ECONOMETRIX

RESEARCH NOTE

THE NATIONAL HEALTH INSURANCE SCHEME:

RE-ALLOCATING FINITE RESOURCES

OCTOBER 2010

The NHI: Re-allocating Finite Resources

EXECUTIVE SUMMARY

The discussion document on the National Health Insurance (NHI) scheme presented by the ANC at its National General Conference (NGC) on 20-24 September 2010 provided the first real public discussion input to the party's long awaited intention to introduce a National Health Insurance scheme in SA.

Given that healthcare will have to compete with other forms of government spending ranging from social support programmes to education, infrastructural expansion and the government's own growing interest burden, it is worth analysing what percentage of government's income and expenditure would be allocated to NHI if this initial budget expenditure comes to fruition.

This NHI discussion document sets several targets including:

1) an initial budget expenditure on NHI, reaching R375.5bn by 2025 (in 2010 montary terms).
2) 14.0%-14.5% of government expenditure allocated to NHI by 2025.
3) assumes that NHI spend will reach 7.8% of GDP.

We seek to answer under which GDP growth scenarios all 3 of these objectives will be met.

According to an analysis of the discussion document's proposals, only a very high scenario of GDP growth reaching 7%pa and above will result in an economy that can absorb the initial budgeted expenditure on NHI within the targeted spend of approximately 15% of government budget and 8% of GDP. If one considers the historic performance of the South African economy, the more likely sustainable growth rate is between 3,5%pa and 4,5%pa, which will result in healthcare expenditure consuming between 22.8% and 28,2% of government spending rather than the 14% to 14.5% target expressed in this NHI report . It should be noted that the Abuja Declaration set an ambitious target of 15% of government spending for healthcare.

The funding for NHI would also rely on the government's ability to raise additional revenue through taxes to boost fiscal revenues. This is dependent on the performance of the economy and presents a number of challenges, including whether it would be funded through an earmarked or general tax such as VAT which would also impact the poor.

Given the slim probability of GDP growth ever reaching 7%pa on a sustained basis for more than a decade, this prompts the question as to whether healthcare expenditure at such high levels is worth the sacrifices of spending on other high priority government targets, for example housing, social welfare and productive infrastructure that could support growth in levels of employment.

1. Background

The NGC discussion document was preceded by a number of other proposals and intention statements on NHI, but the priority status with which the scheme is now regarded in governing party thinking was probably driven by the 2007 ANC congress in Polokwane. NHI was emphasised in the ANC alliance election manifesto as one of as its five focal points which preceded the April 2009 general election.

The NHI paper, presented as a section of the "ANC National General Council 2010, Additional discussion document", was clearly intended as a basis for discussion at the Durban Conference. However, now that this document is in the public domain, it has become open to debate - not just within the party and its alliance, but also by the domestic and international public. The information in the document is, at the moment, an ANC party position and should not be confused with a government green or white paper, which would set out government's (as opposed to the governing party's) intentions on health insurance.

While it would be foolish to assume that the party and cabinet leaders within the ANC alliance and government have not had a chance to influence the NHI discussion document, the horse trading between government departments is likely to sharpen up over coming months as each tries to conserve its own slice of resources within government's spending pie.

Eventually, Cabinet will have to reconcile competing demands for government spending power, before deciding on the size and shape of the NHI product. Such political decisions are not always totally anticipated, nor are they likely to be taken without regard to public debate on subjects making up the NHI proposal.

2. The macro-economic foundation of the NHI proposition

In developing thinking around the NHI proposition as set out in the ANC discussion document, attention needs to be directed towards Figure 1 below which replicates the initial budget put forward for the NHI in the ANC discussion document.

Figure 1

Year	Non-AIDS-related services	AIDS-related services	Additional services	Total Direct Healthcare costs	NHI Operational costs	Total costs in delivering services
2011	0	0	0	0	0	0
2012	62,046,136,519	17,166,207,505	44,849,610,373	124,061,954,397	3,721,858,632	127,783,813,029
2013	73,025,380,580	19,715,909,555	47,972,448,892	140,713,739,027	4,221,412,171	144,935,151,198
2014	87,589,233,705	21,986,952,564	51,274,311,806	160,850,498,075	4,825,514,942	165,676,013,017
2015	100,333,926,287	26,244,506,794	54,781,914,327	181,360,347,409	5,440,810,422	186,801,157,831
2016	114,898,755,097	28,728,750,718	58,499,982,602	202,127,488,417	6,063,824,653	208,191,313,069
2017	123,189,099,264	31,030,939,052	60,040,879,634	214,260,917,950	6,427,827,539	220,688,745,489
2018	133,591,674,074	33,149,581,757	61,597,254,837	228,338,510,667	6,850,155,320	235,188,665,988
2019	144,903,912,419	35,111,160,178	63,170,046,508	243,185,119,105	7,295,553,573	250,480,672,679
2020	157,508,970,776	36,941,489,310	64,759,982,811	259,210,442,897	7,776,313,287	266,986,756,183
2021	171,300,907,435	38,660,495,022	66,367,461,533	276,328,863,990	8,289,865,920	284,618,729,910
2022	187,415,239,881	40,285,667,400	67,992,907,505	295,693,814,787	8,870,814,444	304,564,629,230
2023	205,248,449,873	41,834,116,750	69,636,768,171	316,719,334,794	9,501,580,044	326,220,914,837
2024	225,012,871,360	43,303,832,918	71,299,372,411	339,616,076,689	10,188,482,301	349,804,558,990
2025	246,938,067,931	44,715,842,637	72,980,932,232	364,634,842,800	10,939,045,284	375,573,888,084

The data in Figure 1 represents initial budgeted expenditure on the NHI which is intended to be introduced over a 13-year period between 2012 and 2025. This data excludes the effects of inflation (it is expressed in 2010 prices).

- The NHI is to be set up under the Minister of Health and will supply:
- Primary care and preventative services
- Inpatient care
- Outpatient care
- Emergency care
- Prescription drugs
- Appropriate technologies for diagnosis and treatment
- Rehabilitation
- Mental health services
- The full scope of dental services (other than cosmetic dentistry)
- Substance abuse treatment services
- Basic vision care and vision correction (other than laser vision correction for cosmetic purposes)
- Hearing services, including the provision of hearing aids

(Discussion Document Page 22, paragraph 84)

"In addition, the NDoH will continue to provide non-personal services including overall responsibility for infrastructure development for which it receives a budget. It remains critical that the responsibility of co-ordinating the development of overall health plans including personal services resides with the NDoH. The function that the NDoH will capitulate is the purchasing function for personal services, including personal health promotion and disease prevention services, since the NHI Fund will contract and directly reimburse both public and private providers."

"However, the fund will only purchase personal services in accordance with the approved plans by the NDoH. The second function the Department will relinquish is quality assurance, which will be done by the Office of Standards and Compliance, which should be outside of the Department of Health, but reports to the Minister of Health." *[page 22, paragraph 81]*.

3. NHI Budget as a proportion of GDP

Central to any discussion on the viability of NHI is how it will be funded and how much of government's budget will be spent on healthcare as this means diverting funds from other areas of service delivery. A starting point for macro-economic analysis of the ANC discussion paper includes comparing costs of the NHI against the total output of the South African economy, usually expressed in terms of Gross Domestic Product (GDP).

Figure 2, compares the projected spend by the NHI Fund (as per the ANC discussion paper) under different GDP growth rate scenarios. These costs exclude the costs of the Office of Standards and Compliance (OSC) and those of the NDoH (the provincial Departments of Health as the provider arm will be funded through reimbursements from the NHI Fund). Figure 2 also illustrates how the state's funding of NHI will use up an increasing proportion of GDP over the period it is implemented.

Figure 2

NHI Discussion Budget in different growth scenarios

		Lowest Probable GDP Growth @ 2% pa		Easily Achieveable GDP Growth @ 3.5% pa		Highest Likely GDP Growth @ 4.5% pa		Challenging GDP Growth @ 7% pa	
	NHI Delivery Costs Rm	Real GDP Rbn	Health Share of GDP	Real GDP Rbn	Health Share of GDP	Real GDP Rbn	Health Share of GDP	Real GDP Rbn	Health Share of GDP
2010		2650.0		2650.0		2650.0		2650.0	
2011		2742.8		2742.8		2742.8		2742.8	
2012	**127.7**	2797.6	4.6	2838.7	4.5	2866.2	4.5	2934.7	4.4
2013	**144.9**	2853.6	5.1	2938.1	4.9	2995.2	4.8	3140.2	4.6
2014	**165.6**	2910.6	5.7	3040.9	5.4	3129.9	5.3	3360.0	4.9
2015	**186.8**	2968.8	6.3	3147.4	5.9	3270.8	5.7	3595.2	5.2
2016	**208.2**	3028.2	6.9	3257.5	6.4	3418.0	6.1	3846.8	5.4
2017	**220.6**	3088.8	7.1	3371.5	6.5	3571.8	6.2	4116.1	5.4
2018	**235.1**	3150.6	7.5	3489.5	6.7	3732.5	6.3	4404.3	5.3
2019	**250.4**	3213.6	7.8	3611.7	6.9	3900.5	6.4	4712.6	5.3
2020	**266.9**	3277.8	8.1	3738.1	7.1	4076.0	6.5	5042.4	5.3
2021	**284.6**	3343.4	8.5	3868.9	7.4	4259.4	6.7	5395.4	5.3
2022	**304.5**	3410.3	8.9	4004.3	7.6	4451.1	6.8	5773.1	5.3
2023	**326.2**	3478.5	9.4	4144.5	7.9	4651.4	7.0	6177.2	5.3
2024	**349.8**	3548.0	9.9	4289.5	8.2	4860.7	7.2	6609.6	5.3
2025	**375.5**	3619.0	10.4	4439.7	8.5	5079.4	7.4	7072.3	5.3
Compound Rates : 2012 -25%pa									
	8.65	**2.00**		**3.50**		**4.50**		**7.00**	

Constant price GDP growth rates are assumed to be 3% for 2010 and 3.5% for 2011, after which various growth scenarios are investigated.

Scenario 1: Lowest growth rate of 2%pa

The lowest South African GDP growth scenario examined in Figure 2 sets the growth at 2%pa after 2011. This may appear extraordinarily low but actually compares closely to the growth rates of the 1980's which saw GDP growth of 1.4%pa, and the 1990's which delivered 1.3%pa. The second half of the 1990's - as investor confidence grew in South Africa and democracy became more firmly established - were scarcely better than the growth rate assumed under this scenario, with 1995 to 1999 showing an average growth rate of 2.7%pa. (See Figure 3 below, which tracks equivalent 13 year GDP growth rates that have occurred in the past, creating a context for the four growth scenarios analysed here).

Under this lowest growth scenario, the amount that government will spend on healthcare will escalate from a share of 4.5% of GDP in 2010 to 10.4% by 2025. A government healthcare spend share of GDP that is top of mind for many members of the public is in the order of 3.6% of GDP. While this figure was certainly current when the early debate about the NHI was initiated during 2008, following policy announcements in 2007, it has been overtaken by major economic events during 2008 and 2009. GDP declined in absolute real values during 2009, while the government health spend did not, so the share of the smaller GDP accounted for by the large health spend must have risen. The levels of NHI spending for 2012 are therefore slightly higher than may intuitively be expected, reflected at close to 4.5% of GDP, but these are based on discussion document's NHI budget, combined with

realistic estimates for GDP at constant 2010 prices made by Econometrix. This would clearly mean that funds would have to be diverted from other areas towards healthcare spending.

Scenario 2 – Growth rate of 3.5%pa

The 3.5%pa GDP growth scenario for the South African economy after 2010 is similar to the growth performance of the economy between 2000 and 2009 when economic growth averaged 3.6%pa.

The highest growth rate during that decade touched 6.1% in 2006, with the lowest annual rate coming in at -2.2% in 2009. In this 3.5%pa growth scenario, the share of government health spend will escalate from 4.5% in 2012 to 8.5% in 2025.

Scenario 3: Growth rate of 4,5%pa

The third scenario illustrated in Figure 2 assumes a 4.5%pa growth rate for GDP, sustained over the 13 years after 2011. Econometrix considers this level of growth to be the likely maximum achievable over such a long period of time, with the cap to the growth rate at this level emerging (despite periods of cyclically higher growth for short spurts of time) from two perennial shortages within the South African economy, namely technical and economic skills, and financial and economic capital.

This scenario sees the public health spend climb to 7.4% of GDP by 2025, with the residual private sector spend on health care and insurance probably slightly exceeding the residual contemplated in the 3.5%pa growth scenario at around 1.5% of GDP. The higher residual results from the significant increase in real spending power, both for the economy as a whole and upper income earners that/who would be likely to emerge from an underlying growth rate of 4.5%pa for the South African GDP.

Scenario 4: Very high growth rate of 7%pa

Both President Zuma and Finance Minister Gordhan have recently talked of trying to find ways of creating sustainable growth in the South African economy at a long-term rate of 7%pa, and this assumption forms the basis of the very high growth rate scenario comparison in Figure 2.

As yet, no-one has illustrated how the 7%pa growth rate is to be achieved, and without any deliberate and known policy interventions of almost magical status, it seems difficult to imagine 13 years of growth around this average rate.

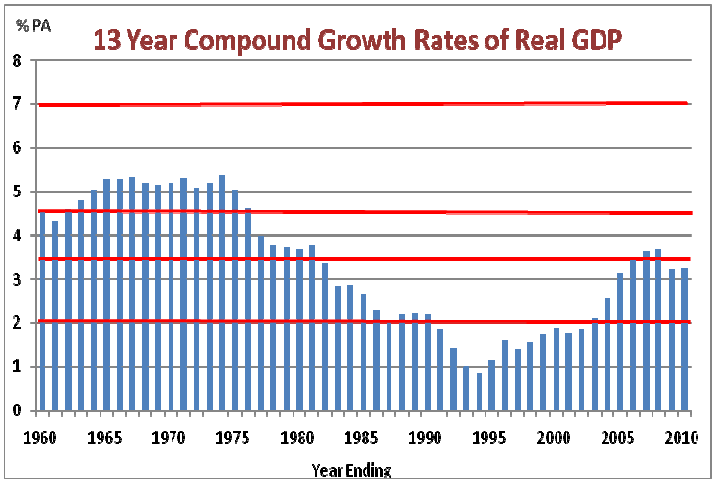
Even under these conditions, government spending on healthcare, which is budgeted to grow at 8.65%pa in the discussion document, grows faster than GDP. As a result, the health budget increases its share of demands on the resources generated by South Africa's production, rising from 4.4% in 2012 to 5.3% of GDP in 2025.

In such a scenario, it seems highly likely that the profusion of wealth projected by the GDP growth rate would induce very high levels of private spending on healthcare, over and above whatever is provided by public sector spending.

With the level of the GDP doubling in real terms every 10 years in a 7%pa growth environment, the NHI discussion paper budget levels could easily be exceeded

without placing any undue stress on the remaining spending power of the rest of the economy. However, a 7%pa growth scenario remains highly unlikely.

Figure 3



Health expenditure as a proportion of GDP

According to The Economist Pocket World in Figures, countries with the highest proportions of GDP spent on healthcare are illustrated in Figure 4 below:

Figure 4

International Health Spend Ratios to GDP (%)	
Country	2007 Total Healthcare Expenditure as a % of GDP
Brazil	8.40%
Chile	6.20%
Colombia	6.10%
Costa Rica	8.10%
Mexico	5.90%
South Africa	9.00%
South Korea	6.30%
Sri Lanka	4.20%
Thailand	3.70%
Vietnam	7.10%
Source: WHO	

One could expect a share of the existing private sector health spend (equivalent to 4.9% of GDP in 2009) to continue during the 13-year implementation period of the NHI as individuals may wish to sustain medical and health insurance cover. Under the different growth rate scenarios, even if the NHI was to be ultimately successful in eliminating even 80% of private health expenditure, total health spend of the public and private sectors would still amount to a large proportion of GDP, probably propelling South Africa onto the list of countries that spend the most on healthcare as a percentage of GDP.

Under Scenario 2, with a growth rate of 3,5%, both public and private sector healthcare spend would grow to a total of 9,5% of GDP by 2025.

The 4.5%pa and 7%pa growth rate scenarios could be expected to propel this combined health spending share to higher proportions of GDP because of the enormous wealth generation which they imply. Almost ironically, the low GDP growth scenario of 2%pa would not necessarily detract from the 9.5% share of GDP absorbed by healthcare spending in the 3.5% GDP growth scenario, because of the massive growth of the NHI spending as a proportion of GDP, with some residual remaining from the private sector spending present at the moment.

4. Spending on healthcare as a percentage of fiscal income

Shortly after the GNC meeting, Finance Minister Pravin Gordhan speculated in public that it would be many years before the South African fiscus would get back to the 27%+ share of total GDP (currently at 24%) that it had enjoyed prior to the recession in 2008.

Because fiscal revenue is generated by taxes, it is closely correlated to and dependent on the performance of the economy. At a time when both the world and domestic economies are still grappling with effects of the financial crisis, it will be difficult to raise the proportional level of fiscal income generated by taxes relative to GDP. The faster the economy grows, the more space there is for government to raise the proportional level of taxes. In figure 5, the faster the GDP growth scenario, the faster the National Treasury would be able to restore a fiscal revenue to GDP ratio of 27% or more.

Figure 5

NHI Discussion Budget - in different GDP fiscal revenue share scenarios

		Lowest Probable GDP Growth @ 2% pa		Easily Achieveable GDP Growth @ 3.5% pa		Highest Likely GDP Growth @ 4.5% pa		Challenging GDP Growth @ 7% pa	
	NHI Delivery Costs Rm	Fiscal Revenue as % of GDP	Health Share of Fiscal Revenue %	Fiscal Revenue as % of GDP	Health Share of Fiscal Revenue %	Fiscal Revenue as % of GDP	Health Share of Fiscal Revenue %	Fiscal Revenue as % of GDP	Health Share of Fiscal Revenue %
2010		23.9		23.9		23.9		23.9	
2011		24.4		24.4		24.4		24.4	
2012	**127.7**	24.9	18.3	25.1	17.9	25.4	17.5	25.9	16.8
2013	**144.9**	25.4	20.0	25.8	19.1	26.4	18.3	27.4	16.8
2014	**165.6**	25.9	22.0	26.5	20.5	27.4	19.3	28.9	17.0
2015	**186.8**	26.4	23.8	27.2	21.8	28.4	20.1	30.4	17.1
2016	**208.2**	26.9	25.5	27.9	22.9	29.4	20.7	31.9	17.0
2017	**220.6**	27.4	26.1	28.6	22.9	30.4	20.3	33.4	16.0
2018	**235.1**	27.4	27.2	29.3	23.0	30.4	20.7	33.4	16.0
2019	**250.4**	27.4	28.4	30.0	23.1	30.4	21.1	33.4	15.9
2020	**266.9**	27.4	29.7	30.0	23.8	30.4	21.5	33.4	15.8
2021	**284.6**	27.4	31.1	30.0	24.5	30.4	22.0	33.4	15.8
2022	**304.5**	27.4	32.6	30.0	25.3	30.4	22.5	33.4	15.8
2023	**326.2**	27.4	34.2	30.0	26.2	30.4	23.1	33.4	15.8
2024	**349.8**	27.4	36.0	30.0	27.2	30.4	23.7	33.4	15.8
2025	**375.5**	27.4	37.9	30.0	28.2	30.4	24.3	33.4	15.9

Figure 5 illustrates the NHI discussion document's budgeted public sector healthcare spend against each of the three GDP growth scenarios considered in Figure 2. According to Figure 5, if the South African economy were to grow at 2%pa and

there was a 0.5 percentage point increase per year in the fiscal revenue to GDP ratio, the discussion healthcare budget reaches a massive 37.9% of fiscal revenue by 2025. ***This means of all revenue generated by taxes, more than a third would be spent on the NHI.***

Given that other forms of government spending, ranging from social support programmes to education, infrastructural expansion and the government's own growing interest burden would be unlikely to allow for such a rapid expansion, the budgeted NHI spending appears to be a very burdensome load in this GDP and fiscal revenue ratio scenario. At 3.5%pa GDP growth combined with increasing tax revenue, the health spend share of fiscal revenue would increase to 28.2% by 2025. This is still a remarkably high ratio level, given the starting point of 17.9% in 2012.

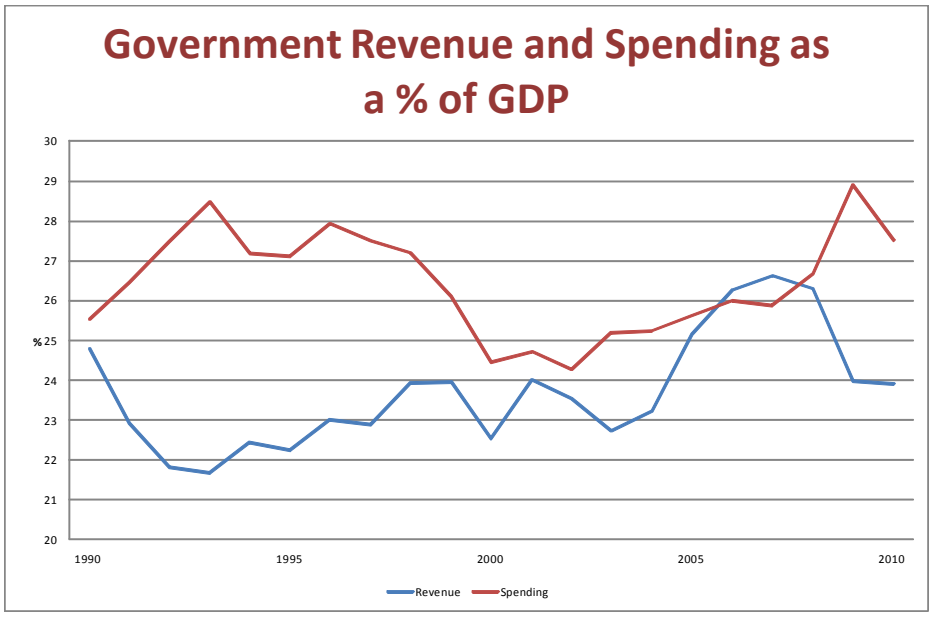
Moving to the two high growth rate scenarios, 4.5%pa GDP growth still sees the public healthcare spend rise to 24% of fiscal income. The 7%pa GDP growth scenario would see the public sector health care discussion budget remaining at reasonable levels, reaching 15.9% of the fiscus. The 7%pa GDP growth scenario makes the NHI discussion document budget figures look very comfortable, but one finds difficulty in attaching high levels of confidence to the probability of the growth scenario actually being achieved.

This examination of the NHI's budgeted spending levels against government income is not the fashionable method of comparison of project costs to government spending power, but it does throw a new light on the proportional size of the NHI spending proposals in the discussion document. A more conventional comparison of the proposals against total government spending (often referred to as "the Budget") follows below.

5. Healthcare expenditure as a percentage of total government spending

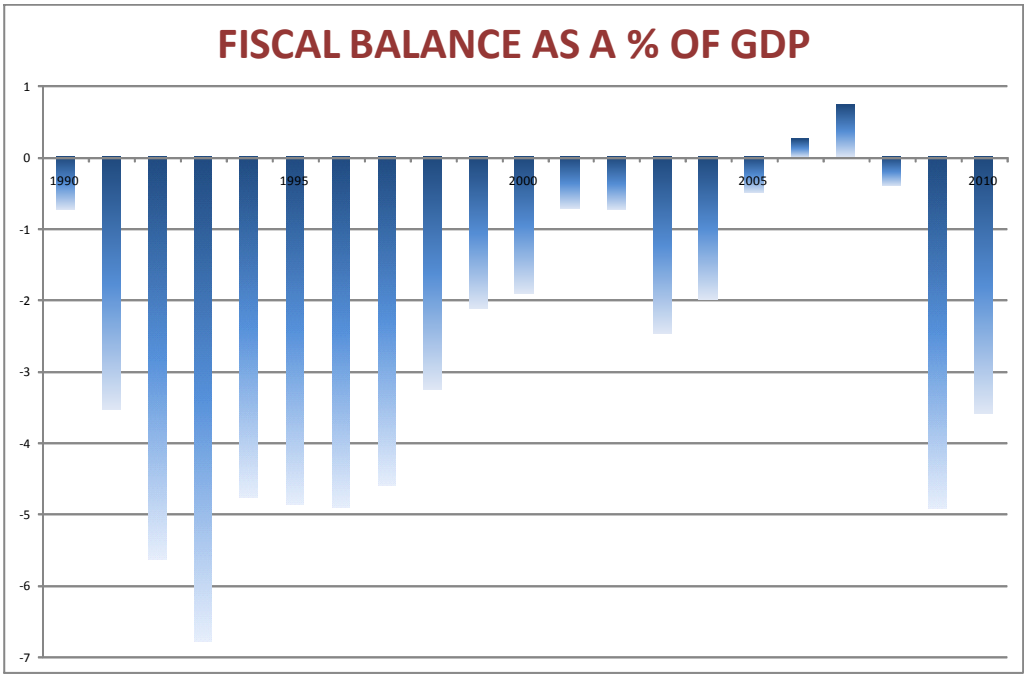
A second, possibly more meaningful way of examining the NHI budget relative to government spending power is to compare it not against fiscal revenue, but against total government spending (ie. budget).

Figure 6



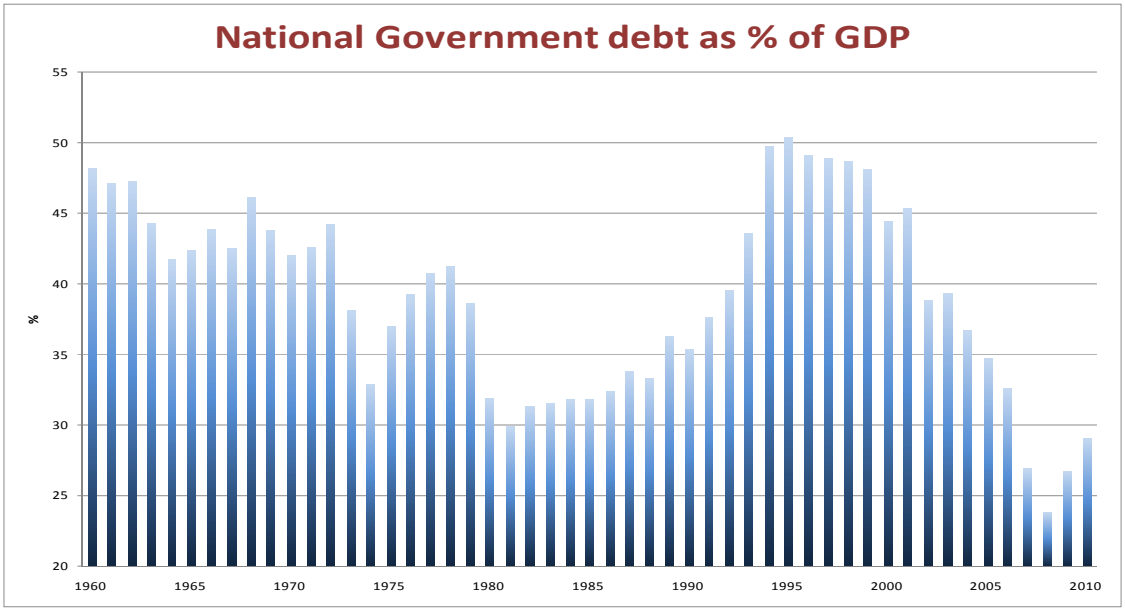
The ANC is well aware of the drain that financing government deficits places on available fiscal income, and has paid little more than lip service to the demands of its left-wing alliance members to run continuous deficits. It is therefore realistic to expect government deficits to be reduced, and small fiscal surpluses to be run in order to amortise increases in government debt in both absolute terms, and as a ratio to GDP since the end of 2008. (See Figure 7 below).

Figure 7



None of the scenarios presented in the discussion documents see the government debt to GDP ratio returning to the levels of just below 23% of GDP which were attained during the 4th quarter of 2008. While not convinced that government debt levels of around 43% currently budgeted for 2013 will continue, the pressing demands on government expenditure are expected to keep the debt to income ratio at or around 30% of the GDP mark.

Figure 8



The larger the government deficit as a proportion of GDP, the more it will spend servicing this debt. Thus, the government health spend discussion budget reduces as a share of government spending when deficit financing is applied, and increases when the deficits are reduced.

Figure 9

NHI Discussion Budget - in different GDP fiscal spend share scenarios

		Lowest Probable GDP Growth @ 2% pa		Easily Achieveable GDP Growth @ 3.5% pa		Highest Likely GDP Growth @ 4.5% pa		Challenging GDP Growth @ 7% pa	
	NHI Delivery Costs Rm	Fiscal Deficit (-VE) to GDP %	Health Share of Fiscal Spend %	Fiscal Deficit (-VE) to GDP %	Health Share of Fiscal Spend %	Fiscal Deficit (-VE) to GDP %	Health Share of Fiscal Spend %	Fiscal Deficit (-VE) to GDP %	Health Share of Fiscal Spend %
2010		-4.0		-4.0		-4.0		-4.0	
2011		-4.0		-4.0		-4.0		-4.0	
2012	**127.7**	-3.5	15.8	-3.2	15.5	-2.5	15.1	-5.0	14.5
2013	**144.9**	-3.0	17.6	-2.4	17.0	-1.0	16.7	-4.3	14.2
2014	**165.6**	-2.5	19.7	-1.6	18.8	0.5	18.6	-3.5	14.9
2015	**186.8**	-2.0	21.8	-0.8	20.6	2.0	20.5	-2.8	15.3
2016	**208.2**	-1.5	23.8	0.0	22.3	2.0	22.2	-2.0	15.6
2017	**220.6**	-1.0	24.7	0.0	22.9	2.0	21.7	-1.3	15.1
2018	**235.1**	-0.5	26.3	0.0	23.0	2.0	22.2	-0.5	15.4
2019	**250.4**	0.0	27.9	0.0	23.1	2.0	22.6	0.3	15.7
2020	**266.9**	0.5	29.7	0.0	23.8	1.0	23.0	1.0	16.0
2021	**284.6**	1.0	31.6	0.0	24.5	0.0	22.7	1.8	16.3
2022	**304.5**	1.0	33.8	0.0	25.3	0.0	22.5	1.8	16.7
2023	**326.2**	1.0	35.5	0.0	26.2	0.0	23.1	1.8	16.7
2024	**349.8**	1.0	37.3	0.0	27.2	0.0	23.7	1.8	16.7
2025	**375.5**	1.0	39.3	0.0	28.2	0.0	24.3	1.8	16.8

Figure 9 illustrates the discussion health budget as a share of total government spending, using the same fiscal revenue ratios to GDP as were used in Figure 5, coupled with fiscal deficit ratios to GDP. The faster the economy grows, the faster the government is likely to move away from deficit financing of its expenditure, and at some point in the future, the government deficit is expected to return to small surplus proportions of GDP in each of the scenarios.

In the lower growth level scenarios, healthcare spending would reach nearly 40% of total government spending by 2025. Only the very high growth scenario produces a 2025 share of total government spending on health that is securely within the middle teens as a percentage share of government spending.

However, this share is much higher than any mentioned in the discussion document, and the scenario analysis must prompt the question as to whether such high shares, given the low probability of GDP growth ever reaching 7%pa on a sustained basis for more than a decade, is worth the sacrifices of spending on other high priority government targets such as housing, social welfare and productive infrastructure that could support growth in levels of employment.

6. A taxing problem

The discussion document is very vague concerning the financing of the proposed fund that will be at the core of the NHI. It makes the point that the current preference is to fund the scheme via general tax, which may be interpreted as saying that there will be no specific or isolated payment for NHI funding. This would give the NHI access to general fiscal revenue and not constrain it to the proceeds of a specific tax or levy (as is the case with the specific RAF levy on fuel used to finance the Road Accident Fund, as opposed to COID being funded out of general tax revenues).

However, as illustrated in Figure 6 above, the level of revenue accruing to the fiscus is very heavily dependent on the overall performance of the economy both in real growth and inflationary terms. However, government revenues are hostage to both the level of real growth and the level of inflation in the economy. Revenue to GDP ratios can alter substantially due to economic cycles, and any specific earmarked or ring-fenced tax or levy to fund the NHI could become hostage to economic cycles with the threat of under-funding during economic downturns. In this context, discussing the apparent options available for funding the NHI is a little like contemplating the arrangement of deckchairs on an ocean liner instead of keeping an eye open for icebergs.

The more important consideration is balancing the entire fiscal equation, not just the funding requirements of the NHI. Clearly, each of the potential revenue sources mentioned has opportunities and threats associated with it. For example, VAT collections would be instantaneous to introduce, but would be regressive, affecting both the wealthy and the poor, but the poor more so. Personal income tax surcharges would be progressive in nature, affecting the wealthy more, but would take some time to generate income flows. Payroll levies appear to tax corporations, but are easily transferred from companies back to individuals. The structure of generating additional tax income to fund the NHI is potentially a complex one, requiring a macro-economic model to assess the potential impacts on spending.

7. Conclusion

A thorough analysis of the NHI proposals contained in the ANC's NGC discussion document indicates that economic problems begin to arise when the share of total government revenue that the NHI would absorb is considered under a range of four different growth scenarios for South Africa's GDP over the budgeted period of 2012 to 2015.

The low growth scenario of 2%pa for GDP sees a ballooning share of government revenue absorbed by healthcare spending, which would rise to 37.9% by 2025.

In the 7% GDP growth scenario, which has never been discussed as anything more than a "nice to have" benchmark scenario, the sustained high level of GDP growth would result in healthcare consuming 15.9% of fiscal revenue generated. This does not include private sector medical spending, which may continue after the NHI is implemented. In the two more likely GDP growth scenarios ie. 3.5% to 4.5% growth p.a. the NHI spend accounts for 22.5% to 28.2% of fiscal revenue by 2025. These are both high levels, with the lower end of the range approximating the spend on education and interest on the government debt each at their peaks during the mid to late 1990's.

The rise of healthcare spending to either of these levels could open up significant economic debates, both within the ruling party and its alliance quarters, as well as within National Treasury and the government departments it services. This moves the analysis directly from being one of pure economics to being political and in which the political power of the Department of Health will be tested against the relative power of departments as primary and higher Education, Social Welfare, Police and National Security, Justice, Trade and Industry and others, with each appealing to the Presidency and National Treasury to secure its own slice of the revenue pie for its ongoing political survival and prosperity.

The 8.65%pa growth in the NHI spend (as per the discussion paper budget for the NHI between 2012 and 2025) outstrips probable total government expenditure real growth over that period quite considerably.

A crucial early indicator as to government's intentions around the NHI proposal put to the ANC-NGC in September will surely be the Medium Term Budget Policy Statement, scheduled to be presented by Finance Minister Pravin Gordhan on 27th October 2010. This will contain revised spending data for healthcare for 2012/13 as well as a first look at 2013/14, which could reveal any plans to move towards the discussion paper budget.

According to an analysis of the discussion document's proposals, only a very high scenario of GDP growth reaching 7%pa will result in healthcare spending that is in the mid-teens as a percentage of government spending (ie. budget) by 2025. It should be noted that the Abuja Declaration set an ambitious target of 15% of government spending for healthcare. The more likely growth scenarios, wherein GDP growth is between 3,5%pa and 4,5%pa, will result in healthcare expenditure consuming between 22.8% and 28,2% of government spending (or between 24.3% and 28.2% of government revenue). This is a remarkably high ratio level, given the starting point of 15.5% in 2012 and excludes expenditure by the private sector as individuals would be likely to continue to purchase healthcare cover while the NHI is being implemented, as well in the years following implementation.
