

Definition and measurement

Total expenditure on health measures the final consumption of health care goods and services (*i.e.* current health expenditure) plus capital investment in health care infrastructure. It includes spending by both public and private sources (including households) on medical goods and services, as well as expenditures of public health and prevention programmes and administration. Excluded are a number of health-related expenditure such as training, research and environmental health. The two major components of total current health expenditure are: expenditure on personal health care and expenditure on collective services.

To compare the overall level of consumption of health goods and services across countries at a given point in time, health expenditure per capita is converted to a common currency (USD) and adjusted to take account of the different purchasing power of the national currencies in each country. Economy-wide (GDP) purchasing power parities (PPPs) are used as the most available and reliable conversion rates.

In 2004, OECD countries devoted, on average, 8.9% of their GDP to health spending. This proportion varies considerably across countries, ranging from 15.3% in the United States to less than 6% in the Slovak Republic and Korea (Figure HE2.1). Following the United States, in terms of highest health spending as a percentage of GDP, were Switzerland and Germany which spent 11.6% and 10.9% of their GDP on health, respectively. In 2004, eight countries devoted more than 10% of their GDP to health care, whereas in 1997 there were only three. Public spending on health accounted for more than 8% of GDP in Germany, France, Iceland and Norway, but for only about 3% in Korea and Mexico.

The public sector still pays the bulk of health costs in all OECD countries apart from the United States and Mexico. On average in OECD countries, 73% of health spending was publicly funded in 2004. This average public share has been quite stable over time though there have been significant changes in a number of countries. Also, with a few exceptions, the share of public health expenditure in the total has converged among OECD countries since the early 1990s. Many countries with a relatively high share of public health expenditure in 1990, such as Poland, Hungary and the Czech Republic, have recorded decreases. On the other hand, several countries with a low public share in 1990 have seen this share increase over time (*e.g.* Korea, the United States, Mexico and Switzerland). In Korea, the share of public health spending increased from 38% in 1990 to just over half of health spending in 2004.

The changes over time in the ratio of health expenditure to GDP reflect the combined effect of the trends in GDP and health expenditure. Nearly all OECD countries have experienced a rise in the proportion of economic production devoted to health over the period from 1990 to 2004 due to faster growth in health expenditure than in the economy as a whole. On average, across OECD countries, the health expenditure-to-GDP ratio has increased from 7.0% to 8.9%. In particular, Norway, Iceland and the United

States experienced a high increase, as health expenditure grew more than two times faster than GDP in these countries. In Finland and Italy, however, the share of health expenditure in GDP increased only slightly.

Figure HE2.2 highlight a positive association between net national income (NNI) per capita and health expenditure per capita across OECD countries. While countries with higher NNI per capita spend a larger proportion of their NNI on health, there is wide variation across countries, as NNI is not the only factor. The association is also stronger for lower-income countries than among those with higher NNI per capita. Among countries with a NNI per capita of 25 000 USD PPP and above, there are substantial differences in health expenditure at a given level of NNI. For instance, Germany spends around a third more on health than both Italy and Japan, despite similar levels of NNI per capita.

Figure HE2.3 shows the relationship between life expectancy at birth and health expenditure per capita across OECD countries. Higher health spending per capita is generally associated with higher life expectancy at birth, although the relation is less pronounced in countries with higher health spending per capita. Again, Japan and Spain stand out for their relatively high life expectancies, given their level of health spending, and the United States, Hungary and Turkey for their relatively low life expectancies. These simple correlations are, of course, only suggestive: variations in NNI per capita may influence both life expectancy and health expenditure per capita; also, many other factors, beyond national income and health spending, need to be taken into account to explain variations in life expectancy across countries.

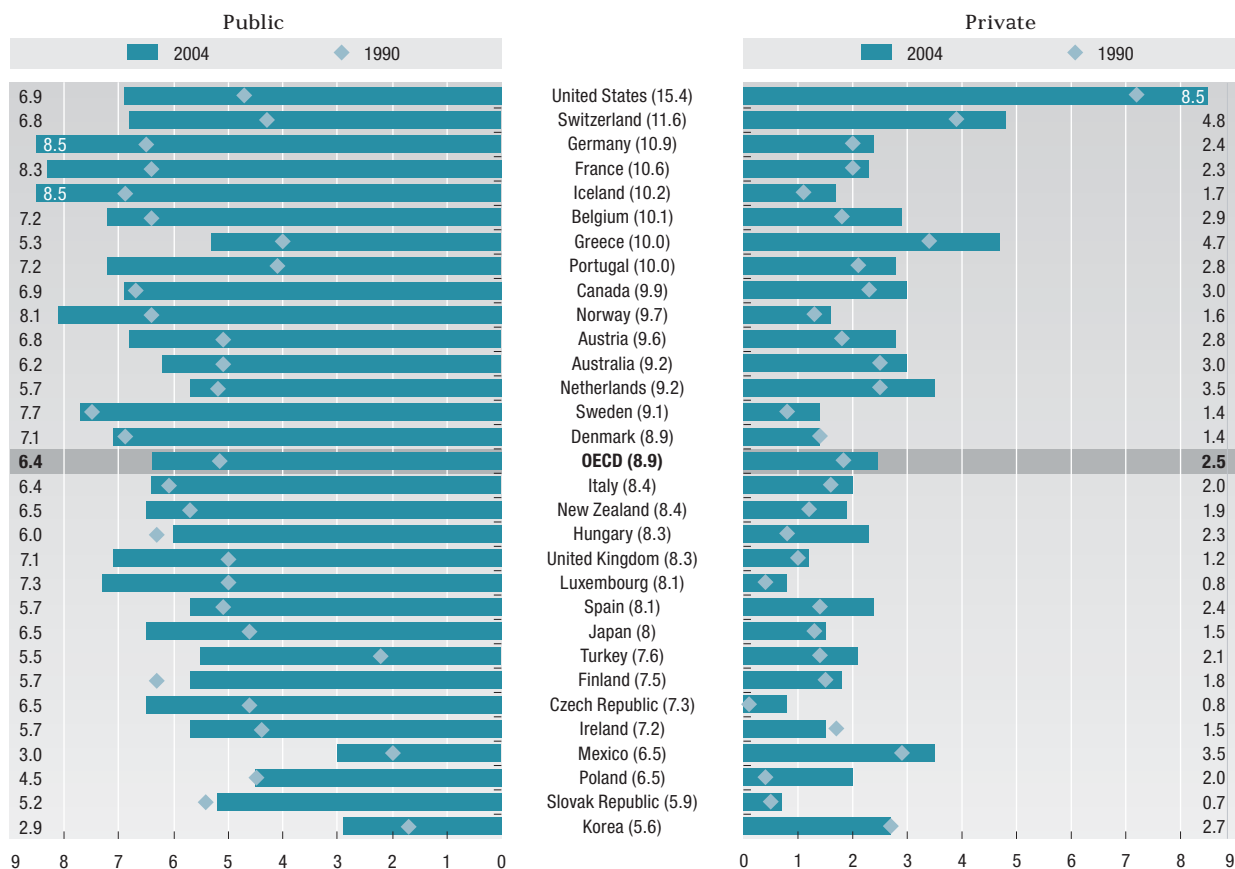
Status indicators: Life expectancy (HE1).

Response indicators: Long-term care expenditure (HE5), Public social spending (EQ5).

HE2. HEALTH CARE EXPENDITURE

HE2.1. More spending on public and private health since 1990

Public and private spending of health, in percentage of GDP, in 2004¹ (blue bars) and 1990² (diamond markers)

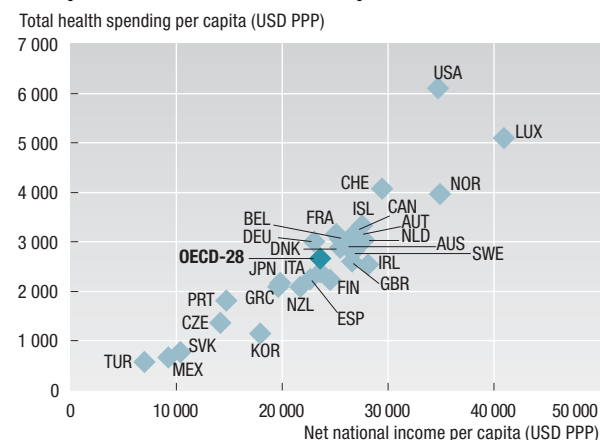


Note: Countries are ranked by decreasing order of total health spending in 2004 (values in brackets in central column).

- 2003 in Australia, Belgium, Germany, Japan and the Slovak Republic; current expenditure for Denmark.
- 1991 in Hungary; 1995 in Belgium; 1997 in the Slovak Republic.

HE2.2. Health care expenditure and national income per capita in 2004

Per capita for NNI and total health expenditure, 2004,¹ USD PPP

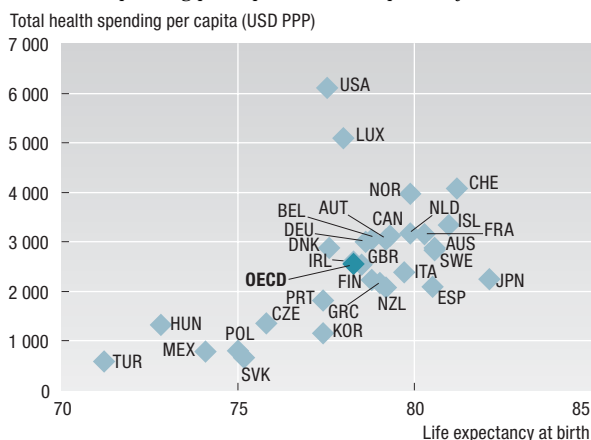


1. 2003 for Australia, Belgium, Germany, Japan and the Slovak Republic.

Source: OECD (2006), OECD Health Data 2006, Paris (www.oecd.org/health/healthdata).

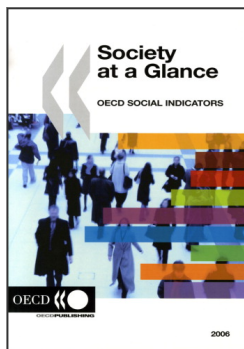
HE2.3. Variation across OECD countries between health spending and health outcome

Health care spending per capita and life expectancy at birth, 2004



StatLink: <http://dx.doi.org/10.1787/708368548062>

Further reading ■ OECD (2004), *Towards High-Performing Health Systems*, Paris. ■ OECD (2005), *Health at a Glance – OECD Indicators 2005*, Paris.



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