Is investing in public health a no-brainer?

by Sander Tordoir, 21 November 2024

The EU should prioritise public health investment under its new fiscal rules and post-2027 budget to secure the productivity of its shrinking workforce and sustain economic growth.

Public health was a top priority for European policy-makers during the Covid-19 pandemic. But its importance on the political agenda has rapidly receded. The EU now frets about economically falling behind the United States and China. Beijing and Washington – at least under the outgoing Biden administration – are increasingly doling out subsidies to try to capture a larger share of strategic industries like artificial intelligence chips and greentech manufacturing. Meanwhile, new challenges loom: Trump has floated tariffs of up to 20 per cent on EU imports to the US.

Mario Draghi's recent report on the EU's competitiveness points out that Europe needs to be realistic about where a European industrial policy can make a difference. His call for tough choices means that Europe should focus on ensuring its existing strengths do not slip away, rather than trying to reshore industries where it might no longer have an advantage.

Health is a promising candidate. While the EU is profoundly behind in the digital space, the wider European economic region including the UK and Switzerland still maintains a globally competitive pharmaceutical industry, even if it is losing ground to the US and China. Investing in health is also a good move due to longer-standing challenges: Europe is an ageing continent, so it will have to rely on a smaller workforce for its productive capacity – and tax base. More investment in health would rekindle the sector and help Europe make the most of its shrinking workforce. As the EU implements new fiscal rules and starts negotiating the post-2027 EU budget, public health should once again move up on the agenda.

Challenges and opportunities

Health problems have a profound impact on eroding the pool of available workers in the EU, particularly as Europe faces an ageing population. Chronic diseases such as heart disease, diabetes, and respiratory conditions are leading causes of absenteeism and early retirement, reducing the available labour force.

These conditions account for about 70 per cent of healthcare costs in Europe and significantly diminish productivity. Workers with poor health are more likely to be absent or work at reduced capacity, which limits overall economic output and increases the burden on public healthcare and pension systems. The World Health Organisation (WHO) estimates that, for example, mental illness results in 12 billion lost workdays annually across the world, with depression alone costing the EU economy over €92 billion per year in lost productivity. As Europe's population ages, older workers are more vulnerable to physical health problems, exacerbating these trends.

An ageing Europe will also require a significant expansion of health, long-term care and other expenditures, putting pressure on public budgets. Health spending is projected to increase by approximately 1.2 percentage points to 7.9 per cent of GDP by 2070 on average across EU member-states. Long-term care costs could increase from 1.6 per cent to over 3 per cent of GDP by then. Pension expenditures alone are projected to account for almost 12 per cent of GDP by then. Without reforms, these trends could severely constrain public budgets across the EU. But cutting expenses in this area may be penny wise and pound foolish.

To maintain growth and boost tax receipts, European countries must use investment in the health and well-being of workers to make the most of their scarce human capital. Investments in preventative care and workplace wellness programmes are crucial to maintaining a productive workforce that can support the EU's economic ambitions. Research finds that every euro invested in preventive healthcare generates a 14-fold return in economic benefits. One important way in which policies like disease screening as well as fitness and smoking cessation programs can help by reducing employees' absent days and boosting their productivity whilst they work. But currently, only a small percentage of national healthcare budgets is spent on prevention overall, with just 0.5 per cent allocated specifically to immunisation.

There is another reason to make health a priority. The health sector is still one of Europe's largest and most dynamic industries, ranking as one of the top three sectors in R&D spending. The pharmaceutical industry accounts for more than 900,000 direct jobs in the EU, with many more in related sectors, and generates a significant export surplus. In 2020, pharmaceuticals made up about 6 per cent of total EU exports, valued at over €440 billion, positioning Europe as one of the top global players alongside the US and China. In terms of global leadership, 7 of the top 20 pharmaceutical companies worldwide are from the EU, UK, and Switzerland, with companies like Roche, Novartis, Sanofi, and GlaxoSmithKline (GSK) consistently ranking among the largest (or these firms have a large European footprint).

But while the pharmaceutical sector is an industry where Europe is currently a leader, exports have started falling. The continent is also being overtaken in R&D by the US and China. The Draghi report identifies significant challenges, particularly compared to the US, including lower and fragmented R&D investment, an erosion of market share in new medications alongside other issues such as a fragmented regulatory framework and delays in the approval of new treatments. Reversing this trend should be a high priority – and a more urgent priority than boosting sectors where Europe is effectively trying to onshore from a low starting base, like solar panel production.

Finally, in the UK, recent shortages of basic drugs showed that supply chains remain insufficiently diversified. Around 80 per cent of the world's Active Pharmaceutical Ingredients (APIs), are produced in Asia, primarily in China and India. For APIs such as antibiotics, paracetamol, and certain vitamins, Europe's dependency on China exceeds 90 per cent. For its own autonomy and the security of its supply chains, Europe needs a pharmaceutical sector which can prioritise Europeans' own healthcare needs.

A new fiscal framework to help drive investment

The EU recently launched new fiscal rules to govern the budget policies of its member-states. In this system, member-states submit multi-year fiscal plans, based on a long-term projection of their debt trajectory, and receive extra leeway from the European Commission if they commit to growth-enhancing reforms and investment. Public health investments will receive special consideration under the EU's new fiscal rules, and member-states that commit to reforms could benefit from an extended fiscal adjustment period of up to seven years. This flexibility allows countries to support public health without the risk that their debt is deemed unsustainable under the fiscal rules.

Not all public debt is created equal, nor are public investments. The fiscal rules need to treat productive public investment differently to government consumption, the same way that companies distinguish between capital investment and operating expenses. This is why conceptually the EU is right to give health investments special treatment in the fiscal rules.

Public investments yield varying economic returns depending on the sector and type of investment. Infrastructure investments, such as in transport and energy, can provide long-term returns by boosting productivity, facilitating trade, and lowering business costs. The World Bank estimates that infrastructure projects can eventually deliver a multiplier effect of up to 1.5 times the initial investment. Meanwhile, investments in education typically generate returns of 10 to 13 per cent annually by enhancing human capital and innovation. The OECD highlights that well-funded education systems improve labour productivity and long-term employment prospects, driving broader economic growth.

Public health interventions, however, truly stand out for their immediate benefits and high overall returns. Investments in preventative care, vaccination programmes and healthcare system improvements often generate returns of two to four times the initial investment, according to WHO estimates. Vaccination alone can deliver returns as high as 16 to 44 times the cost, and these returns last over time – dividends in terms of better health outcomes and a more productive workforce persist over time. Moreover, such investments do not only improve health outcomes but also yield wider social and economic benefits and contribute to the UN Sustainable Development Goals. A recent study on a vaccine for Strep A found that an investment of less than $60 billion would deliver benefits of more than $1.6 trillion globally. Given its strong health sector, Europe can play a crucial role in driving such innovations at a global scale and benefitting from it itself.

Infrastructure and education investments remain critical for sustaining long-term economic growth, but health interventions provide some of the highest immediate returns by reducing mortality and increasing workforce resilience. Member-states would therefore be well-advised to frontload public health investments, followed by other types of investments, in their multi-year fiscal plans. To help member-states, the European Commission should develop an evidence base to sift through and prioritise proposals. Such an evidence base will help to choose and advance best practices across the EU, leveraging the diversity of member-states interventions, and prioritise the most cost-effective health investments.

Finally, starting next year, the EU will negotiate a new seven-year EU budget for after 2027, which will provide hooks for boosting the competitiveness of the EU's health and pharmaceutical sector. EU public health initiatives saw a major funding boost after 2021, especially with the creation of the European Health Union, which intensifies cooperation on cross-border health threats, strengthens both the European Medicines Agency (EMA) and the European Centre for Disease Prevention and Control (ECDC), and creates mechanisms to secure medical supplies and treatments. The EU4Health programme for 2021-2027, with a budget of €5.3 billion, represents a more than tenfold increase from the previous programme's €450 million budget (2014-2020). Additionally, around €43 billion from the EU's Covid recovery fund was dedicated to health-related projects. This includes investments in healthcare infrastructure, digitalisation, and system improvements across EU member-states, with countries like France and Belgium prioritising digital health and Spain and Greece focusing on workforce reforms.

The next EU budget, which will start in 2027, should make health once again a priority. To address the EU's competitiveness gaps, the Draghi report proposes increasing both public and private R&D spending, alongside reforms such as streamlining the process for multi-country clinical trials and enhancing the use of the European Health Data Space (EHDS) for better research and innovation outcomes. Furthermore, Draghi stresses the need to embrace AI in pharmaceutical development and suggests fostering innovation hubs like the California Institute for Regenerative Medicine. Given the continent-wide spillovers from such research, there is a case to add more European money to spawn and support such research institutes. If implemented, these recommendations could help the EU regain its competitive edge, especially in emerging areas like biologics, orphan drugs, and advanced therapies.

Conclusion

Health investments may help to alleviate not only the pressure from Europe's shrinking workforce but also its competitiveness jitters. The EU's new fiscal rules on member-states' finances provide flexibility for growth-enhancing investments and reforms, enabling public health to become a strategic priority. As member-states draft their multi-year fiscal plans, areas that have a very high economic and social return, such as preventative care and vaccinations, should take centre stage. Over the past few years, EU funding instruments, such as the Covid-19 pandemic recovery fund, have invested additional funds into modernising healthcare systems and improving population health across member-states. By aligning public health investments with fiscal policy, Europe can secure both better health outcomes and sustained economic growth.

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This paper is part of a research project supported by MSD.