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**Affordability of Increasing Health Care Expenditures in Germany:
A Macroeconomic Analysis**

In: Gesundheitsökonomie & Qualitätsmanagement 10 (2005) 178-187.

Key words:

Health care spending – Economic growth – Affordability – Sensitivity analysis

Abstract:

Currently, debate in Germany about the sustainability of social security systems often suffers from imprecise use of terminology. Analyzing the health care sector, we propose to differentiate more clearly between affordability (or ability to pay), financing (or actual flow of funds), and willingness-to-pay. On this basis, we assess, from a macroeconomic perspective, affordability of future health care spending increasing at a faster rate than gross domestic product (GDP). Further, we analyze how affordability depends on real economic growth. Abstracting from distributional issues, we define affordability in marginal terms; its limit being reached when the annual increase of health spending would fully absorb the growth of GDP available for consumption. Assuming a two-percentage-point gap between real per-capita growth in health care costs and growth in GDP, we find affordability for at least another 50 years, providing the real per-capita economic (GDP) growth rate exceeds one percent. At GDP growth rates lower than one percent, so defined affordability declines rapidly. Within this framework of maximum affordability, actual willingness-to-pay will be decisive for future growth of health care spending. Factors increasingly determining willingness-to-pay are likely to include distributional issues, societal preferences, and the value of medical care.