Transformation of Healthcare in Eastern Europe
Rotterdam, May 26th 2009

EUROPEAN CENTRE FOR HEALTH ASSETS AND ARCHITECTURE

Impact of the economic crisis on the healthcare sector and its investment

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European Centre for Health Assets and Architecture

- ECHAA, rising from a launch-site near you… (soon)
- ECHAA will, by means of comprehensive & rigorous analysis:
  - support & promote evidence-based policy decisions on contribution of built environment to European health sector
  - focus on long-term issues of sustainability & appropriateness of estate
  - cover service planning, architecture/design, finance, construction & operation of hospitals & other healthcare facilities
- Founding Partners:
  - DuCHA: within TNO, state Netherlands Organisation for Applied Scientific Research, www.tno.nl/ducha
  - HaCIRIC: collaboration of British universities research centres – Imperial College, Loughborough, Reading & Salford (www.haciric.org)
  - Helsinki University of Technology (www.tkk.fi/en)
  - SINTEF: state Norwegian research group (www.sintef.no/Home)

Content of presentation

- **Origin & outlook for credit & economic crisis**
- Impact of the crisis on health & healthcare
- Importance of health spending & investment

The economic crisis – a model

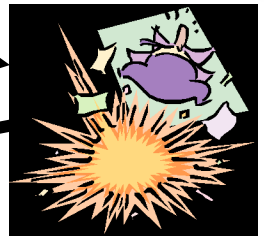
Resource exporters' trade surpluses
Emerging countries' trade surpluses as "insurance"
Thin capital markets in these countries

Global savings **imbalances** - capital flows to west

Asymmetric investor & bank incentives
Derivatives & securitisation ("long tail", "black swan")
Lax regulation (including Basel, US Fed)

Increasingly **flaky** investments, to 9/2007
Household property **bubble**

9/2008



Finance sector **mistrust** ("lemons")
"Liquidity trap" for economy

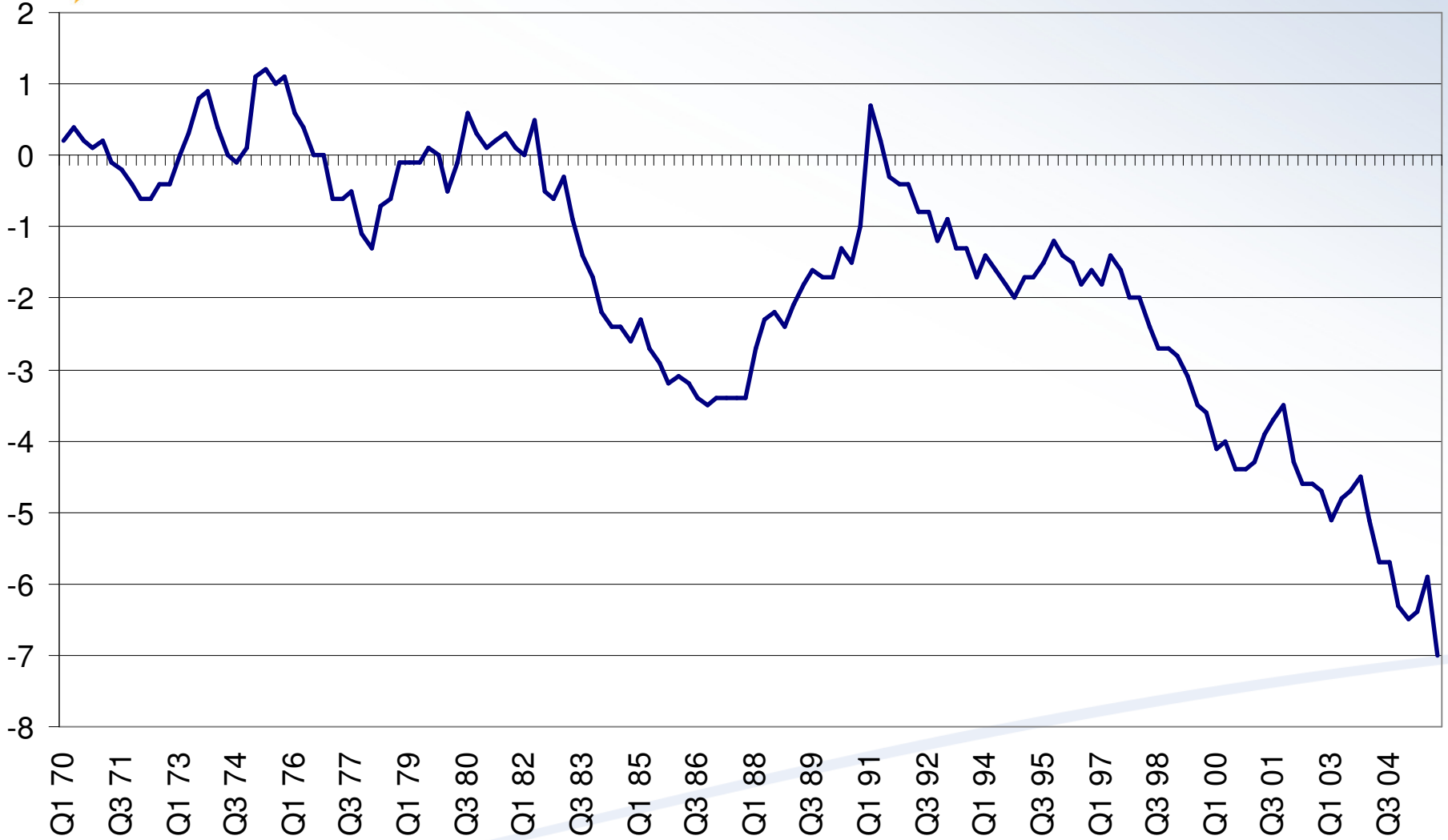
Banks restrict lending, raise interest rates
Households reduce spending
Collapse of firms' production
Repair **balance sheets** – banks, households, firms & govts

Recession/ Depression

Bank crisis

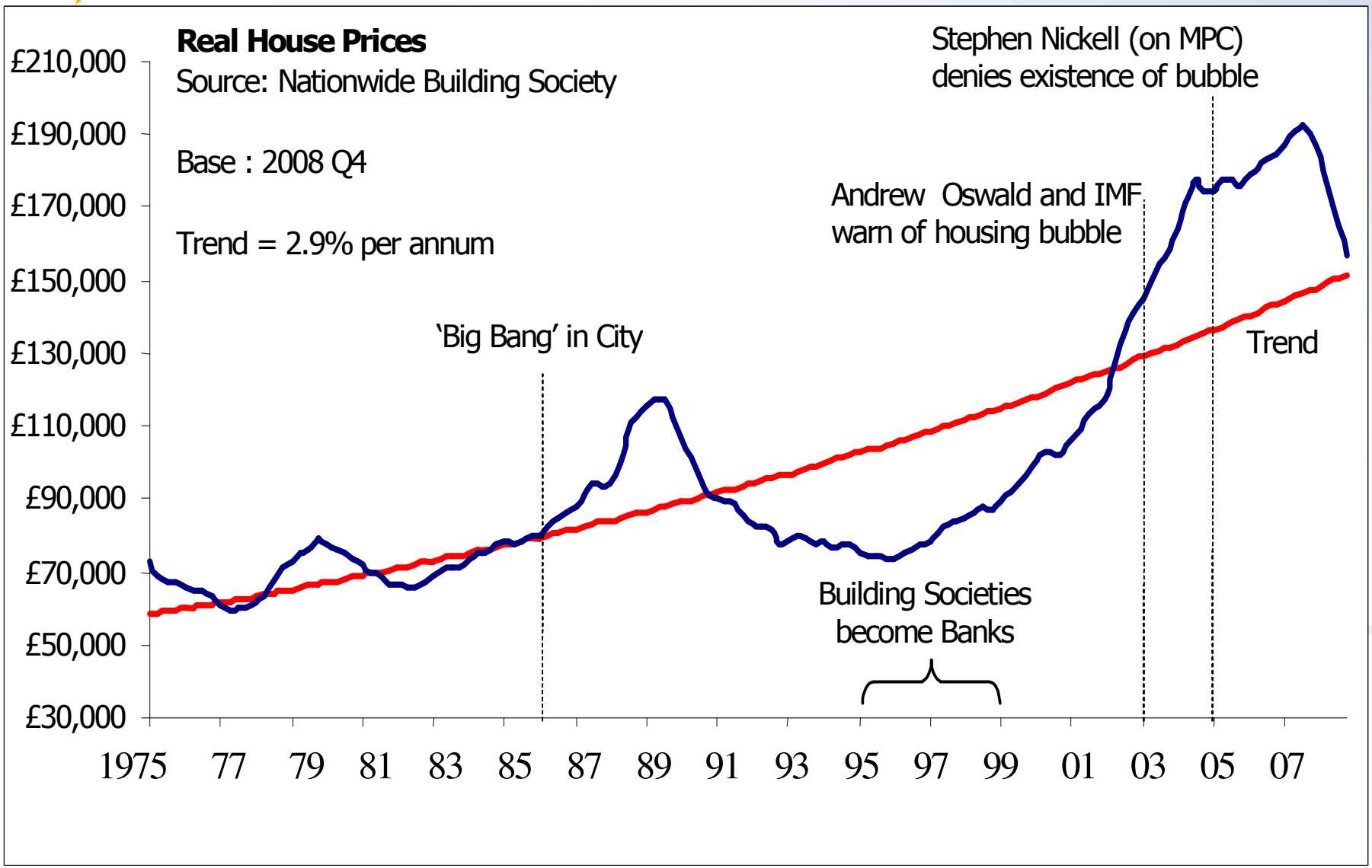
Economic crisis

Global **imbalances**:
US Current Account Deficit (as % of GDP)

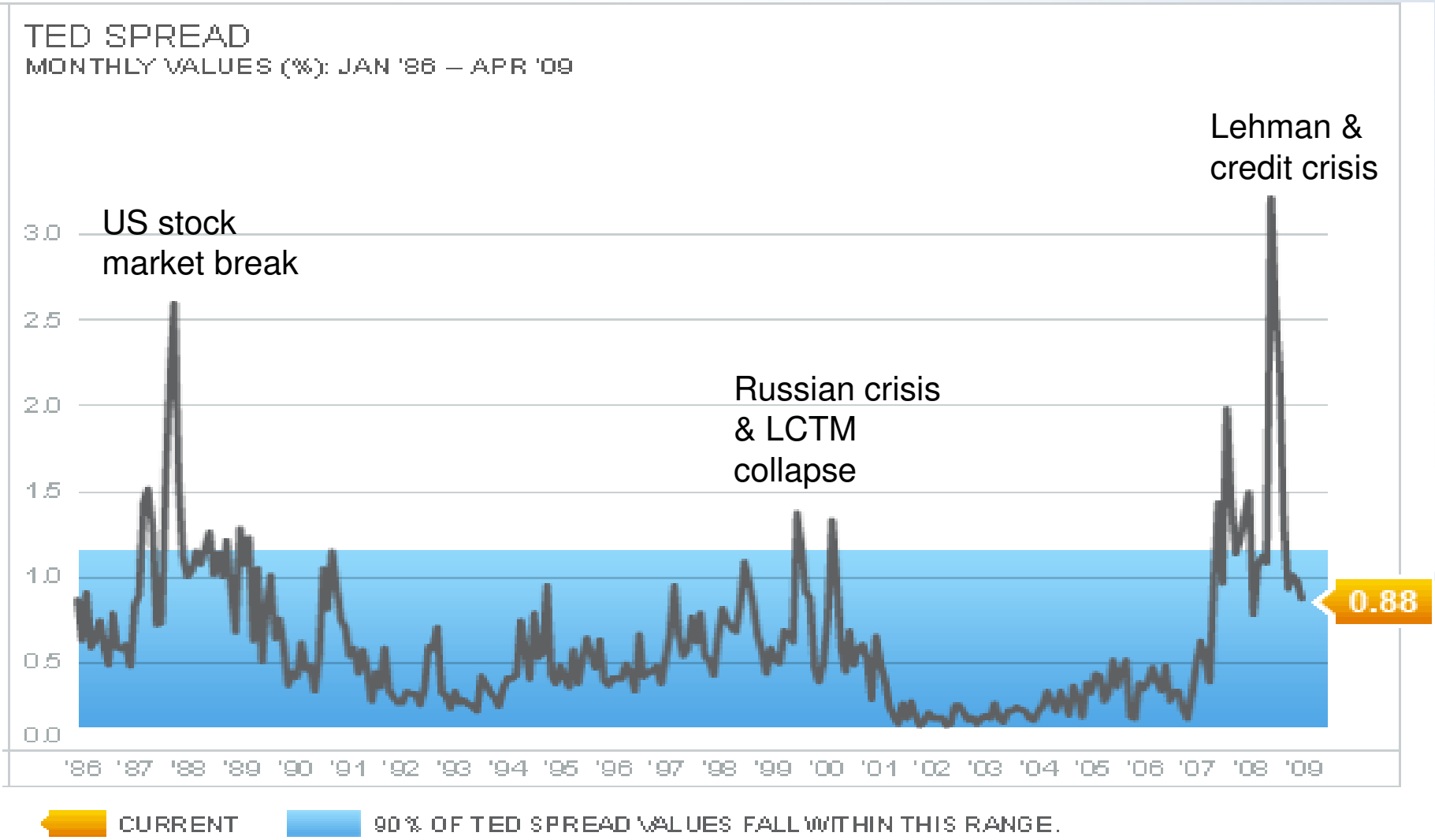


Source: Wolf (2006): "Fixing Global Finance"; IMF

Flaky investments:
How much hot air does it take to blow **bubbles**?



Result: fear & **mistrust** on Wall Street ('Spread' between inter-bank borrowing rate & Treasury bill rate)



Macroeconomic policy responses

- Government support to banks
  - Equity & pseudo-equity to lift capital ratios (nationalisation)
  - Forced mergers
  - Deposit insurance
  - Asset guarantees
  - "Asset Management Companies" (=bad banks)
- Monetary policy
  - Reduce rate of interest
  - "Quantitative easing" (=print money)
- Fiscal policy
  - "Automatic stabilisers" (=benefits up, taxes down c.1-3% of GDP)
  - Reduce taxes
  - Government spending
    - Consumption (=hire public sector workers)
    - Investment (if "shovel-ready")

Ongoing repair work

How effective?

Governments & central banks as "consumers of last resort"?

How long, how deep?

- It depends how much traction from policy initiatives!
- This recession macroeconomically is:
  - not a normal business cycle (it's deeper) -
  - nor the 1970s (commodity prices low) +
  - nor Japan 1990s (global this time) -
  - nor the 1930s (central banks are proactive) +
- This is uncharted territory, of debt deflation **(balance sheets)**
- Recessions can be "double-dip" (1930s was!)
- Extreme monetary policy; affordability of fiscal policy?
- What is *individually* is not *collectively* rational; how to repair confidence?
- Vicious circle, currently downwards as balance sheets are repaired, will reverse to a virtuous circle upwards - eventually

2 years economic decline, then a slow climb out

It actually depends on **China**!

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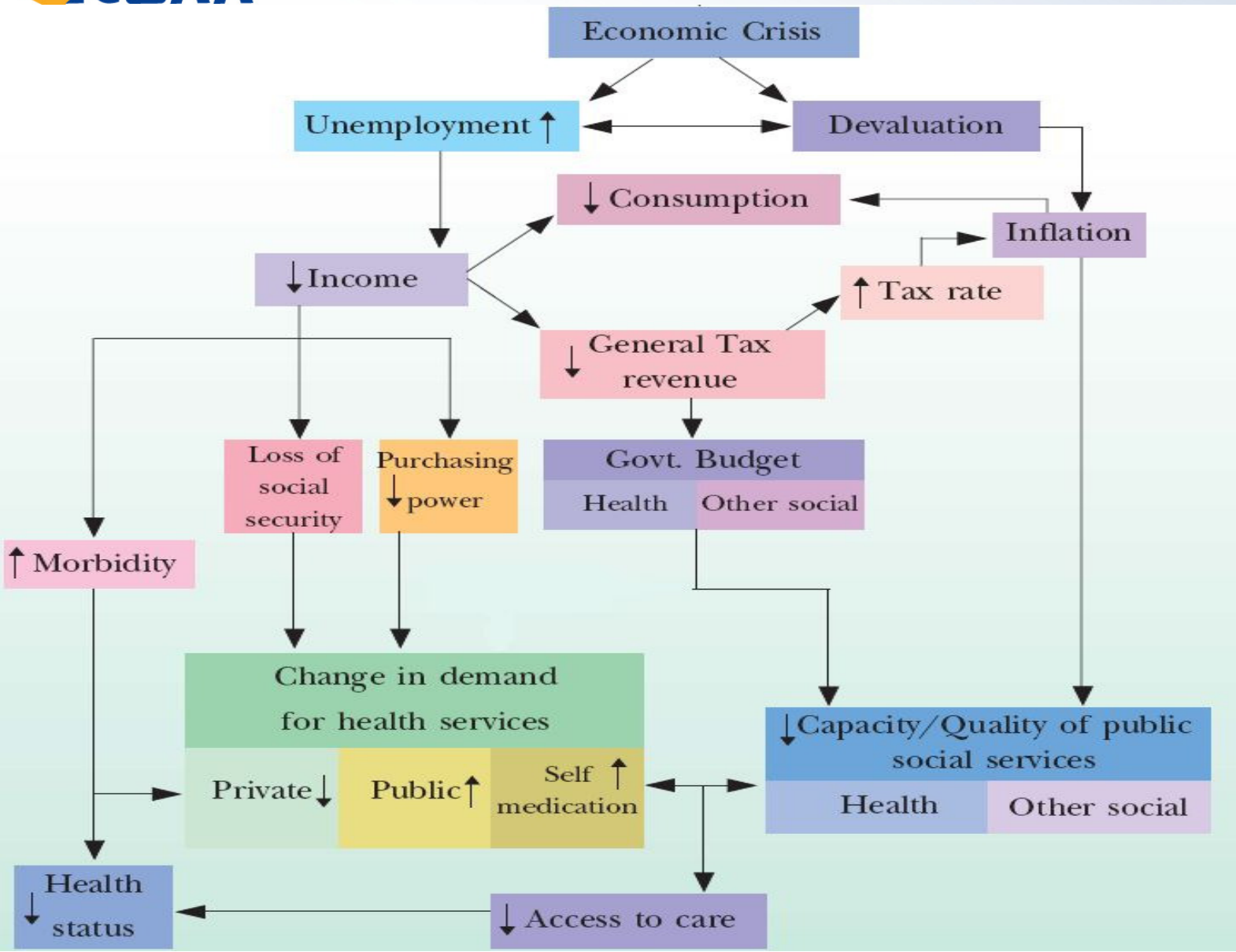
How in principle might health be affected?



Source: adapted from Musgrove, 1987

British decadal income and life expectancy

Cuba:

- 1989-2000: Energy intake 2,899=>1,863kcal pc/day. Physically active 30=> 67%
- 1997-2002: Declines in deaths from diabetes (51%), coronary heart disease (35%), stroke (20%), & all causes (18%) (but some worsening of health of elderly)

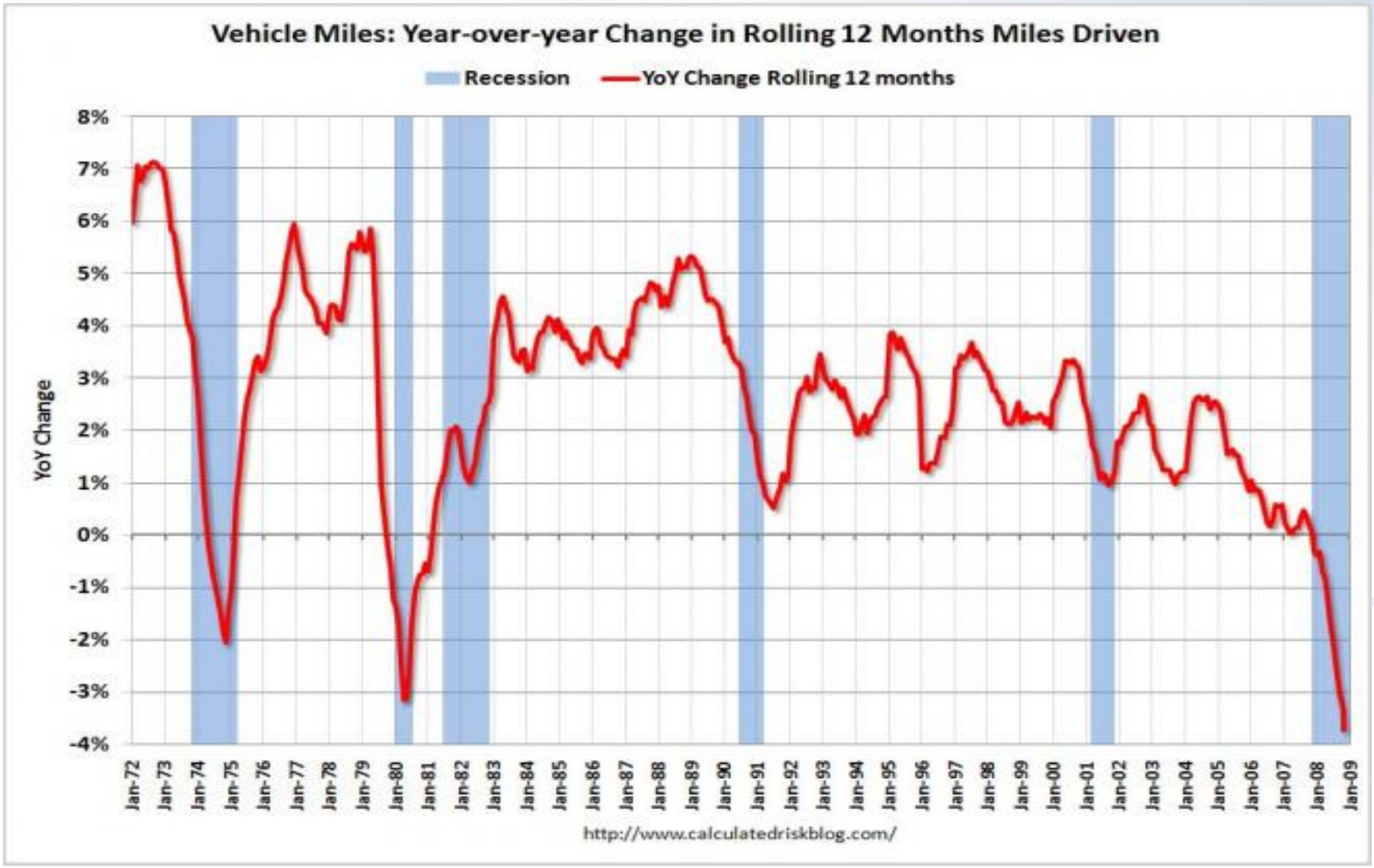
Eating less, & eating slow food!

The evidence: impact of crisis on health & care?

- Korea late-90s
  - Fall in healthcare consumption, particularly lower-income groups
  - But all-cause mortality down for both sexes & all age-groups
  - CV, stomach cancer, liver disease, RTA down
  - Suicide, homicide, alcohol mortality up
- Thailand late-90s
  - Minor overall changes in health status
  - RTA, alcohol, smoking, occupational disease down
  - Nutrition diseases & suicide up
- Mexico mid-90s
  - Fall in access
  - Minor overall changes in status, but elderly & children diseases up sharply (increased female labour participation during recession)
- Japan, post-WW2 business cycles
  - 41% of deaths occur procyclically (heart, pneumonia, accidents, liver, senility)
  - 4% are countercyclical (diabetes, hypertension, suicide)
- "Cardiac disease mortality & bank crises" (1960-2002, 28 countries)
  - 6.4% mortality rise in high-income countries
  - 26% rise in low-income countries

A very mixed picture…

Driving the numbers down: US car mileage



There is no "average" effect of crises

- Some **individuals** are inevitably damaged
- **Developing** countries tend to be worse hit (lack of safety nets)
- Everywhere:
  - vulnerable groups suffer (including elderly, children)
  - => **rising inequality**, within & between countries
- In developed countries, on an aggregate basis, mortality **falls**:
  - behavioural (alcohol, tobacco, driving) & occupational (including pollution-related) diseases tend to **fall**
  - mental & stress-related illnesses (including CV) tend to **rise**
- **Access** deteriorates - though demand for public care rises where it's available

As a very **severe** (unusual) crisis, it's not clear what will happen this time, compared with a "normal" crisis

The public sector response

- Statutory (social) health insurance funds will see reduced premium income (but probably increased unfunded expenses to provide safety net) => viability?
- Tax-financed systems will be cushioned at first
- The major unanswered question - will governments:
  - Use the (employment-rich) health sector as a counter-cyclical spending tool for recurrent & capital expenditures**?** or
  - As state borrowing requirements & debt ratios rise dramatically, throttle recurrent costs (maintenance), & more particularly capital investment**?**

We do not know how or if governments will support their healthcare sectors (although demand will rise with crisis)

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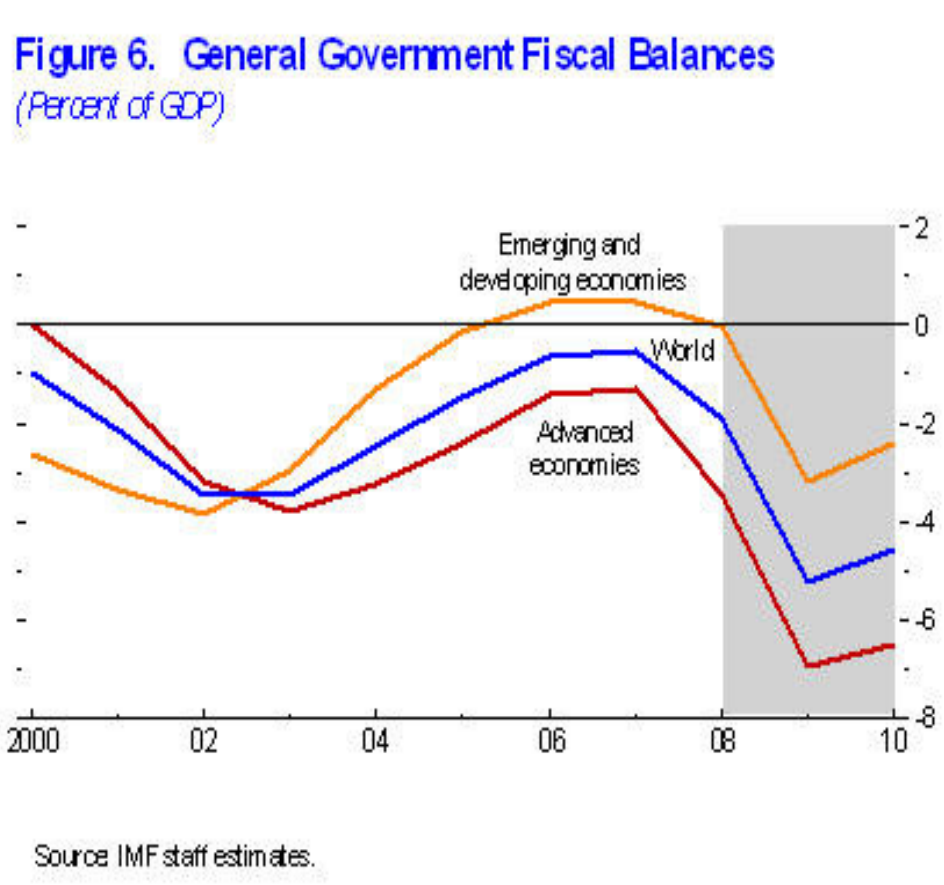
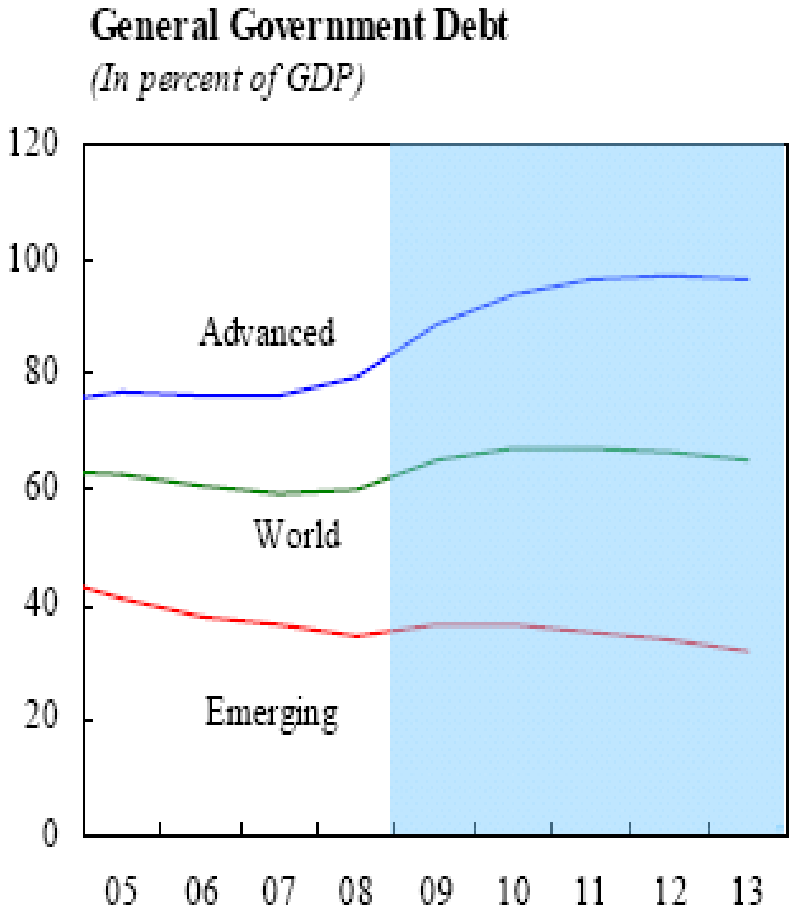
Fiscal (im)balances





IMF says the fiscal stimulus should be “timely, large, lasting, diversified, contingent, collective”… but also “sustainable”: there is the question!

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Health & wealth 1

- Debates on healthcare often dominated by cost containment (but what is the system actually **for**?)
- We should instead consider health much more as a productive sector:
  - Commission on Macroeconomics & Health (Sachs) – poor health status is a constraint on economic performance, & the return on investment in health is considerable
  - There has been dissenting work (Acemoglu & Johnson) that poor health does not have large effects on economic performance but is partly relative positioning & partly compensated by worsening labour-capital ratios (so, no +ve impact on per capita income)
  - On balance, there is enough evidence that the usual causation (wealth => health) is actually bidirectional

Health & wealth 2

- Work by Suhrcke (WHO) identifies 4 potential pathways for effect of health on wealth in high-income countries:
  - Raised employment rates (lower sickness absence, longer working life)
  - Raised labour productivity
  - Human capital formation through investment in lifetime education
  - Raised saving rate (=>investment) for retirement
- Results show that:
  - Health status is a robust & sizeable predictor of economic growth
  - Gain in “health income” (essentially life longevity) in recent years is comparable to gain in GDP p.c. over the period
- For European countries, the evidence is that “health” is indeed a good national investment

Healthcare, via **amenable mortality**, matters for wealth

- Healthcare sector is not a “luxury good” (income elasticity ≈ 1.0), so expenditure on the sector is **not** a bottomless pit
- Efficiency of health systems will be crucially important in the current economic climate
- Benefit/cost ratios for reduction in **amenable mortality** from expenditures on healthcare are in range 1.5-3.7: high!
- Concept of amenable mortality can be differentiated into causes amenable to the health care system & those to public health policy
- Specific causes can be partitioned into the proportion to which reductions are attributable to primary, secondary & tertiary healthcare

Focusing on the diseases where healthcare system has maximum impact will become crucial

Conclusions

- The crisis flowed from global savings imbalances, irresponsible financial system & regulatory behaviour
- The credit crisis is mostly over – but the economic crisis will deepen & endure for **much** longer
- Monetary & fiscal policy are in uncharted macroeconomic territory (worst since 1930s)
- The crisis impacts on health in surprising ways (*sometimes*, rising health status) – but health inequality will rise
- Public sector fiscal response depends if finance ministries run out of room before the crisis is over; impact on health sector is not clear despite rising crisis-induced demand
- The "human capital" argument for investing long term in *health* is robust, including in high-income countries
- Expending on *healthcare* is economically appropriate - especially in tackling "amenable mortality & morbidity"

Thank you!

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