Health Spending and Economic Growth

MANAGING THE MACRO-FISCAL OUTLOOK FOR HEALTH

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“FINANCING AFFORDABLE, EFFICIENT AND EQUITABLE HEALTH CARE.” UHC FINANCING FORUM. 04.14.16
**UHC:** A big opportunity for MOH and MOF to work together with better understanding of each other’s perspectives.

<table>
<thead>
<tr>
<th>MINISTRY OF FINANCE</th>
<th>MINISTRY OF HEALTH</th>
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<tbody>
<tr>
<td>Understands the importance of investing in health.</td>
<td>Ensures efficient use of resources that have considerable opportunity costs.</td>
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<td>Fosters countercyclical health investments, investing in health systems and in robust PFM.</td>
<td>Understands the revenue mobilization options and their implication on macro-fiscal health.</td>
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<td>Improves data sources and flows for transparency, accountability, planning, and predictability.</td>
<td>Engages in long-term, strategic planning that can propel growth.</td>
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<td>Improves data and strengthen analytical capacity (sector diagnostics).</td>
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Health Spending and Economic Growth
Driving Forces behind the Health & Growth Debate

1. Spiraling Expenditures – Fear: ‘Health spending could outpace economic growth’
   ▪ Growth trends have not been homogenous. The rate of growth has moderated over time.
   ▪ Regular Checks & Balances between MOH and MOF: Budgeting process (prioritization).
   ▪ Crises – ‘streamlined’ health expenditures and catalyzed structural reforms.

2. Ground Health Policymaking in the Macro-Fiscal & Development Framework
   ▪ Accentuate the bidirectional relationship and identify pragmatic approaches between
     ○ How more efficient and strategic (public) spending could lead to better health outcomes?
     ○ How improved population health could act as an economic growth multiplier?
   ▪ Foster broad-based and longer term approaches
     ▪ Emphasize the importance of investing in health systems
     ▪ Identify strategies to effectively ride / manage the demographic transition (‘dividend’ or ‘drag’)

Velenyi, Chapter 1 in Handbook of Global Health Economics and Public Policy, Ed. Scheffler 20136
Investing in Health, Investing in Growth?
Moving from Health as a “Counterproductive” and “Residual Factor” to UHC

- Health’s positive effect on GDP is strongest among poor countries.
- Improving HD must precede or accompany rising EG for a country to reach sustained growth.
- Vicious / Virtuous Cycle

Determinants
- Income, Demography, BoD

Global Policy: From MDGs to SDGs
- Move from CDs to NCDs

Source: Suri et al. 2010
Investing in preparedness is critical to prevent erosion in UHC, health outcomes and growth.

System Vulnerability: “Full range of factors that place people at risk of becoming ‘health insecure’ and factors that threaten universal access to adequate quality health services.”

ATM Framework

Assess Vulnerability
Track Real Time
Mitigate Impact

Vulnerability Assessment
- Vulnerability Zones
- Vulnerability Scores

Case Studies
- Ireland
- Portugal

External Factors
- Crisis Depth
- Structural Economic & MFM Context
- Political Economy
- Preferences

System-level Factors
- Health Policy
- Institutions
- Coverage, Financial Protection, Equity

Household-level Factors
- Health Status
- Health Expenditures & Illness-related Financial Risk

Investing in Health Systems - A broad-based and longer term approach
Hou et al., 2013
The Case of Ebola: “Investments in public health infrastructure, institutions and systems cannot be separated from investments in economic recovery and development.”

- Weak Health System
- Reduced Care Seeking
- Mortality & Morbidity
- Economic Impact

<table>
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<tr>
<th>Economic Impact</th>
<th>Short-Term</th>
<th>Medium-Term 2014</th>
<th>Medium-Term 2015 - Low Ebola</th>
<th>Medium-Term 2015 - High Ebola</th>
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<tbody>
<tr>
<td>Guinea</td>
<td>130 million (2.1 pp)</td>
<td>-43 million (0.7 pp)</td>
<td>142 million (2.3 pp)</td>
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<tr>
<td>Liberia</td>
<td>66 million (3.4 pp)</td>
<td>113 million (5.8 pp)</td>
<td>234 million (12.0 pp)</td>
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<tr>
<td>Sierra Leone</td>
<td>163 million (3.3 pp)</td>
<td>59 million (1.2 pp)</td>
<td>439 million (8.9 pp)</td>
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<tr>
<td>Core Three Countries</td>
<td>359 million</td>
<td>129 million</td>
<td>815 million</td>
<td></td>
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<tr>
<td>West Africa</td>
<td>2.2 – 7.4 billion</td>
<td>1.6 billion</td>
<td>25.2 billion</td>
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Data: WHO NHA 2015. Values are in international dollars (PPP). Note: THE=total health expenditures; GHE= government health expenditures; PC = per capita.

Number of people infected per 100,000 population:

- Guinea: 3,548
- Liberia: 10,847
- Sierra Leone: 12,201
- Total: 25,791

Data: WHO, UN April 2015.
Countercyclical Fiscal & Social Policy -
Essential for Long-Term Economic and Human Development

**Theory:** There is agreement on the benefits of countercyclical policies (CCPs)
- Unemployment benefit, other targeted social transfers, investing in health and education, etc.

**Developing Countries LICs/LMICs** – CCPs have not been the norm.

- Lack of countercyclical policies amplifies economic fluctuations; with adverse effects on government revenues, poverty levels, long-term growth, and human capital formation.

**Advanced Economies** – Rely more on automatic stabilizers and have more developed social safety nets.

- Yet, the global economic crisis (2009) showed that advanced economies can fall back in the procyclical trap.

Velenyi and Smitz, 2014
Countercyclical Health Expenditures
Evidence & Constraints

**EVIDENCE**

1. No robust evidence that developing countries have been able to escape the procyclical trap in health spending in the past 2 decades.
   - In contrast with trends in fiscal cyclicality

2. Countercyclical responses are more likely during deep and protracted negative output gaps, which often trigger structural reforms.

3. Growth is important but not enough. The fiscal pathway is critical in determining government health expenditures.

4. The impact of business cycles on health spending is larger in developing countries.
   - Predictors: debt-to-GDP ratio, terms of trade, and unpredictable ODA

5. Event and case study approaches are necessary.

**BINDING CONSTRAINTS**

- **Fiscal Cyclicality:** Institutions and governance are important companions to numerical fiscal rules and commodity stabilization funds.

- **Cyclicality of Health Spending:** Reduced corruption is fundamental to improve the efficiency and level of resources for health.

- **Data/Studies & Applying Findings to Policies**

- **Lagged Response** (preparedness vs. emergency response to deep crises)
Moving toward UHC Requires Strategies to Reduce the Risk of Rolling Back UHC

**Investing in Health Systems**
- Emphasizes the importance of investing in system preparedness and reducing the risk to the economy

**Countercyclical Health Policy**
- Links health sector policy to the fiscal context
- Emphasizes the importance of governance and institutions
- Requires platforms, diagnostics, and data flows (PFM, PER, PETS)

**Long-term Strategic Planning**
- Strategic management of demographic transition (beyond election/gov. cycles)
- Build data systems (M&E, PFM) and strengthen analytic capacity at ministries

**Practical Implications**
- Country-level engagement with development partners (e.g. through GFF)
  - Strategic Engagement with MFM & Governance GPs
- Reflecting UHC objectives in country level policies, strategies, and reforms.
- Road Maps & Milestones
Cyclical Patterns in Government Health Expenditures Between 1995 and 2010:
Are Countries Graduating from the Procyclical Trap or Falling Back?

Edit V. Velényi, Marc F. Smith

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Related Resources