

POLICY BRIEF #2: THE RETURNS TO INVESTING IN HEALTH

Global Health 2035: A World Converging within a Generation finds that there is an enormous payoff from investing in health. Improved health contributed importantly to income growth in low-income and middle-income countries, as measured using traditional national income accounting (based on GDP).

But while GDP captures the benefits that result from improved economic productivity (the so-called *instrumental value* of better health), it fails to capture the *intrinsic* value of better health—the value of health in and of itself. *Global Health 2035* reports a more comprehensive understanding of the returns to investing in health by estimating this intrinsic value using “full income” approaches. Full income approaches suggest that the intrinsic value of better health is likely to be a multiple of its instrumental value.

These results provide planning ministries in low- and middle-income countries, as well as donor agencies, with a strong new rationale for increasing health spending.

The impact of health on economic productivity

Since the launch of the 1993 World Development Report, the body of evidence pointing to the economic payoff from investing in health has steadily grown. Many microeconomic (individual level) and macroeconomic (national level) studies have shown that better health is linked with higher income.

How do health improvements result in increased GDP per capita? Mechanisms include (see figure 1):

- the impact of better health and nutrition on adult worker productivity;
- childhood educational attainment, which is a powerful mechanism of income growth; and
- the increased access to natural resources and to foreign direct investment that come about from controlling diseases like malaria and river blindness.

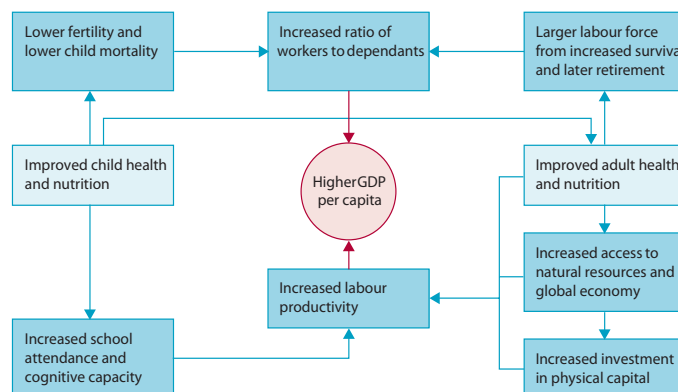


Figure 1: Links between health and GDP per person

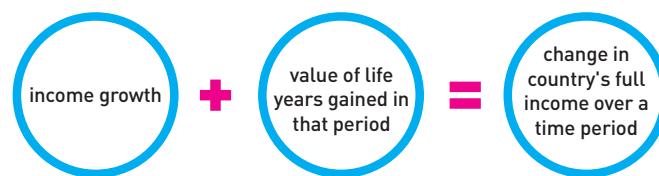
Full income: A better way to measure the returns from investing in health

While these existing microeconomic and macroeconomic studies measure the impact of health improvements on economic productivity (GDP), they do not capture the intrinsic value people place on their own improved health.

Measuring full income. Imagine two countries that have an identical GDP per person, but that have stark differences in their health status. The population of country A lives longer and in better health than the population of country B. If GDP per person is used as the only measure of wealth, this approach does not capture the monetary value of country A’s better performance. The reduced mortality risk in country A will not be accounted for in national income accounts. When it comes to estimating changes in the welfare status of a population, this failure to account for reduced mortality is a major omission. “Full income accounting” addresses this omission. Estimating the growth in a country’s full income, rather than just in its GDP, gives a more accurate and complete picture of the value of health investments. A full income approach combines growth in national income with the value people place on increased life expectancy—that is, the value of their additional life years (VLYs). This approach accounts for

people's willingness to trade off income, pleasure or convenience for an increase in life expectancy. One VLY is the value in a particular country or region of a 1-year increase in life expectancy. Global Health 2035 estimates that, on average, across low-income and middle-income countries, one VLY is about 2.3 times the per-person income.

Figure 2: Defining full income



A better way to evaluate health investments. Using a full income approach, 24% of the growth in full income in low- and middle-income countries between 2000 and 2011 resulted from health improvements (i.e., VLYs gained). Global Health 2035 also estimated the contribution of health to the annual growth in full income in 1990–2000 and in 2000–2011 for different regions of the world (see figure 3). The report found that across low- and middle-income countries as a whole, health contributed to annual growth in full income by about 1.2% per year of the initial value of GDP for the period 1990–2000 and 1.8% per year in the period 2000–2011. To give just one regional example, in south Asia, the annual value of mortality change from 2000–2011 was equivalent to 2.9% of average income during the period. These returns to improvements in health are very impressive. By the same assessments, setbacks to health—such as HIV/AIDS in many countries—result in a far more substantial adverse impact than the impact on GDP per capita would suggest.

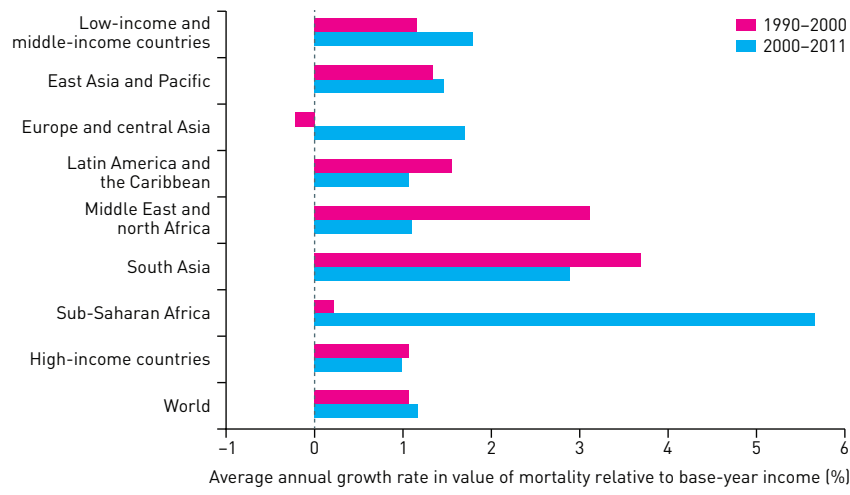


Figure 3: Contribution of change in life expectancy to growth in full income, 1990–2000 and 2000–2011

Global Health 2035: A Call to Action

Global Health 2035 lays out an ambitious investment framework for achieving a “grand convergence” in global health—a reduction in infectious, maternal and child deaths down to universally low levels within a generation.

Achieving convergence would require significant increases in health spending in low- and lower-middle-income countries. In 2035 alone, the incremental cost would be about US \$30 billion in low-income countries and around US \$61 billion in lower-middle-income countries. Expected economic growth, together with other sources of revenue, such as taxes on tobacco and removal of subsidies on fossil fuels, will enable low-income countries to finance most of this agenda on their own, while middle-income countries will easily be able to leverage resources entirely domestically. While the costs are high, using a full income approach, Global Health 2035 finds that over the period 2015–2035, the economic benefits of convergence would exceed costs by a factor of about 9 in low-income countries and around 20 in lower-middle income countries. This benefit cost ratio makes the investment extremely attractive.

The full income approach provides a strong rationale for allocating greater resources to the health sector and health-related sectors—and an even stronger basis for action than ever before. Health ministers, finance ministers, donors and advocates should use full income measures when making the case for investing in the Global Health 2035 agenda, and in health generally.

Global Health 2035: A World Converging within a Generation was written by **The Lancet Commission on Investing in Health** – an international multi-disciplinary group of 25 commissioners, chaired by Lawrence H. Summers and co-chaired by Dean Jamison.

The full report was published in *The Lancet* on 3 December 2013 and can be found at www.lancet.com.