

## Prices in the health sector

Variations in per capita health spending can be the result of differences in prices for health care goods and services, and in the quantity of care that individuals are using (“volume”). Breaking down health spending into these two components gives policymakers a better understanding of what is driving the differences, and therefore guides them to what responses can be put in place to increase value for money. Depending on what explains high spending, the options can differ.

Comparing spending across countries requires data to be expressed in a common currency. The choice of the currency conversion measure, however, can significantly influence the results and interpretation. Whilst market exchange rates are commonly used, they are not ideal for sectors such as health care. First, exchange rates are determined by the supply and demand for currencies, which can be influenced by speculation and interest rates, among other factors. Second, for predominantly non-traded sectors, such as health care, exchange rates are unlikely to reflect the relative purchasing power of currencies in their national markets (Eurostat/OECD, 2012[1]).

Purchasing power parities (PPPs), on the other hand, are conversion rates that show the ratio of the prices in national currencies for the same basket of goods and services. When PPPs are used, the results are valued at a uniform price level and reflect only differences in volumes of goods and services consumed. Traditionally, health care expenditures have been compared using broad economy-wide PPPs (see indicator “Health expenditure per capita”). This gives an indication of the level of spending on health adjusted to take account of differences in the overall price levels between countries. To assess differences solely in health volumes requires the use of health-specific PPPs. Health and hospital PPPs have been developed and can be used to calculate health price level indices (PLI), a ratio of PPPs to exchange rates, to indicate the number of units of a common currency needed to purchase the same volume of health care.

Figure 7.6 shows a comparison of prices for a basket of health goods and services compared with the price level in the United States. This shows that prices in the health sector based on the same set of goods and services are estimated to be about 10% more in Sweden, 20% more in Norway and up to 39% higher in Switzerland. Prices across all OECD countries are on average around 28% lower than in the United States. Health care prices in France and Germany are around a third cheaper than in the United States and half that of their neighbour, Switzerland. The lowest prices for health care are in Turkey at 17% of the US level and less than a quarter of the OECD average.

In general, there is a high correlation between prices in a country and its level of wealth. Prices of durable goods (e.g., cars) vary less than the prices of services (e.g., education and health). In different countries durable goods are frequently traded, which tends to equalise their price levels, while services are often purchased locally, with higher wages in advanced countries leading to higher service prices. The variation in prices in the health sector, which is relatively

labour-intensive, therefore tends to be greater than the economy as a whole, with high-income countries having even higher prices for health care compared to lower-income countries.

By removing the price differences for health goods and services between countries, we can get an idea of volume of health services being consumed (Figure 7.7). The overall effect is to reduce the differences between countries with relatively higher prices compared to those with lower prices. For example, taking the relatively high health prices in the United States into account means that they are still the highest consumers of health services but the gap with the OECD average decreases. It also shows that the difference in volume of health care consumed in the United States compared to countries with lower prices, such as Australia and France, is getting smaller. The very low prices in the Turkish health sector means that on average the population still consumes around 54% of the OECD average in term of health care, but spends only 30% of the average.

### Definition and comparability

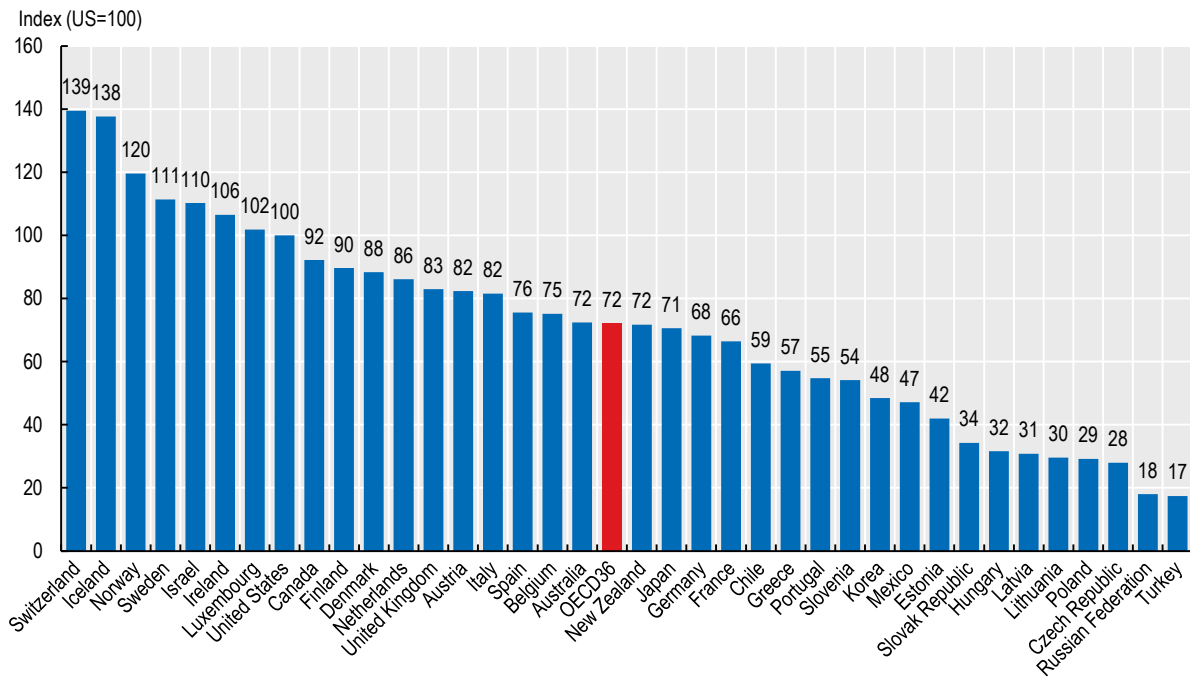
Purchasing power parities (PPPs) are conversion rates that show the ratio of the prices in national currencies of the same basket of goods and services in different countries. Thus, they can be used as both currency converter and price deflators. When PPPs are used to convert expenditure to a common unit, the results are valued at a uniform price level and should reflect only differences in volumes of goods and services consumed.

To assess differences in health volumes requires health-specific PPPs. Eurostat and the OECD calculate PPPs for GDP and some 50 product groups, including health, on a regular and timely basis. In recent years, a number of countries have worked towards output-based measures of prices of health care goods and services. The output-based methodology has then been used to produce both health and hospitals PPPs, which are now incorporated into the overall calculation of GDP PPPs. Such PPPs can be used to calculate health price level indices (PLI) to compare price levels and volumes across countries. These indices are calculated as ratios of health PPPs to exchange rates, and indicate the number of units of a common currency needed to purchase the same volume.

### References

- [2] Eurostat (2001), *Handbook on Price and Volume Measures in National Accounts*, European Union, Luxembourg.
- [1] OECD/Eurostat (2012), *Eurostat-OECD Methodological Manual on Purchasing Power Parities (2012 Edition)*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264189232-en>.

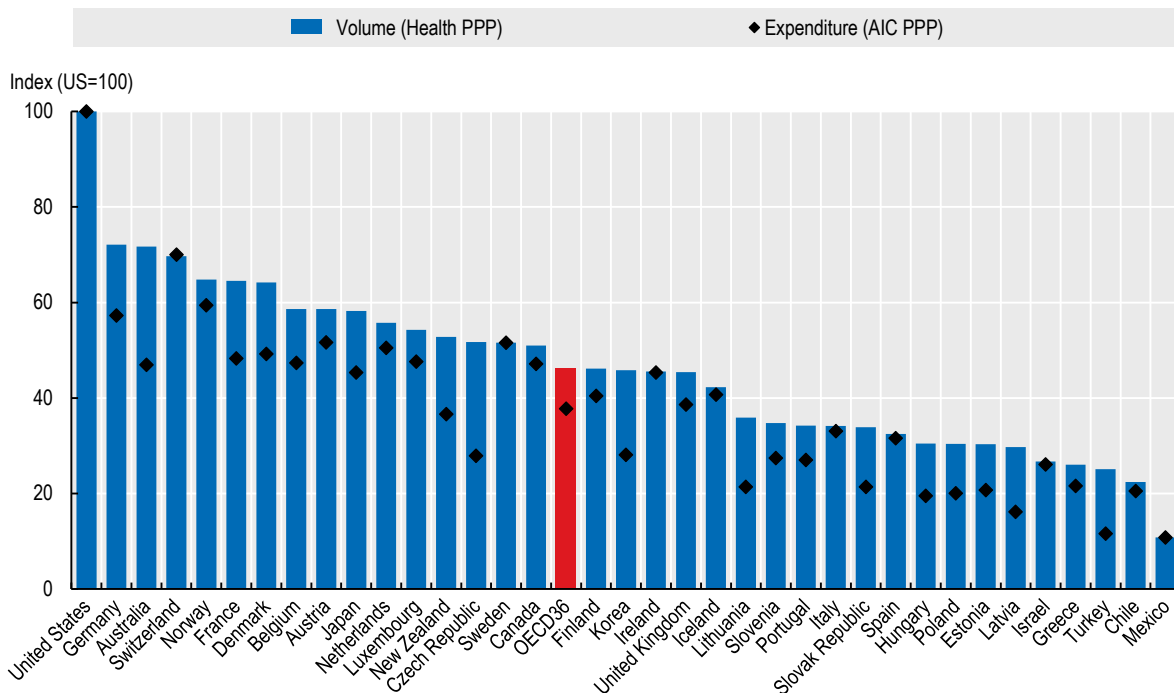
Figure 7.6. Comparative price levels for health, 2017, US=100



Source: OECD estimates (unpublished).

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Figure 7.7. Indices of per capita spending and volume of health care, 2017, US=100



Note: AIC refers to actual individual consumption.

Source: OECD estimates (unpublished).

StatLink <https://doi.org/10.1787/888934016892>



**From:**  
**Health at a Glance 2019**  
OECD Indicators

**Access the complete publication at:**  
<https://doi.org/10.1787/4dd50c09-en>

**Please cite this chapter as:**

OECD (2019), "Prices in the health sector", in *Health at a Glance 2019: OECD Indicators*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/b6c9ea6d-en>

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