

# WESTMINSTER ECONOMICS FORUM

a forum for policy makers and businesses launched by  
the Economic and Social Research Council and the  
National Institute of Economic and Social Research

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**W**elcome to the first Westminster Economics Forum newsletter of series four, giving news on the highly popular series of seminars organised by NIESR and the ESRC. This series will be focusing on the topic of “The Provision of Public Services: Quality & Choice”.

For the first seminar in this series, Dr Philip Stevens, Senior Research Officer at NIESR, spoke on *‘The Provision of Health Services in Europe: Diversity and Change’* on Friday 26th November 2004 at the NIESR’s Westminster offices. The seminar was chaired by Frances Cairncross, CBE, chair of the Economic and Social Research Council and Rector of Exeter College, Oxford. Professor Paul Johnson, HM Treasury, acted as discussant.

The presentation examined the changing systems of healthcare provision in the EU and compared them with that of the markedly different US system. It examined the economic, organisational and innovation characteristics of the health sector and reviewed the existing evidence on performance. In particular, it examined the effect of the structure of the healthcare system on performance and considered recent attempts to improve efficiency through reform in the context of organisational changes. Finally, it outlined the requirements for better measures of the output of the healthcare that are essential to assess performance.

## **Forthcoming WEF event in 2005**

Summaries for these events are available on the NIESR website at:  
<http://www.niesr.ac.uk/event/wef.htm>

### **“Choice and Sorting in England’s Schools”**

21st January 2005, 12 noon followed by a buffet lunch,  
concluding at 2pm, HM Treasury.

Professor Simon Burgess, University of Bristol.

*To register for this event please contact Grant Naber  
at NIESR, [g.naber@niesr.ac.uk](mailto:g.naber@niesr.ac.uk), tel: 020 7654 1901*

## **Contact**

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Dr Philip Stevens, Senior Research Officer, NIESR

## *“The Provision of Health Services in Europe: Diversity and Change”*

Chair: Frances Cairncross, CBE, ESRC & Exeter College, Oxford

Discussant: Paul Johnson, HM Treasury

Friday 26th November 2004

Venue: NIESR

A summary by Paul Wallace of The Economist

Health care absorbs a large and growing share of resources in rich countries. With taxes or social security contributions the dominant forms of financing, there is mounting pressure on public budgets. When the Group of Seven finance ministers met in May 2004, their agenda included not only the health of the international economy but also health spending. The main concern of governments is whether they are getting value for money.

There are sound theoretical grounds to worry about the cost-effectiveness of health care. The high expenses of medical treatment mean that health care systems are dominated by third-party payers. Whether these are taxpayers, social insurers or private insurers, they have less incentive to control costs than individual patients. Furthermore, it is doctors rather than patients who commission much medical care, creating a market in which suppliers can induce demand. These distinctive characteristics of health care systems spur technological advances that tend to raise costs rather than to reduce them.

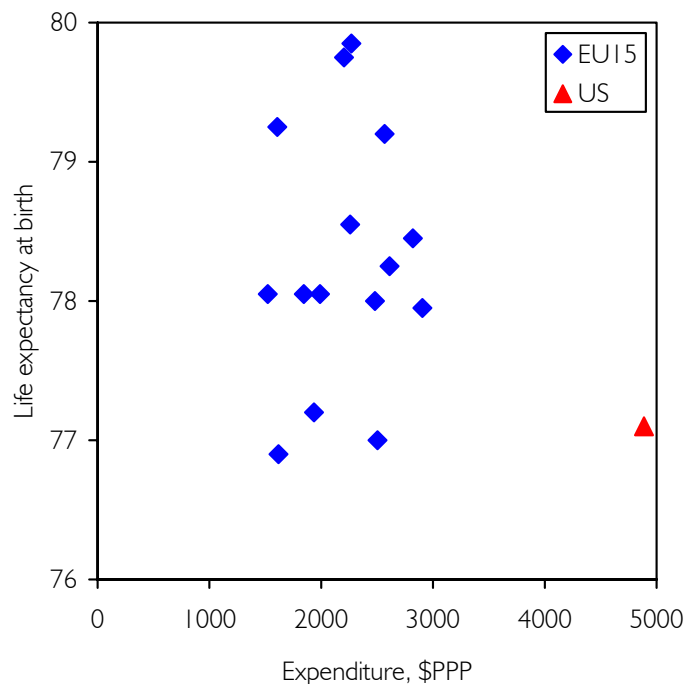
Presenting evidence about Europe and the United States, Dr Stevens examined whether the sector conformed to theoretical suspicions of poor cost-effectiveness. He started by assessing whether countries spending more on health deliver better health outcomes. No such link - for example, between resources and life expectancy - emerged from a comparison of the EU-15 and the US. In particular, the US spends easily the most, both per person and as a share of GDP, but life expectancy at birth in the US is lower than in most EU-15 countries.

However, it would be unwise to put too much weight on such findings because of the complexity

of the relationship between health spending and health outcomes. Life expectancy is an imperfect proxy for health because it does not measure quality of life and is affected by extraneous factors like homicide rates. Medical care is only one determinant of health, which is influenced by many other factors, such as income, diet or lifestyles.

An alternative line of inquiry was therefore to compare national performance in the treatment of specific diseases. However, studies in this vein also showed little evidence of a clear relationship between resources and health outcomes. Many of the improvements in health appeared to stem

### **Health expenditure and life expectancy**



Sources: OECD Health Data 2003; WHO European Health for All Database 2004; Health, United States, 2003, National Center for Health Statistics

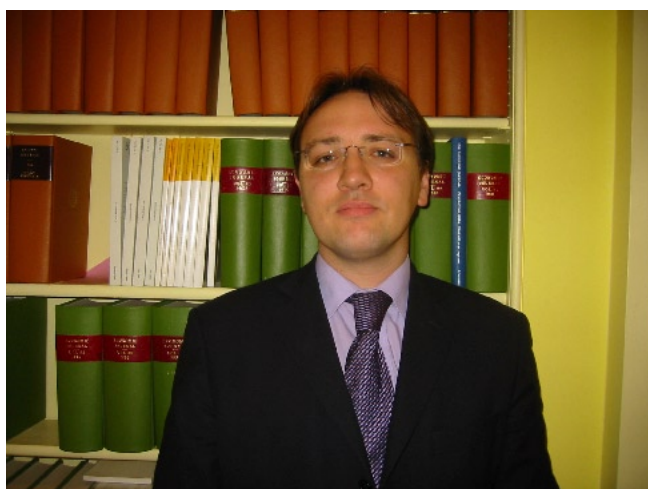
from developments outside the hospital sector, where health care costs are concentrated.

The broad conclusion from these comparative studies held an important lesson for policy makers. What counts is less the amount of money and more the way it is spent. Use of cost-effective treatments hinges upon the way that medical provision is organised, and the incentives this creates for hospitals and doctors.

Dr Stevens added that many aspects of medical care were clearly valued even if they did not necessarily produce better health outcomes. For example, patients expect hotel-like service in hospitals. More importantly, they put a high premium on prompt access to medical advice and swift treatment.

Firm answers to the question of whether rich countries are getting value for money from their expensive health care systems remained elusive. In part, this was because of the inherent difficulty in measuring the ultimate health benefits of health care. It was also because of the difficulty in a state-funded system like the NHS in measuring outputs that are not priced in a market. Better measures of health care outputs were essential in order to gauge the sector's performance.

Responding to the paper, Paul Johnson, the Treasury's chief microeconomist, agreed about the importance of better health care output measurement. He said that the debate on the NHS was no longer about its reliance upon tax-based funding. Instead it was focused on the way that money moved through the system, and the structure of the NHS. In that respect, it was pertinent to recognise that different parts of the



*Dr Philip Stevens, Senior Research Officer, NIESR*

health service suffer from different sorts of market failure. Greater competition and choice made more sense for elective than emergency care.

Martin Weale, director of NIESR, suggested that cost differences in health care systems were likely to reflect national differences in the structure of medical labour markets. If this were the case, it would strengthen the case for a powerful single purchaser like the NHS to restrain the wages of medical staff.

Joe Grice, executive director of the Atkinson review of the measurement of government output and productivity for the national accounts, commented on the paradox of public attachment to the NHS despite the lack of a clear link between resources and health outcomes. He said that measuring health care outputs was not quite as difficult as sometimes portrayed. A crucial question was whether it would then be possible to get a better grasp of the contribution made by the NHS to improving the country's health.

John Ball, adviser to the Association of Retired and Persons over 50, highlighted the current lack of understanding of the impact of health care on health outcomes. Until this issue was addressed, it would be difficult to draw any conclusions about how the NHS was performing.

Dr Stevens replied that studies were available which cast light on the benefits of medical care. For example, hip transplants gave people a better quality of life; heart bypass surgery extended life. He was optimistic that research would clarify the contribution the NHS makes to health.

### **web link**

Dr Philip Stevens' presentation is available at:  
<http://www.niesr.ac.uk/event/WEF261104.PPT>

### **NIESR's Monthly E-Newsletter**

Sign up now to receive NIESR's free monthly email newsletter. Included every month are: articles on topical economics subjects, NIESR's research activities summarised and forthcoming NIESR events.

To subscribe to NIESR's email newsletter, please email [g.naber@niesr.ac.uk](mailto:g.naber@niesr.ac.uk) with your name, position and organisation.

## about NIESR - [www.niesr.ac.uk](http://www.niesr.ac.uk)

The National Institute is Britain's longest established independent economic research institute with over sixty years experience of applying academic excellence to the needs of business and policy makers. The Institute's objective is to promote, through quantitative research, a deeper understanding of the interaction of economic and social forces that affect people's lives so that they may be improved.



The Institute is independent of all party political interests. It has no core funding from government and is not affiliated to any single university, although our staff regularly undertake projects in collaboration with leading academic institutions.

Our research interests are constantly changing in response to new needs but embrace most of the issues that shape economic performance. Current programmes include work on productivity, pensions and the ageing population, trade and investment, labour markets and economic statistics. All are underpinned by the Institute's long standing strength in macroeconomic modelling and forecasting.

NIESR conducts its research to high ethical standards. To this end it adheres to the code of the Social Research Association. NIESR researchers ensure that their research complies with this code.

## about the ESRC - [www.esrc.ac.uk](http://www.esrc.ac.uk)

The Economic and Social Research Council (ESRC) is the UK's leading agency funding research and training on social and economic issues with an international reputation for providing high-quality research on issues of importance to business, the public sector and government.



An independent organisation, established by Royal Charter, ESRC receives most of its funding through the Government's Office of Science and Technology. With a budget of more than £78 million ESRC will fund over 2,500 researchers in academic institutions and policy research institutes throughout the UK and support over 2,000 postgraduate students.

The quality of life and economic well-being of the UK and its citizens are just two of the many key, policy-relevant issues addressed by the ESRC portfolio of research and training activities. Comparative and international perspectives are strongly encouraged. Economic performance for example, is increasingly dependent on the global economy, and economic distribution both within and between countries and regions is a major issue for social science research. Every member of society benefits from the contribution we make to the UK's science base and public life.

**Westminster Economics Forum web site:**  
[www.niesr.ac.uk/event/wef.htm](http://www.niesr.ac.uk/event/wef.htm)

From here you can view or download papers and presentations from previous WEF seminars and find summaries, provided by Paul Wallace of *The Economist*.

Details of forthcoming seminars are also listed on the site.