

The Contribution of HASA Member Hospitals to the South African Economy

Private hospitals provide vital healthcare services of the highest standard to millions of people in South Africa, 24 hours a day, every day of the year. In addition, the private health sector also makes a critical contribution to employment and overall economic growth in South Africa, a factor that is often overlooked. The purpose of this study was to quantify the direct, as well as the multiplier effects, of members of the Hospital Association of South Africa (HASA) on production, employment, labour remuneration, capital stock, tax revenue and the gross domestic product in South Africa.

Approximately 90% of HASA's members (based on hospital beds) provided data to Econex on a confidential basis. The data provided by the relevant HASA members were then extrapolated to provide an indication of the multiplier effects of all of HASA's members. The information contained in the study accordingly reflects the aggregated data of the relevant members of HASA, extrapolated to provide an indication of the multiplier effects of all of HASA's members, which account for approximately 85% of all private hospital beds in South Africa. It is therefore important to note that this study

does not fully reflect the direct and indirect contribution to the South African economy, nor the full multiplier effects, of all of the private hospitals in South Africa.

With specific reference to the data on employment and wages, it is important to note that private hospitals in South Africa are prohibited from employing health professionals registered with the Health Professionals Council of South Africa (HPCSA) in terms of the HPCSA's ethical rules. In most cases, the only medical staff employed by private hospitals is nurses and pharmacists. Therefore, the employee num-

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Econex has extensive experience in competition economics, international trade and regulatory analysis. Strategic analysis was recently added as practice area. We have an established reputation for providing expert economic advice for high profile mergers and complaints that appear before the competition authorities. Some of the more recent highlights include the complaint against British American Tobacco, the merger between MTN and iTalk, the complaint against Senwes and the acquisition of KayaFM by Primedia. Apart from competition work we have also been involved in trade matters which included analyses of the effects of tariffs, export taxes and anti-dumping tariffs.

As a result of our work in competition analysis we also have invaluable experience in some of the sectors of the South African economy where regulation continues to play a role, e.g. the telecommunications, health and energy sectors. We use economic knowledge of these sectors to analyse specific problems for some of the larger telecommunications, health and energy companies.

bers and salaries included in the first round of direct expenditures pertain only to those staff members who are directly employed by the relevant private hospitals. The relevant economic impacts of general practitioners, specialists and auxiliary health professionals such as physiotherapists, who are not directly employed by HASA members, are reflected in the indirect impacts (or multiplier effects) reported in this study.

The following are some of the key findings of the study:

The ripple effects of private hospitals in the South African economy

- With a workforce of 64 000 full-time equivalent employees, sales revenue of R 36.5 billion and tax contributions of around R 5.9 billion (inclusive of corporate, personal income and indirect taxes) in 2010, HASA member hospitals make a substantial direct contribution to the South African economy.
- However, this initial injection of economic activity by

private hospitals is only the tip of the iceberg – when the economic multiplier effects of the provision of healthcare services by HASA members are also taken into consideration, HASA members and their value chain sustained production to the value of an astonishing R 110 billion, supported 218 000 jobs throughout South Africa and generated more than R 17 billion in government tax revenue during 2010. In addition, the economy-wide impact of the relevant private hospitals' operations sustained capital stock to the value of R 92.7 billion, or 1.8% of South Africa's total capital stock.

- The results suggest that the sectors that experience the greatest direct benefit in terms of the value of production are 'pharmaceuticals, fuel, chemicals, rubber and plastic'; 'real estate, renting and business services' as well as 'government and community services' (e.g. healthcare and sewerage, refuse and sanitation). When all the economic multiplier effects are taken into consideration, the 'retail, wholesale, hotels and

Including all the multiplier effects, HASA member hospitals...

- *sustained production to the value of R 110 bn throughout the economy;*
- *supported 218 000 jobs (1.8% of total employment), yielding in excess of R 23 bn in labour income;*
- *generated more than R 17 bn in government income (2.5% of total tax revenue);*
- *and added R 52.2 bn (or 2.2%) to the country's gross domestic product in 2010.*

catering' sector also emerges as a sector with strong positive linkages to private hospitals.

- The provision of healthcare services by private hospitals has particularly high spin-off effects on employment and labour income in South Africa. For each job offered by HASA member hospitals, 2.4 additional jobs are sustained in the rest of the economy, of which approximately 78% are for individuals from previously dis-

About ECONEX

ECONEX is an economics consultancy that offers in-depth economic analysis covering competition economics, international trade, strategic analysis and regulatory work. The company was co-founded by Dr. Nicola Theron and Prof. Rachel Jafta during 2005. Both these economists have a wealth of consulting experience in the fields of competition and trade economics. They also teach courses in competition economics and international trade at Stellenbosch University. Director, Cobus Venter, who joined the company during 2008, is also a Senior Economist at the Bureau for Economic Research (BER) in Stellenbosch. For more information on our services, as well as the economists and academic associates working at and with Econex, visit our website at www.econex.co.za.

advantaged backgrounds. In all, approximately 218 000 employment opportunities (or 1.8% of total employment in South Africa) can be directly or indirectly traced back to healthcare activities by HASA member hospitals, generating labour income in excess of R 23 billion during 2010.

- Also, private hospitals provided increased employment during the recent recession – while total employment in South Africa contracted by an alarming 5.8% between 2008 and 2010, the number of permanent employees among HASA member hospitals increased by an impressive 4.4%. The ability of private sector hospitals to create and sustain employment opportunities during recessionary conditions is very encouraging, especially given the high unemployment rate in South Africa.

- HASA's members' economy-wide contribution to South Africa's gross domestic product (GDP) amounted to an estimated R 52.2 billion in 2010, or 2.2% of the country's GDP. Based on HASA's members' sales revenue of R 36.5 billion in 2010, their GDP multiplier is estimated at

1.43, indicating that for every R 1.00 in sales revenue generated by HASA's members, R 1.43 is added to the country's GDP. The results from the analysis suggest that the direct contribution of HASA member hospitals alone accounted for a third (R 16.7 billion) of the total economy-wide contribution to value added in 2010.

- HASA's members have an overall GDP/capital ratio of 0.56, implying that for every R 1 million in capital invested in the industry, an additional R 0.56 million in GDP is generated. The GDP/capital ratio for HASA member hospitals compares favourably to that of the total South African economy (0.45), suggesting that private sector hospitals may be more efficient in utilizing a unit of investment compared to the average sector in the economy.

- While not quantified in this report, the activity of private hospitals also impact positively on labour productivity by improving the health of the labour force in South Africa. Furthermore, in terms of attracting foreign direct investment, the positive effects of the high stand-

ard of medical care offered by private hospitals in South Africa should not be underestimated. Hence, in addition to the economic multiplier effects on output/production and employment calculated in this study, private hospitals also contribute significantly to productivity gains and international investment, which should have a further stimulatory impact on output and economic growth in South Africa.

In all, the findings of the research reflect the economic importance of private hospitals in South Africa and show that the value of private hospitals to their communities extends far beyond healthcare. Private hospitals form an indispensable source of labour income and government tax revenue, and the healthcare services that they provide have high spin-off effects on production, employment creation and value added in the South African economy.

Table 1 below summarises the final results at each level of the multiplier effect, for the various categories of spending and other contributions to the economy by HASA member hospitals.

More Information

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Table 1: The economic footprint of HASA member hospitals in South Africa

HASA members' footprint including capital formation and maintenance - 2010						
	HASA member hospitals	Direct impact: HASA members + First round suppliers	Indirect impact	Direct and indirect impact	Income effect	Economy-wide impact
Output						
Rand billion	36.45	51.18	11.75	62.93	47.26	110.19
Output multiplier	1.00	1.40	0.32	1.73	1.30	3.02
Capital requirement						
Rand billion	24.25	38.63	11.34	49.97	42.75	92.72
% Share of SA capital stock	0.46	0.74	0.22	0.95	0.82	1.77
Employment (including the informal sector)						
Number	64 000	91 380	22 203	113 583	104 572	218 155
% Share of SA employment	0.52	0.75	0.18	0.93	0.86	1.79
Employment multiplier	1.00	1.43	0.35	1.77	1.63	3.41
Labour income						
Rand billion	9.23	11.68	3.16	14.84	8.52	23.36
Labour income multiplier	1.00	1.27	0.34	1.61	0.92	2.53
Government tax revenue						
Rand billion	5.87	7.64	1.87	9.51	7.72	17.22
% Share of government income	0.84	1.09	0.27	1.36	1.10	2.46
Value added (GDP) at factor cost						
Rand billion	16.73	21.94	6.76	28.70	23.55	52.25
% Share of SA GDP	0.71	0.93	0.28	1.21	0.99	2.20
GDP multiplier						1.43