

HOW MUCH WOULD IT COST TO INCREASE UK HEALTH SPENDING TO THE EUROPEAN UNION AVERAGE?

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1. Introduction

Since the November 2001 Pre-Budget Report, there has been much speculation surrounding how much the UK spends on health and how much more it would need to spend in order to reach the average level of spending seen across European Union countries. An aspiration to increase UK health spending to the average European level was first made by the Prime Minister in January 2000.² In addition, the Labour Party manifesto states that ‘over time we will bring UK health spending up to the EU average’. More recently, the Prime Minister has confirmed that he would like to see UK health spending reach the European average by 2005.³ This short note compares the level of health spending in the UK with that overseas and discusses how much more the UK is likely to need to spend on health if it is to meet the Prime Minister’s stated target.

2. International comparisons of health spending

Information on health spending in various countries comes from the OECD Health Data 2001.⁴ Unfortunately, the most up-to-date information on health spending across all countries is for 1998, although data for some countries are available for 1999. In the UK in 1998, total health spending is estimated to have been 6.8% of national income. This comprises 5.7% of national income spent publicly and 1.1% spent privately. The amount spent publicly exceeds the 5.2% spent on the NHS in 1998–99 since the OECD data include non-NHS public spending on health.

Figure 1 shows how the level of UK health spending compares with that seen in other EU countries. Across the 15 Member States, only Luxembourg (6.0%) spends a

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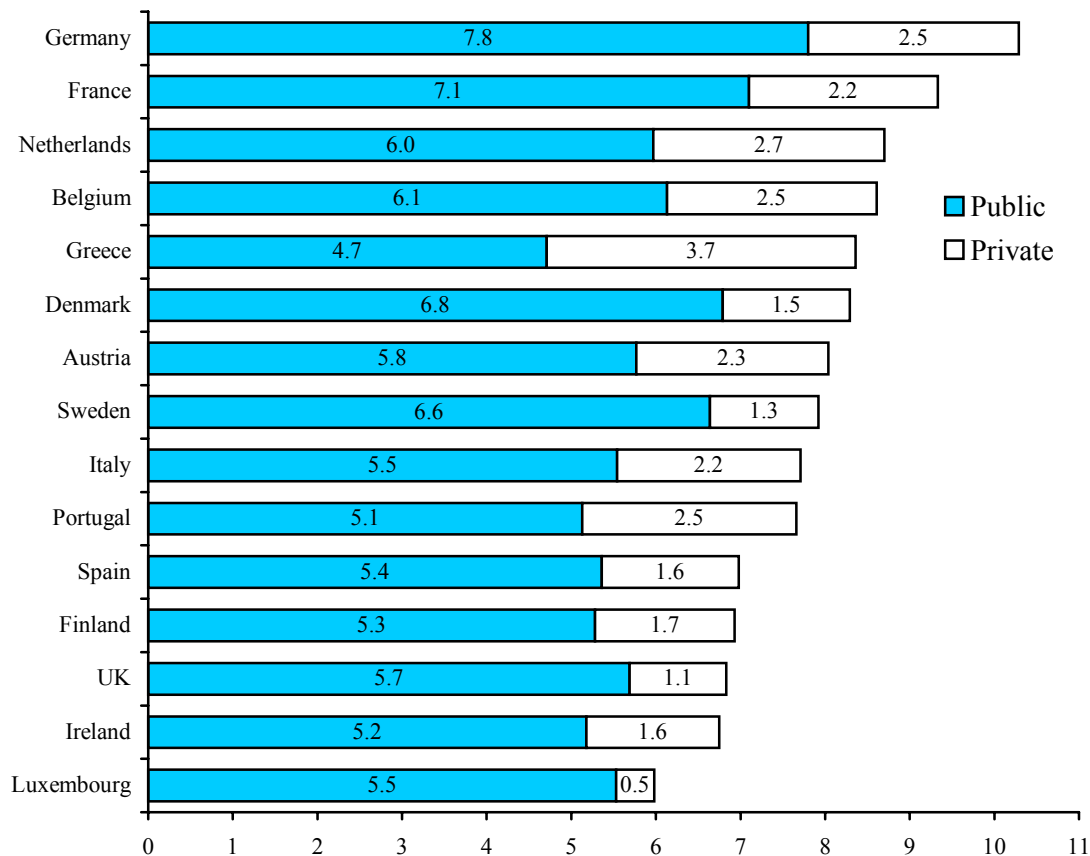
² The Prime Minister’s comments were originally made on BBC *Breakfast with Frost*, 16 January 2000, and were repeated in *Hansard*, 19 January 2000, column 837.

³ See *Hansard*, 28 November 2001, column 964.

⁴ For more details of the OECD Health Data, see www.oecd.org/els/health/software.

noticeably smaller share of its national income on health. Countries such as France (9.3%) and Germany (10.3%) spend considerably more than the UK. Looking elsewhere, the USA is an even bigger health spender, with almost 13% of its national income going to healthcare.⁵

Figure 1. Public and private health expenditure as a percentage of national income across the 15 Member States of the EU, 1998



Source: *OECD Health Data 2001: A Comparative Analysis of 29 Countries*, CD-ROM. Data on total health expenditure as share of national income from 1960 to 1998 can be downloaded from www.oecd.org/xls/M00019000/M00019660.xls.

3. What is the average level of health spending across EU countries?

There are a number of ways in which the average across the EU countries can be calculated. Perhaps the most obvious is to simply add the spending across the 15 countries and then divide by 15 – this gives a figure for 1998 of 7.9% of national income. This figure includes the UK, so it may seem more appropriate to take the average across

⁵ For a discussion of international comparisons of health spending and health outcomes see, among others, C. Emmerson, C. Frayne and A. Goodman, *Pressures in UK Healthcare: Challenges for the NHS*, Commentary no. 81, IFS, London, 2000 (www.ifs.org.uk/health/nhsspending.pdf); C. Propper, 'Expenditure on healthcare in the UK: a review of the issues', *Fiscal Studies*, 2001, vol. 22, pp. 151–84; O. Morgan, 'A cue for change: global comparisons in healthcare', Social Market Foundation, Discussion Paper no. 41, 1999.

the other EU Member States. As the UK is a relatively low spender, the average across the 14 other EU countries is slightly higher, at 8.0% of national income.

These ‘averages’ are in fact unweighted averages – this means that each country is treated the same, regardless of size. This is not a meaningful measure of the average level of health spending undertaken by citizens of the EU since it gives the same weight to the small and relatively low-spending countries of the Republic of Ireland and Luxembourg as it does to the much larger and relatively high-spending countries of France and Germany.⁶ An alternative methodology is to calculate the total amount of spending in EU countries and divide by the total amount of national income across the same countries. This is known as a weighted average. Across the 15 Member States of the EU, the weighted average for health spending in 1998 is estimated to have been 8.5% of national income. If the relatively low-spending UK is excluded, this rises to 8.9%.⁷

4. How much more will the UK need to spend to get to average EU health spending?

So how much will the UK need to increase health spending by in order to reach the average seen across the EU? Table 1 shows the gap between UK health spending in 1998 and the unweighted and weighted European averages, both including and excluding the UK. In order to work out how much additional health spending the government would have to pledge in order to fill the various gaps, we need to take into account the additional resources already put into the NHS since 1998, and the amount forecast to be spent under the current spending plans, which run to 2003–04. In total between 1998–99 and 2003–04, UK NHS spending is forecast to rise by just over 1.0% of national income. If we make the assumption that other European countries will keep their health spending constant as a share of national income, and that private and other public non-NHS spending on health will also remain constant, then it is possible to work out what the gap between UK health spending and each measure of the European average would be in 2003–04, and how much further the government would then need to go.

Under these assumptions, Table 1 also shows how much it would cost the government to reach four different measures of the European average in 2003–04. In order to increase spending to the unweighted average including the UK, only an additional £0.2bn of health spending will be required in 2003–04. To reach the weighted average, again including the UK, an additional £6.5bn of health spending will be required.

However, for these comparisons, it only seems sensible to take the averages that exclude the UK, since we know that UK health spending is rising as a share of national income,

⁶ It is equivalent to working out UK health spending by adding the proportions spent in England, Wales, Scotland and Northern Ireland and then dividing by four. This gives a figure for ‘average’ spending on health and personal social services as a share of national income that is approximately 25% higher than the ‘true’ figure. This is due to spending in Scotland, Wales and Northern Ireland being considerably higher as a share of national income than it is in England, so giving them equal weight increases the unweighted average.

⁷ In order to convert the currencies into the same prices we have used the average spot exchange rates over the entire year. An alternative methodology is to use Eurostat purchasing power parities. This gives an EU15 weighted average of 8.5% and an EU14 weighted average of 8.8%. Another methodology would be to weight each country by its population – this gives an EU15 weighted average of 8.4% and an EU14 weighted average of 8.8%.

and hence any average that includes the UK will, under the assumption made above that all other countries remain static, also rise. Table 1 shows that in order to increase spending to the unweighted average excluding the UK, only an additional £1bn of health spending will be required in 2003–04. If the real increases in NHS spending of 6.4% a year planned from April 1999 to March 2004 were to continue beyond 2003–04, then this would be easily achieved in 2004–05.⁸ If, however, the government wanted to increase health spending to the more meaningful weighted average (again excluding the UK), then a further £9.9bn will be required, over and above the existing plans. At the current 6.4% real rate of growth in NHS spending, this measure of the EU average would not be met until 2007–08. To meet this measure of EU average health spending in 2005–06 (i.e. around the end of the current parliament), in the absence of increases in private health spending, NHS spending would need to increase by some 10.5% a year in real terms in both 2004–05 and 2005–06.

Table 1. How much more will the UK need to spend to reach the average level of health spending seen across EU countries?

Measure of the EU average that is being aimed for:	Target (% of GDP)	Gap in 1998 (% of GDP)	Extra new spending required (£bn)
1) Unweighted, including the UK	7.9	1.1	£0.2
2) Weighted using exchange rates, including the UK	8.5	1.7	£6.5
3) Unweighted, excluding the UK	8.0	1.1	£1.0
4) Weighted using exchange rates, excluding the UK	8.9	2.0	£9.9

Notes: Extra spending required assumes that average spending on health in the other EU countries remains unchanged between 1998 and 2003–04. It also assumes that UK spending on health that is not done by the NHS – namely all private spending on health and also other non-NHS public spending on health – remains constant over this period. Extra spending required assumes that NHS spending increases by 1.0% of national income between 1998–99 and 2003–04, as is the case under the current public expenditure plans. Increase in spending as a share of national income converted back to current prices using the November 2001 Pre-Budget Report estimate of 2001–02 GDP of £998bn.

Sources: *OECD Health Data 2001: A Comparative Analysis of 29 Countries*, CD-ROM; authors' calculations.

Given that these estimates are all calculated under the assumption that spending in other EU countries will remain constant, how likely is this? Over the longer term, both the UK and the rest of the EU have increased the proportion of national income that they devote to health.⁹ More recently, since 1993, both the unweighted and the weighted averages have been relatively stable. We can get some idea of the latest changes in health spending across Europe from the OECD data, which contain information for some countries in 1999. This shows that Austria, Belgium, Denmark, Italy and Luxembourg have all increased their health spending by more than 0.1% of national income, while spending in Finland has fallen and spending in France and the Netherlands is

⁸ Average annual real increase in UK NHS spending taken from Table 3.1 of T. Clark and A. Dilnot (eds), *Election Briefing 2001*, Commentary no. 84, IFS, London, 2001 (www.ifs.org.uk/election/ebn3.pdf).

⁹ For details of UK NHS spending over time, see C. Emmerson, C. Frayne and A. Goodman, *Pressures in UK Healthcare: Challenges for the NHS*, Commentary no. 81, IFS, London, 2000 (www.ifs.org.uk/health/nhsspending.pdf). For details of the growth in EU spending, see J. Appleby and S. Boyle, 'NHS spending: the wrong target (again)?', *Health Care UK*, Spring 2001, pp. 94–99.

approximately unchanged. If health spending remains unchanged in all other countries, the overall effect of these changes would lead to a slight increase in both the unweighted and weighted averages between 1998 and 1999. It should be noted that no data are available yet for Germany which is extremely important for the weighted average since its national income is about a quarter of that of the entire EU; Germany actually reduced its health spending between 1996 and 1998.

5. Conclusion

This note has shown that to meet the unweighted average as it stands now is a modest target that would require only £1bn on top of the existing NHS spending plans. This is dwarfed by the increases already pledged and represents only a small percentage of national income. Without other reforms, it would not lead to a substantive improvement in the quality of care provided. To reach a more meaningful measure of the average level of health spending seen by citizens of the EU would require an increase in spending of £9.9bn over and above the existing plans. In the Pre-Budget Report, the Chancellor of the Exchequer, Gordon Brown, stated that ‘And I believe that ... it will be right to devote a significantly higher share of national income to the National Health Service’.¹⁰ If the government does want to see significant increases in public spending on health beyond 2003–04, then greater resources than this will be required. In the absence of increases in borrowing or savings found from elsewhere, any increase in NHS spending beyond 2003–04 will require a corresponding increase in taxation to pay for it.

¹⁰ Chancellor of the Exchequer, Gordon Brown, in his Pre-Budget Report speech to the House of Commons on 27 November 2001 (www.hm-treasury.gov.uk/Pre_Budget_Report/prebud_pbr01/prebud_pbr01_speech.cfm?).