, with older populations, near middle or below

Adjusted for age distribution of population

Private expenditure on health care 2001 (% of GDP)



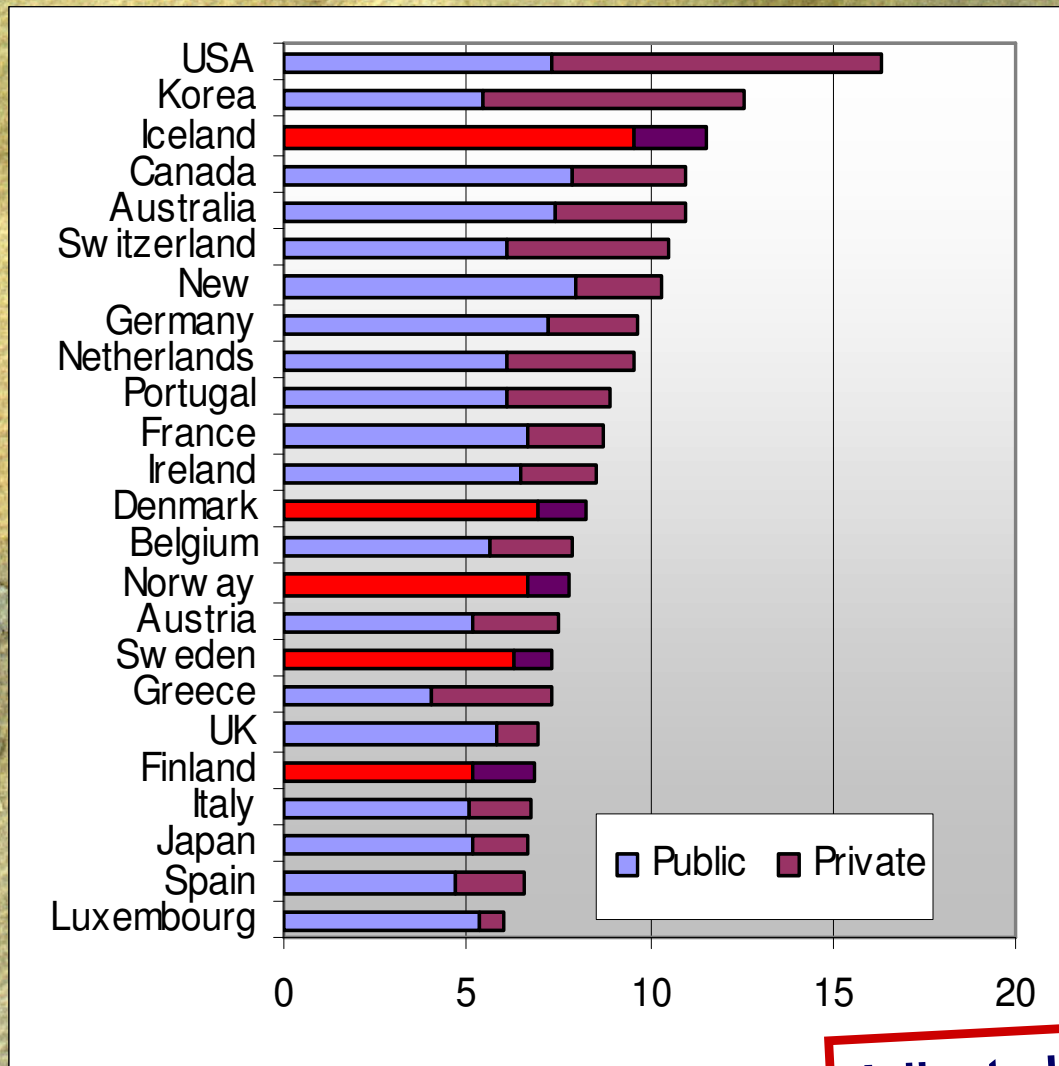
US in class of its own

Canada around average, behind Switzerland, Australia, and the Netherlands

All Nordic countries below average

Adjusted for age distribution of population

Total expenditure on health care 2001 (% of GDP)

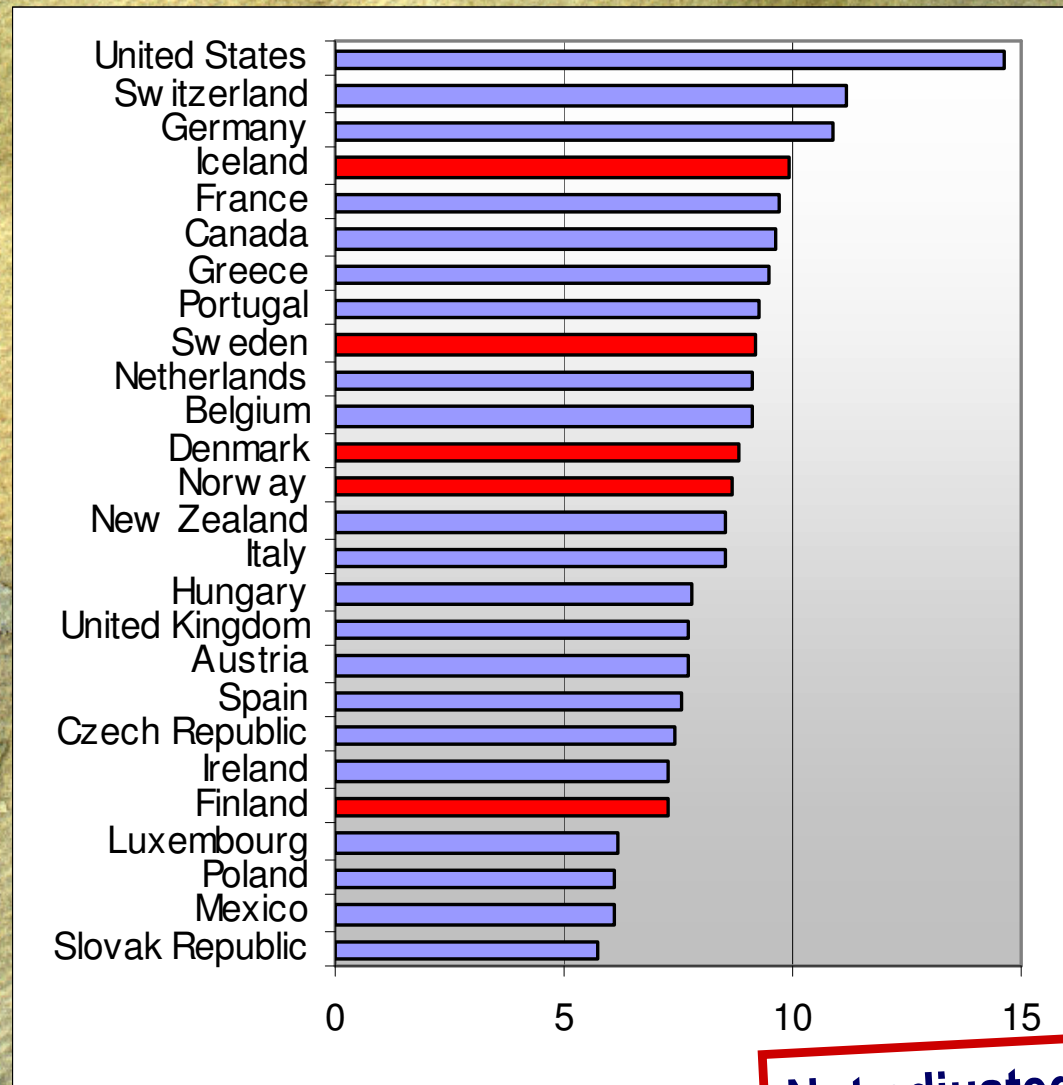


Composition varies greatly across countries

- 1:1 in US, Korea, and Switzerland
- 1:3 on average
- 1:6 in Nordic countries and Japan

Adjusted for age distribution of population

Total expenditure on health care 2002 (% of GDP)



Huge expenditures, with persistent upward trend due in part to medical progress

Makes a difference how well these expenditures are managed

Classic question of efficiency in allocation of scarce resources

Not adjusted for age distribution of population

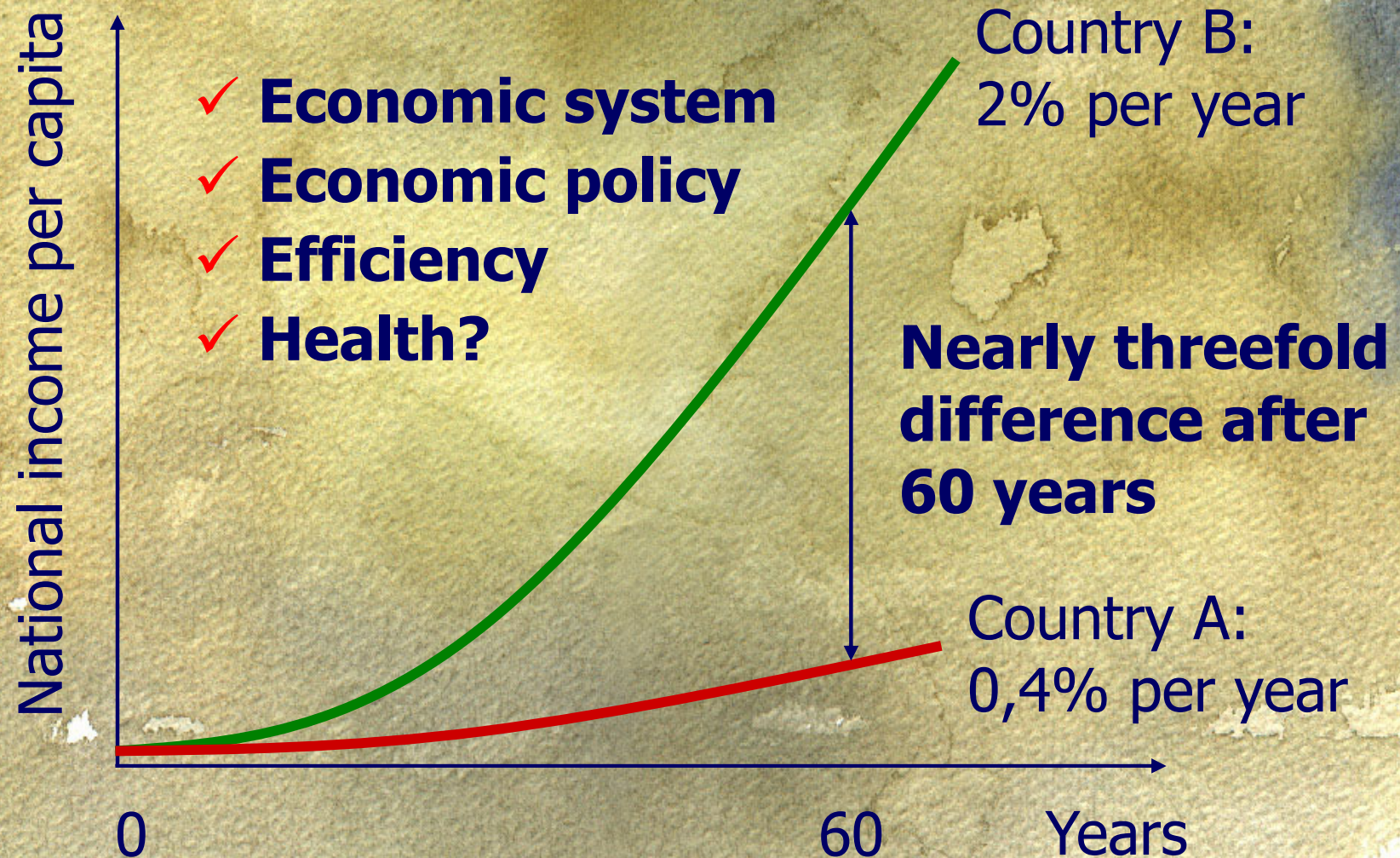
Health, human capital, and economic growth

Good health is crucial to individual and social welfare around the world

Does public health also matter for economic performance and growth?

- ☐ Human capital is good for growth
- ☐ Education and health augment and improve human capital, and growth
- ☐ Living standards are determined by growth and nothing else, by definition

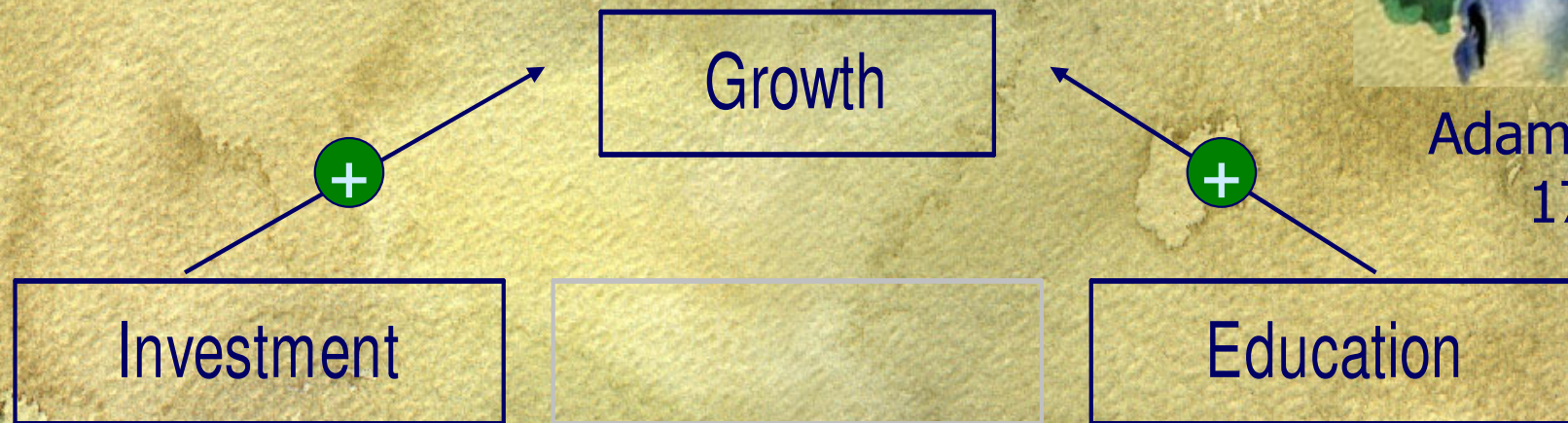
Growth differentials



Main determinants of growth I



Adam Smith
1776



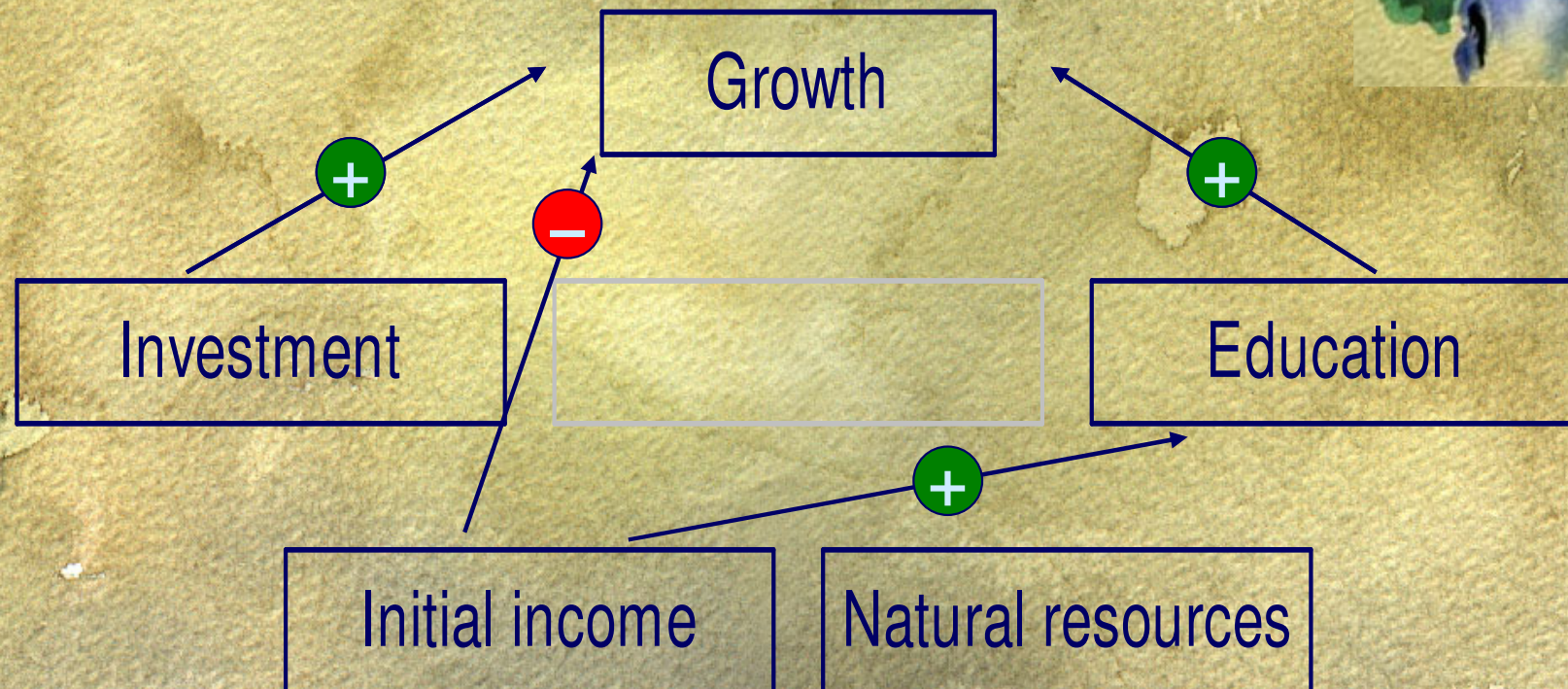
Initial income

Natural resources

 denotes positive effect

Physical capital and human capital are good for growth

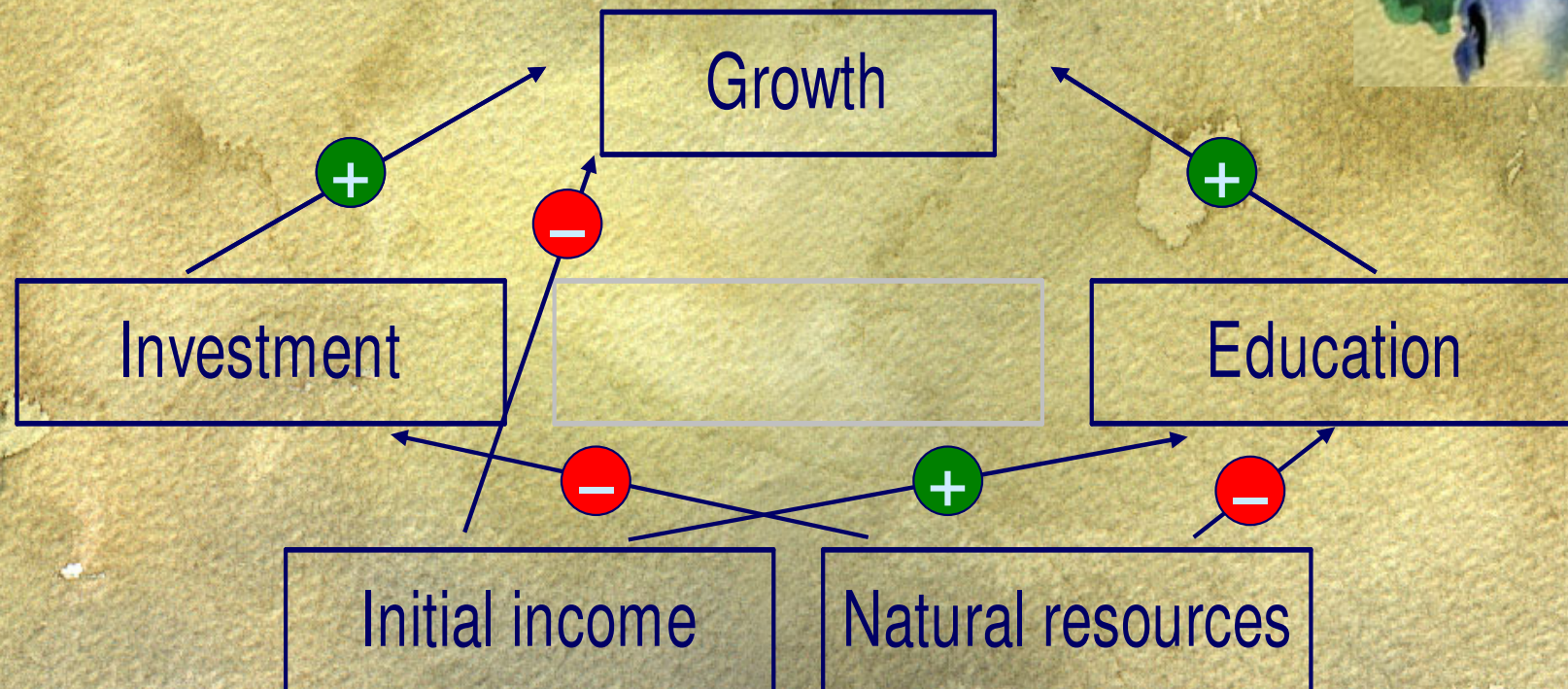
Main determinants of growth II



- denotes positive effect
- denotes negative effect

Not certain that poor countries grow faster than rich

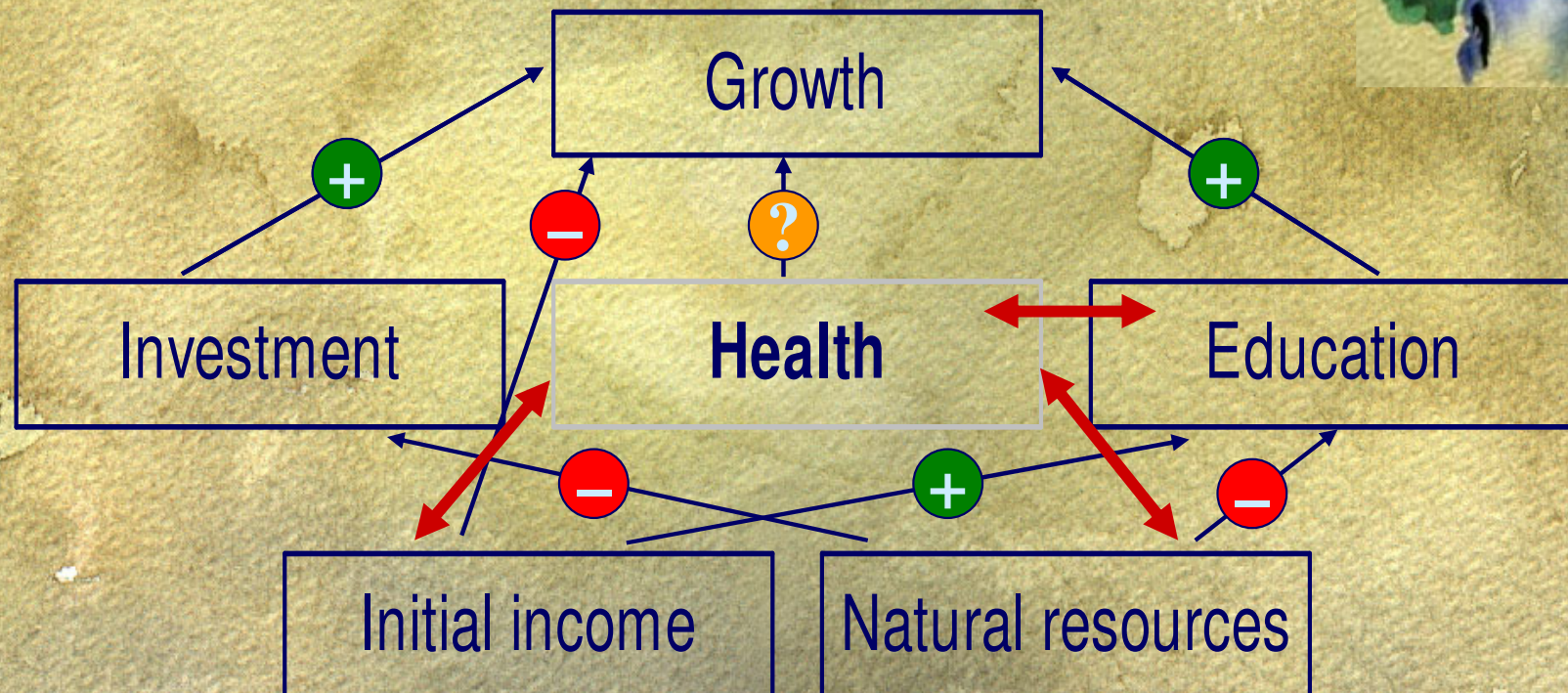
Main determinants of growth III



- ⊕ denotes positive effect
- ⊖ denotes negative effect

Natural resource dependence tends to hurt investment and education

Main determinants of growth IV

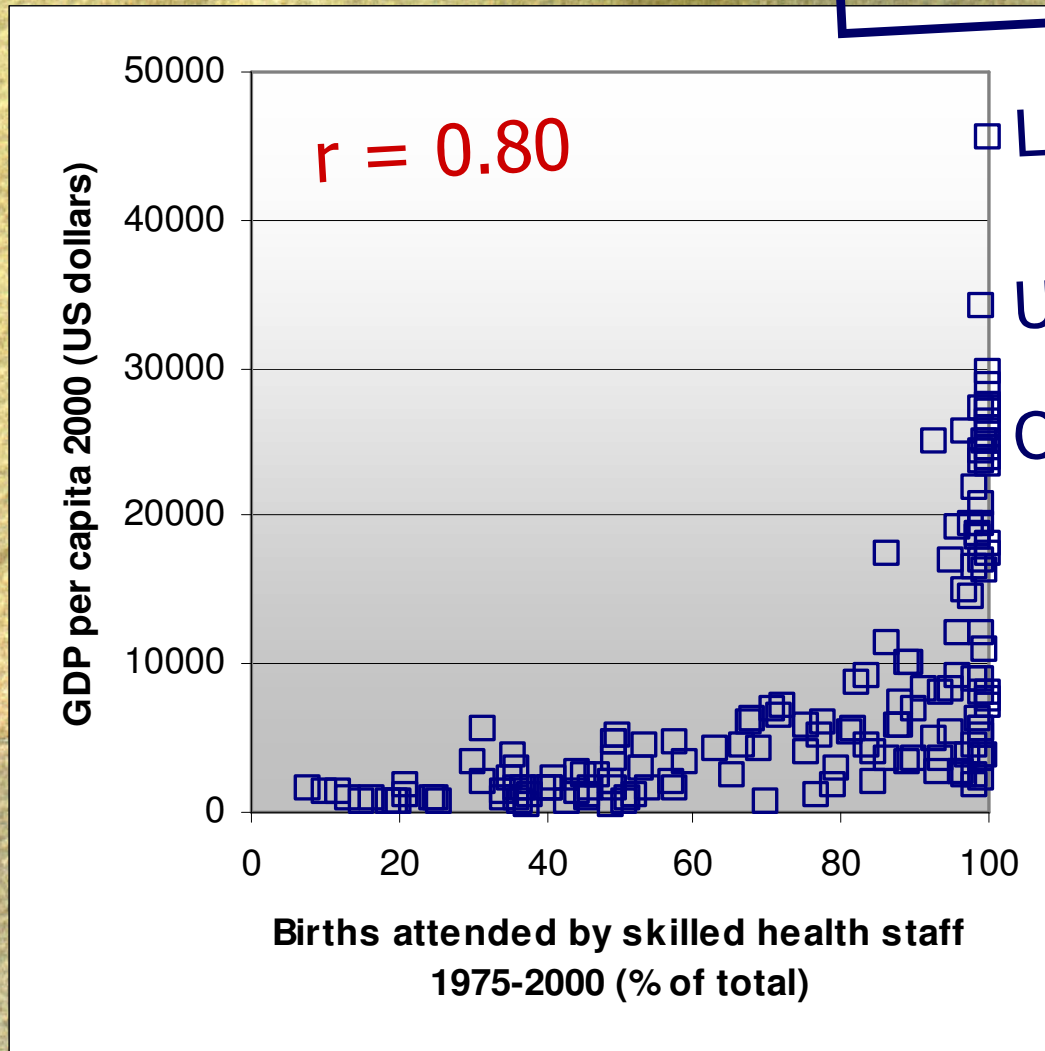


- ⊕ denotes positive effect
- ⊖ denotes negative effect

Does public health matter for economic growth?

Birth care and national income

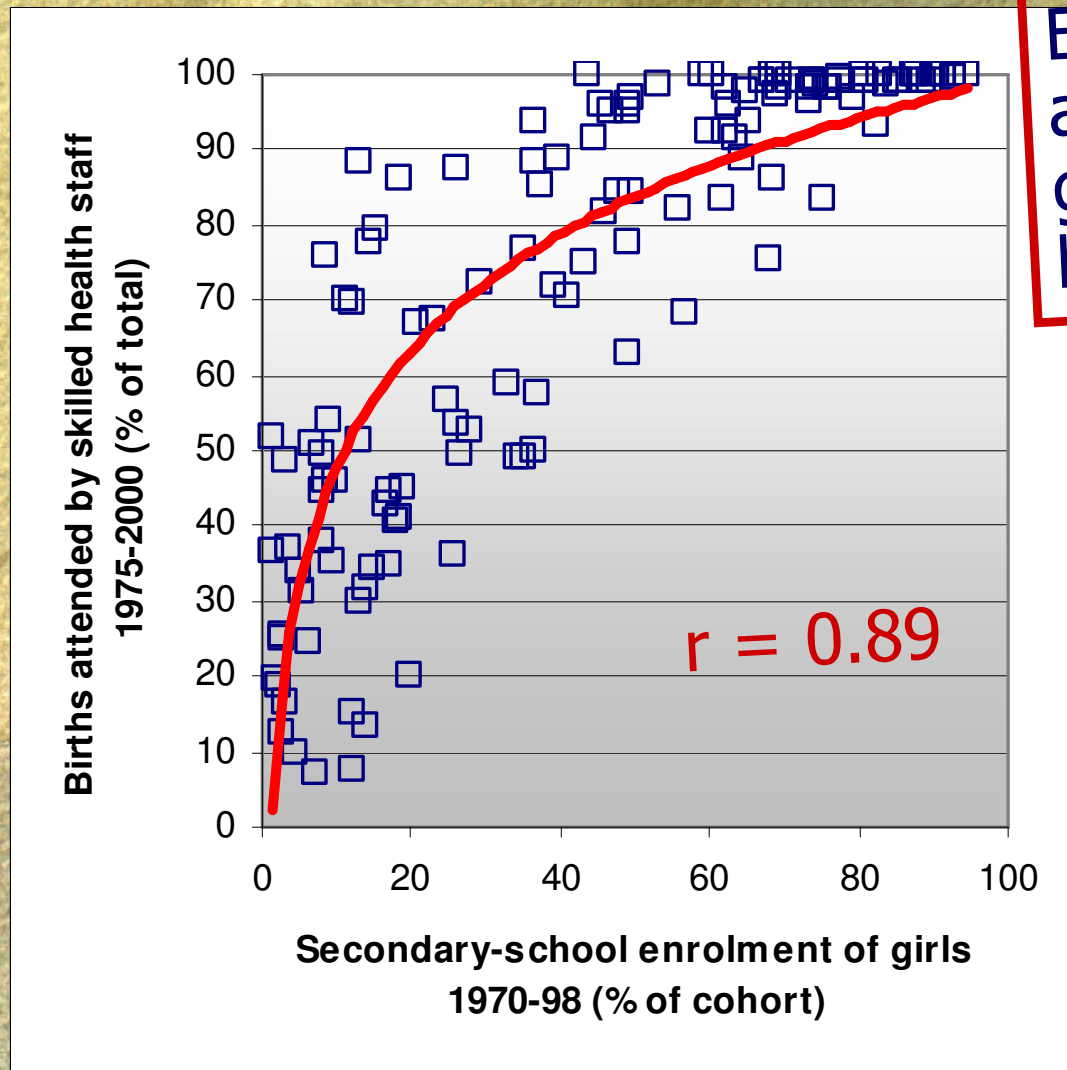
$r =$ rank correlation



Health and
income go
hand in hand

157 countries

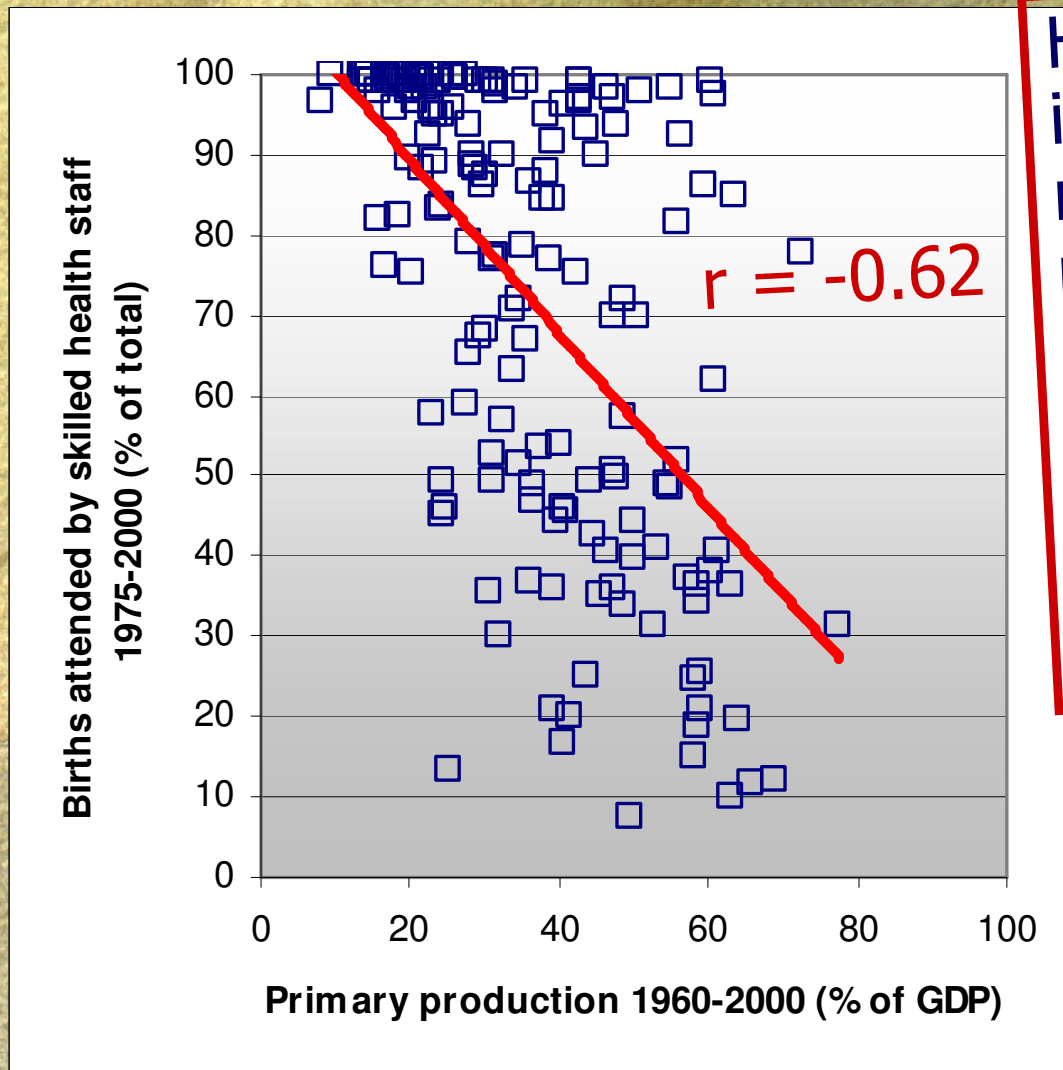
Female education and birth care



Education
and health
go hand in
hand

132 countries

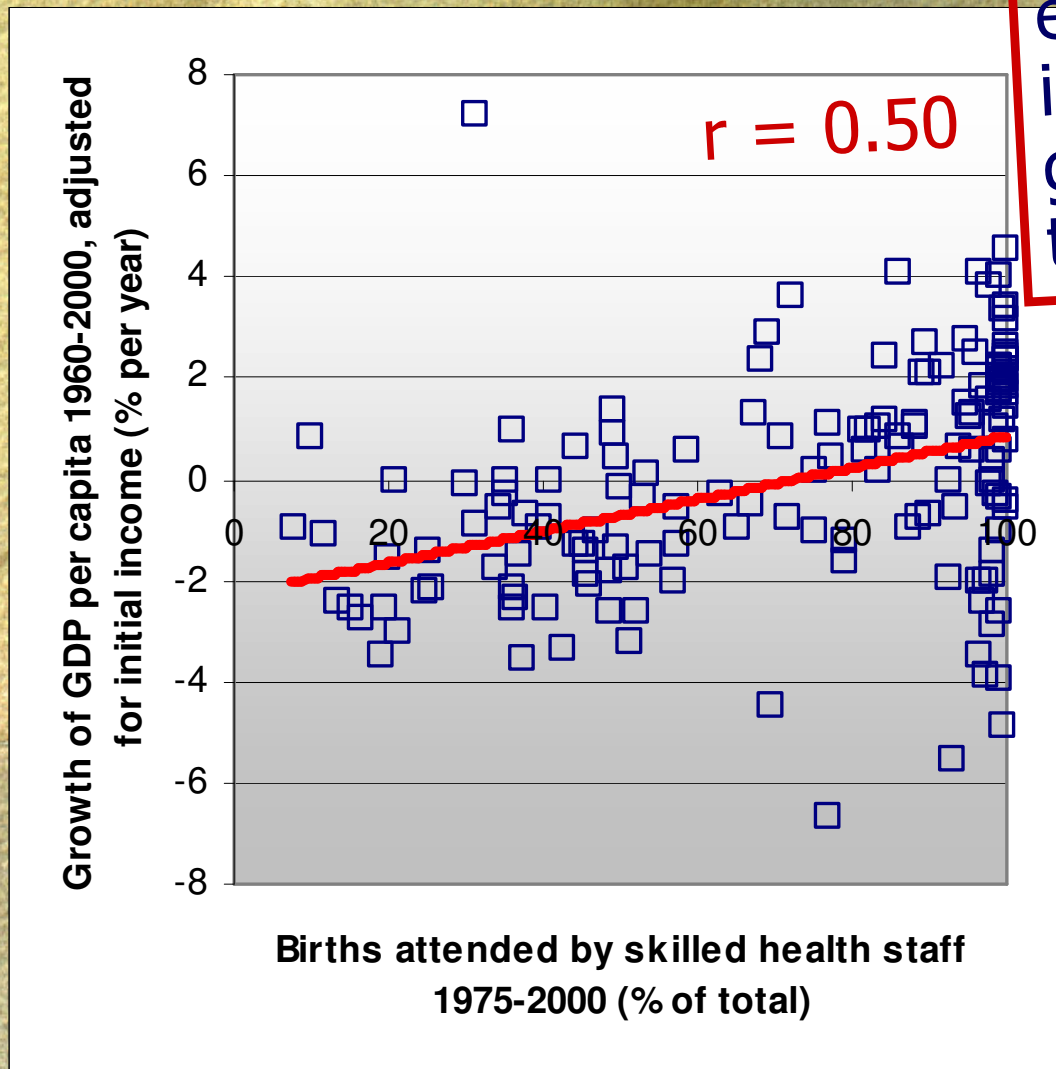
Natural resource dependence and birth care



Health is inversely related to primary production (and directly related to living standards)

163 countries

Birth care and growth



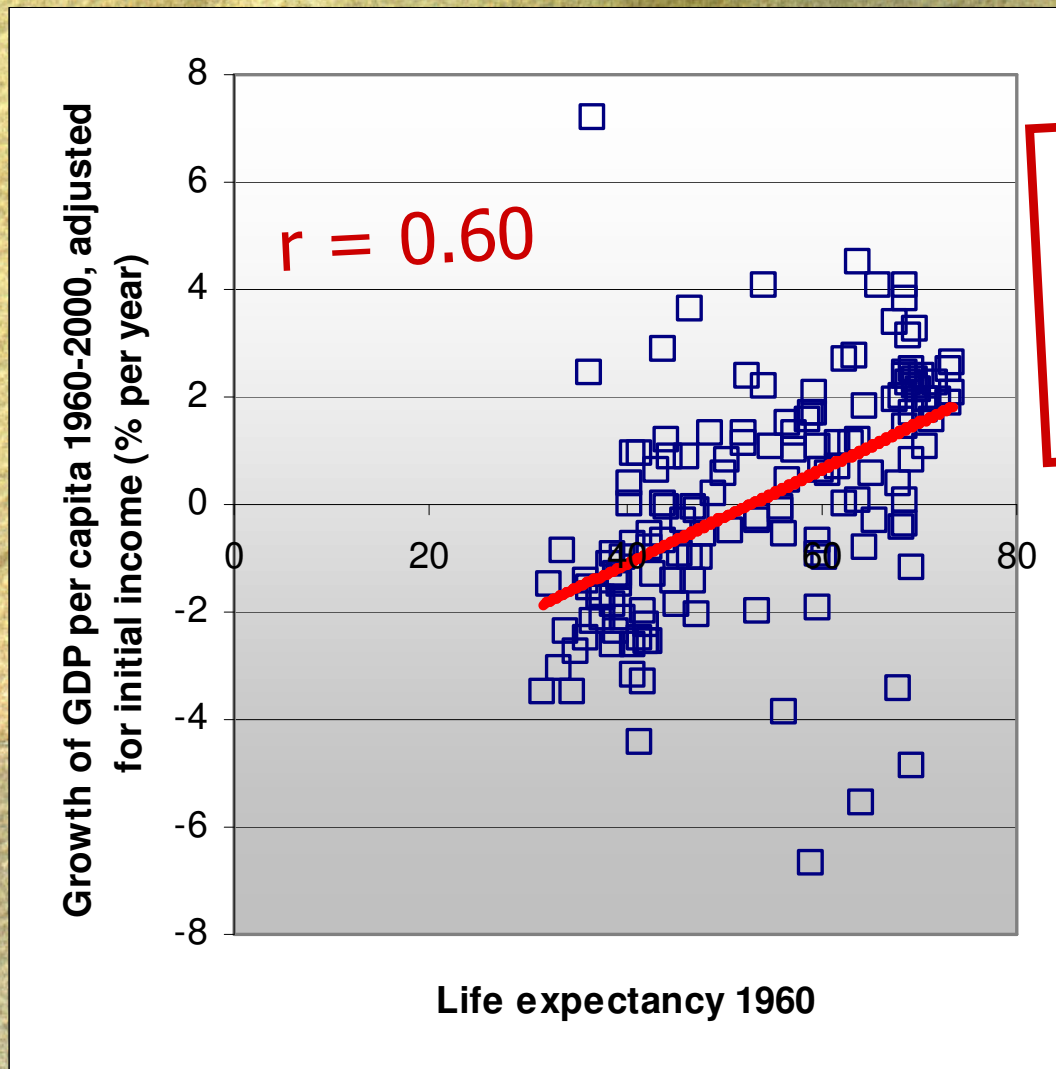
Medical care is good for growth, even if the effects of education as well as initial income on growth are also taken into account

Medical care is good for growth and vice versa

157 countries

Life expectancy and growth

Medical care is good for growth

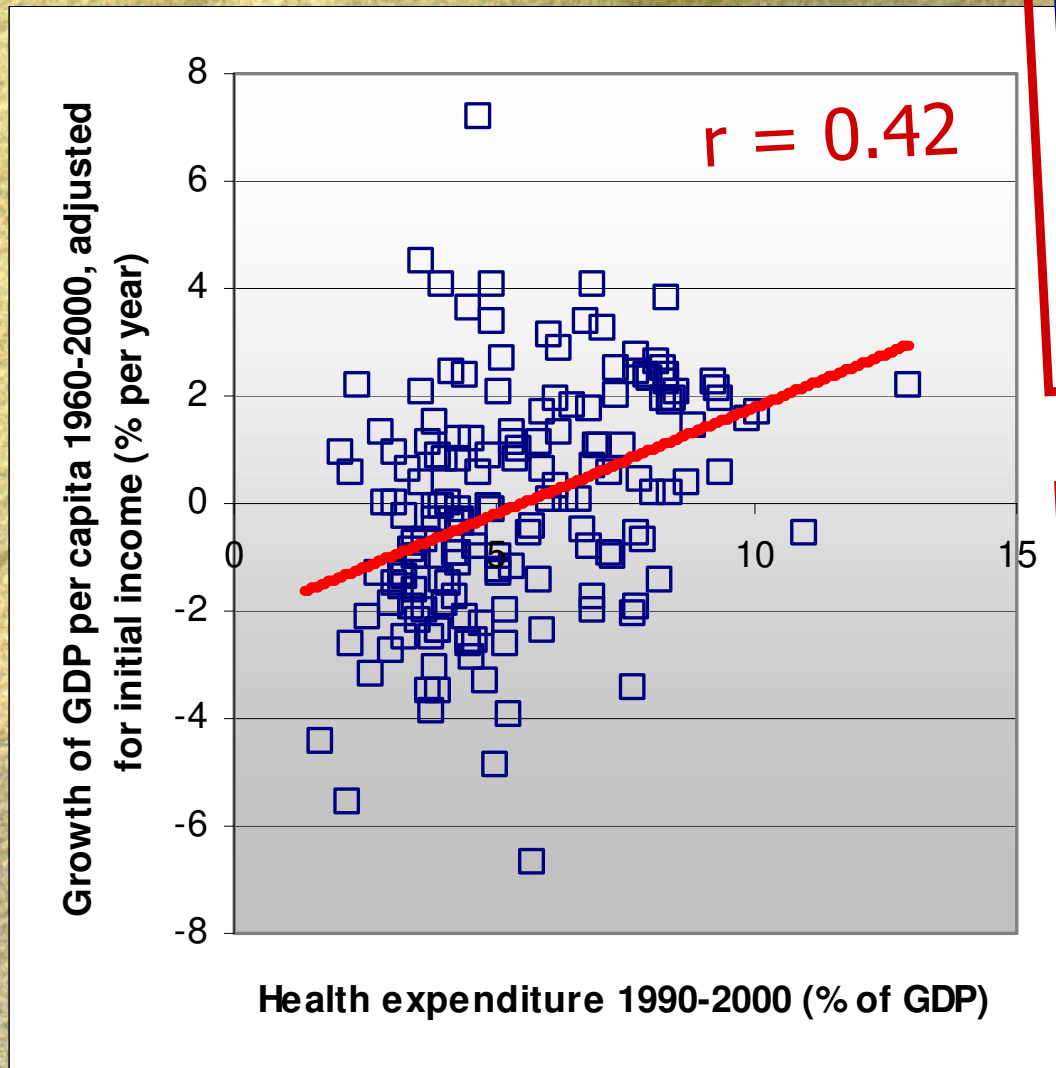


Long lives are good for growth and vice versa

Here, causation runs from life expectancy to growth

147 countries

Health expenditure and economic growth

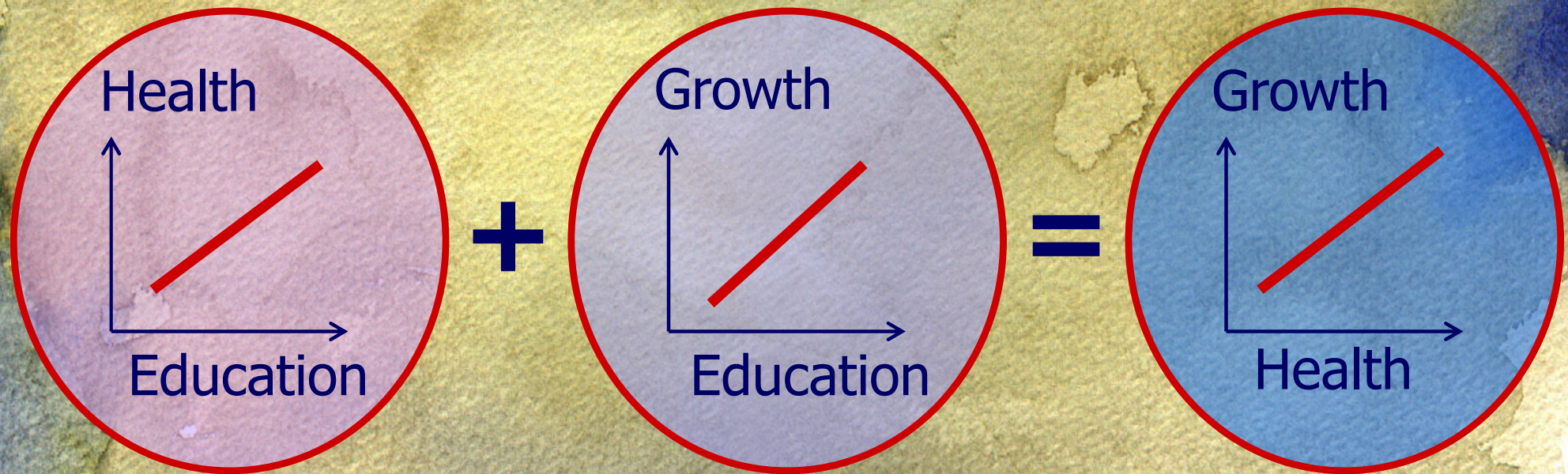


An increase in health expenditure by 2.5% of GDP goes along with an increase in growth per capita by 1% per year

Health expenditure is good for growth and vice versa: Same story

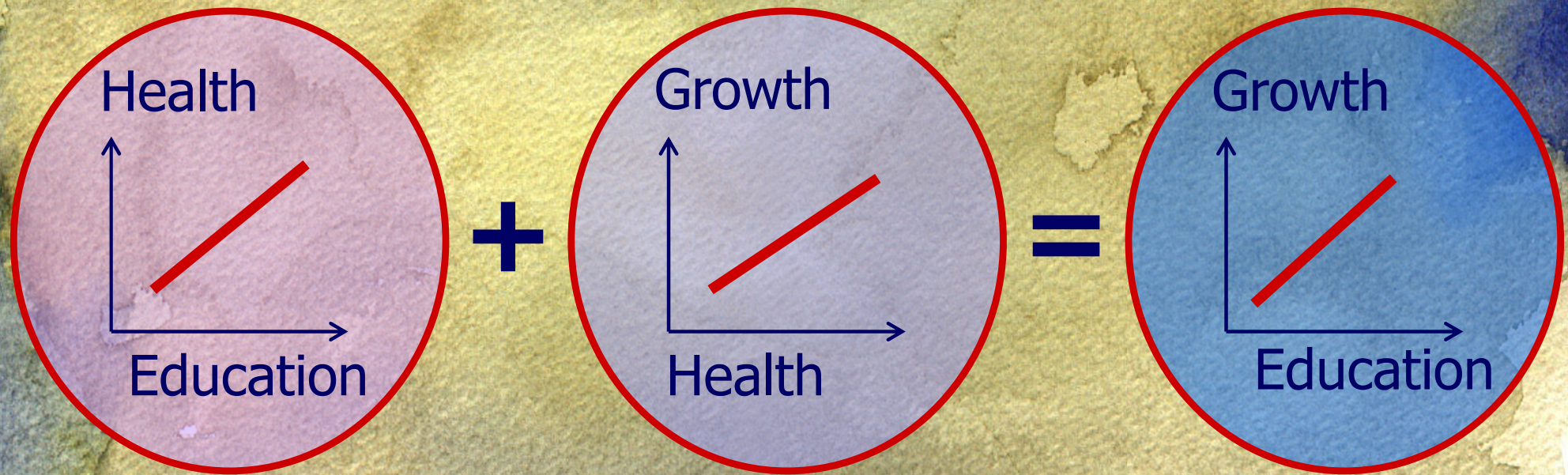
163 countries

Reading the charts



Education helps both growth and public health, so health and growth go hand in hand

Another interpretation



Education spurs growth, and good health is also good for growth, so education and growth go hand in hand

These slides are accessible on my
website: www.hi.is/~gylfason

In conclusion

Health care, like education,
helps build human capital
Disease and ignorance
impede economic growth

Individual and social welfare depends mostly
on human capital, not natural capital
Public policy needs to encourage efficient
allocation of resources in health care
More market solutions, less central planning

