How Much should a **Country's Health Care Expenditure Be?**

By A/Prof Lim Meng Kin

Editorial Note:
This article is based on a delivery at a recent executive programme: "The Essentials of Healthcare Economics", held from 10 to 14 December 2001 and organised by the SGH-Postgraduate Medical Institute in collaboration with the Public Policy Programme, NUS. This special 5-day course has arisen out of an initiative by SGH to embark on developing Healthcare Management knowledge, skills and capabilities amongst senior physicians and health executives who have to face the challenge of running restructured public hospitals in today's cost-conscious environment.

"Cheshire-Puss, would you tell me, please, which way I ought to go from here?"
"That depends a good deal on where you want to get to," said the Cat.
– Lewis Carrol, Alice in Wonderland

"How much should a country's health care expenditure be?" – that's the question I've been asked to address in this short, "commissioned" piece.

Drawing inspiration from the Cheshire Cat, my safe answer is "that depends".

Just as the road one should take depends on where one wants to go, how much a country should be willing to spend on health care depends a good deal on how much it values health in relation to other things. And that too, depends on whom you are asking!

In 1997, the United States spent 13.7% of its GDP on medical care, the highest of any country in the world. In comparison, Canada spent 8.6%, Australia 7.8%, United Kingdom 5.8%, India 5.2% and China 2.7%. But the funny thing is, while US policy-makers are wringing their hands over runaway health care costs, most Americans think the country is spending too little. Annual surveys carried out from 1973 to 1998 have shown with remarkable consistency that about two-thirds of Americans think the country is spending too little on health, while less than 10 percent think they are spending too much[1].

Economists would argue that in theory, the optimal level of spending is where the marginal costs equal marginal benefits. Medical costs can always be counted, while medical benefits can be quantified using proxy measures such as the number of life years gained, improved quality of life, or alleviation of pain, etc. The issue then becomes one of whether the additional benefits are worth the additional costs.

But I suspect that doctors (thanks to our medical training which emphasises the infinite value of human life), like the average taxpayer across the street, might find such an approach discomfiting. How can anyone place a dollar value on a life? Isn't health care a basic right? Shouldn't lives be saved at all costs?

Unfortunately, we live in a world of finite resources where choices - and trade-offs - must constantly be made. Consider this: The cost of providing antiretroviral drugs at current prices for all HIV positive patients worldwide who may benefit from such treatment is estimated to be US$60 billion a year[2]. At the same time, an equivalent sum is needed for improvements to basic health services for HIV/AIDS patients. It would be nice to address both these needs, but for many Third World countries, the combined costs would eclipse the entire gross national product! A hardnosed approach like cost-benefit analysis does offer a pragmatic, if imperfect, solution to the allocation of scarce resources.

The case of antiretrovirals illustrates yet another reality (which economic assumptions cannot wish away): The uncertain results of medical care. We know that the effectiveness of many of the expensive procedures currently prescribed remains unproven. In fact, on numerous occasions the evaluation of existing technologies has revealed an overall harmful impact[3]. Furthermore, between 30-60% of medical services rendered can be classified as being unnecessary[4] (read: superfluous; wasted; money down the drain). In other words, more care doesn't necessarily lead to better health, while inappropriate care can even precipitate harm. There is simply no correlation between increasing medical expenditures and increasing health benefits.

The World Health Organisation has taken a broad, macro look across all member countries, ranking them according to their health achievements relative to resources spent. It found many instances of countries spending significantly more than others but achieving worse health outcomes. Singapore came in 6th (out of 191) in "overall health system performance" in the WHO rankings – not bad at all. The US was ranked 37, Canada 30, Australia 32, UK 18, India 112 and China 144. France was number one[5].

Not surprisingly, the WHO 2000 Report has stirred controversy. I shall not go into that, save to say that when interpreting the results for Singapore, we must bear in mind that one reason why Singapore is not spending as much is that we have a comparatively young population. Only 7% of Singaporeans are aged 65 and above, compared to 16% in the US and 13% in the UK. Studies in OECD countries have shown that persons aged 65 years and above consume four times as much health care as those below 65 years. In 2030, when one in four Singaporeans will be aged 65 and above, our health care expenditure is expected to more than double, from 3% to 8% of GDP due to the aging factor alone[6]. Would 8% of GDP, then, be an acceptable level for health care spending?

Frankly, quibbling over whether 3% or 8% of GDP is too little or too much is quite unproductive, simply because there's no way of telling what the "right level" is. It would be more fruitful to ask: Are we spending in the right places (allocative efficiency)? Are we squeezing

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the most out of our health dollar (technical efficiency)? Are perverse incentives at work, resulting in unnecessary care and even compromising patient safety (quality)? Such questions are not new. They point to the importance of stewardship, and the need for an information base to guide stewardship of the health care system. In 1863 Florence Nightingale wrote:

"In attempting to arrive at the truth, I have applied everywhere for information, but in scarcely an instance have I been able to obtain hospital records fit for any purpose of comparison. If they could be obtained... they would show (those who pay for healthcare) how their money was being spent, what good was really being done with it, or whether their money was doing mischief rather than good[7]."

The message is clear: It's not how much we spend on health care, but how effectively we spend those resources, that matters[8]. It's not possible to say what level of health expenditure is appropriate, but by concentrating on improving performance, we will move steadily towards it. The key is information.

Singapore spends $4.7 billion (that's how much 3% of GDP amounted to in 2000) on health care annually[9]. It takes only a small fraction of that to fund health policy and health systems research – research that will inform health policy and improve health care management. It will be money well spent. Just imagine – the alternative would be to fly an expensive jumbo jet by the seat of our pants.

Another reason why we need good data points and navigational aids in the cockpit is that we are headed towards uncharted territory. The challenges of a rapidly aging population, the implications of the human genome revolution, and the impact of a globalising medical marketplace – these are some of the factors that conspire to fuel health care demand and place our health care system at the crossroads. As Singapore positions itself to become a regional medical hub of excellence, a major challenge would be to balance the desire to develop health care as an important sector of the economy, with the need to keep domestic health care costs affordable and accessible to all.

More than ever, we need strategic thinking and evidence-based policy making in health care. More than a narrow focus on "how much to spend?" we need to sharpen our capacity for situational awareness and start asking, "where do we want to go from here?" Unless, of course,

"I don't much care where –" said Alice.
"Then it doesn't matter which way you go," said the Cat.
– Lewis Carrol, Alice in Wonderland ■

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