

Fiscal Space for Health Care Expenditure

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The Concept of “Fiscal Space”

Adapted from budgeting for “emerging markets”

creating space for investment/innovation

accept but cope with logic of incrementalism

Health a problem for fiscal space or fiscal space solution for health budgeting?

part of “entitlement” concern

or concern about long-term commitments

Fiscal space *for* health expenditure seems to ask for a theory of the rest of budgeting

Answers Must Be Mostly Local

Chances of changing specific priorities
depend on local policies and politics

Increasing Efficiency Couldn't Hurt

But even efficiency challenges depend *in part*
on local policies and politics

Technical challenges by definition are universal
(e.g. nobody knows how to measure)

Many others depend on current system design –
e.g. your delivery system helps determine ability
to enforce guidelines (if technical problem solved!)

But There Are General Concerns

Ability to raise revenue

Dedicated Financing?

Support for Redistribution?

Pre-funding????

Entitlements vs. Bureaus

Effect on Pressures?

Long-term vs. Short-term

“Bending the Curve” – good long-term focus
or dangerous distraction?

Basic Problem of Public Budgeting

Match Details to Totals

But Much Easier for Individual Than a Group

“Why the Government Budget Is Too Small”

Everybody can name (or at least imagine) a program they don't like

So everyone is willing to spend less

But that does not mean majorities are willing to cut any of those programs!

The Flaw in Traditional Public Finance:

Competition for general revenue may reduce willingness to pay

General vs. Dedicated Revenue

Difference in practice is diminishing

Do dedicated revenues or entitlement by contribution increase willingness to pay?

Maybe. Voters appear more willing to raise the taxes. Policy-makers maybe not so much.

Need a tax base that isn't shrinking!

Cover certain services, free funds for others?
E.g. Canada idea...

Effects on spending, rest of budget depend...

on the revenue source

and on whether trying to resist new spending or cut old spending (Estonia? Germany?)

Other Revenue Issues

The question IS redistribution: will the people who pay most of the taxes subsidize those who don't – and need help with health care

Perhaps making their care depend on financing others makes them more willing to pay?

Or does some public/private mix that is “just right” maximize revenues for health?

Can fiscal space be created by pre-funding?

Only in long run. Reduces space now because a new expense

Seems like a dream now. But in better times?

Some systems do it for pensions. Why different?

Bureaus vs. Entitlements

Health Care Not Always an Entitlement

Many are bureaus – different promise

Blame Avoidance

Budgeters can blame managers of bureaus

Bundling is a way to make entitlements more like bureaus on this dimension. And maybe better.

Managing for Efficiency

More likely with a bureau program.

More tools and forms of influence, e.g. to enforce guidelines.

Contracting more powerful and flexible? Unlikely.

But pressures can build on bureau programs

Beware of Long-term Commitments?

“guard against revenue or spending actions which have only modest impact(s) in the year(s) immediately ahead but balloon in future years.”

“Bending the Curve” of health expenditure

Directs attention to measures that would save in the long run. Good idea, if we know any.

But may distract from shorter-term cost control.
Which may be the best policy for long-run

Health expenditure is a war, and the other side gets to respond to fiscal controllers' moves.

No policy can have clear effects in 20 years

Long-term policy more practical for pensions

One Minute Version

“Fiscal Space” speaks to traditional public finance goal of flexibility

Distrust of “entitlements” and long-term commitments

Reordering priorities depends on local politics and policy base.

When we consider willingness to pay, we see weakness in traditional public finance view

Maybe dedicated funding has advantages

Bureau form also might

Long-term focus more dangerous than helpful