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Left and Right must confront uncomfortable truths about the economics of healthcare

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Few topics elicit as much parochial emotion as the future of the NHS.

Conservatives know in their hearts that its current outcomes are internationally substandard, but are convinced of the electoral imperative to pay homage to it. At their party conference, Health Secretary Matt Hancock declared, heartily: “I love the NHS.”

Ministers, meanwhile, go out of their way to deny Jeremy Corbyn’s claim that the NHS is “on the table” in a future US-UK free trade agreement.

Perhaps such positioning is politically smart for the Tories. Polling now suggests trust levels on the NHS’s future are similarly low for both major parties, after all.

But one can’t help thinking there’s a long-term cost to the scramble for the “best protector of the NHS” summit: too little focus on economic home truths about healthcare, and what they mean for taxpayers and outcomes.

Consider these striking facts. Just 100 years ago, healthcare represented 0.3pc of total UK GDP. Today it is 9.6pc of a much bigger pie, four-fifths of which is NHS spending. On unchanged policies, it is predicted to rise to a massive 15pc of GDP in 50 years, primarily because of ageing. We are on course, in other words, for healthcare to be the biggest single industry in the economy.

This is primarily something to celebrate, not mourn. Life expectancy in 1919 was just 58 for women, with only 6pc of the population aged over 65. Infectious diseases were the most common cause of death for all - except those in untypically old age.

So successful have we been in eliminating such afflictions that “deaths of despair” for the young and debilitating conditions for the old are the worries *du jour*.

Better health has improved life expectancy fantastically: one person in four will be over 65 by 2050. By 2070, 8pc of the population will be over 85, with around half a million people over 100.

Little wonder we see healthcare spending pressures. Hospital costs surge in the final years of life. If ageing leads to increased morbidity – the number of years spent in ill-health – this pressure exacerbates. For a publicly financed, pay-as-you-go system, the coming demographic headwinds for the NHS are thus large. Rising spending is a *fait accompli*.

But it's a mistake to attribute rising spending to date to just demographics or inefficiency. Rising incomes are the most important cause. In country after country, people spend more on their health as they get richer, demanding the best care and treatments available. It's only because we have a socialised system that spending levels are such a political football. When free to choose, people spend more, and that's ok.

NHS spending, as elsewhere, tends to rise faster than GDP not because of some uniquely British inefficiency (although evidence exists that bang for the buck on outcomes here could be improved at current spending levels), but because healthcare has universally been, to date, a stubbornly labour-intensive sector. Treatment and drug qualities have improved massively, but automation as seen in manufacturing has not been extensive.

Economist William Baumol described the effects of this as a "cost disease". As other industries become more productive, their workers' wages rise. Attracting NHS staff means their wages must rise simultaneously. Since the activities of medical professionals – the operations, appointments, and more – are difficult to automate, the cost of health services goes up relative to other sectors and GDP. The King's Fund estimates, for example, that staff costs account for around 70pc of a typical hospital's total costs, and rising.

We fiscal hawks therefore must confront an inconvenient truth: as we get richer and the population ages, the UK will spend more on health. If the NHS model is maintained, spending will grow, and taxes or other funding will take more from working-age pockets. It's as simple as that.

But that reality should shake Labour too. For the only way NHS spending will avoid exploding and necessitating huge across-the-board tax rises will be if an industrial revolution in healthcare can cure, or at least alleviate, the "cost disease". Technological progress looks promising. Patient rotating beds and self-monitoring equipment are here already, as are remote operations.

Robots and AI are in development for provision of "telepresence" in distant homes, to assist or undertake surgeries, to dispense prescriptions, to sanitise and disinfect hospital floors, and more. Diagnostic software could facilitate nurses to undertake simple treatments or tests more accurately than doctors today. Driver-less ambulances could free up paramedics. New technologies could allow patients to remain comfortable in their homes for "end of life", avoiding heroic but futile resource use in hospitals.

Rolling out such technologies cost-effectively here though will necessitate an adaptive, responsive health system. Hospitals will need to change size and location. New service providers will be needed, often at scale. Certain types of doctors and other professionals will not be necessary – and innovators will need a return, especially if the US goes down the route of socialising its own system, which currently subsidises much medical research for the rest of the world.

Unfortunately, the same people who venerate our health service most are those who would object, or side with vested interests against things that could improve it. For now, both major parties focus instead on the modern equivalent of Soviet "tractor production statistics" – the number of doctors, nurses, or shiny new hospitals their extra spending has financed.

Is big change possible within a system with rationed resources and little responsiveness to patient demands? Taxpayers better hope so. But to start that conversation we need to agree on the basic

economic conundrum, with the Right taking the demand-side drivers of healthcare seriously and the Left acknowledging the supply-side challenge.

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