

HEALTHCARE FINANCING IN RECESSION*

PhD Student Bianca Mihart
Faculty of Economics and Business Administration
University of Craiova, Craiova, Romania

Abstract: The current, unfolding, financial recession has greatly affected almost all countries regardless of the level of economic development. Unlike prior situations, the economic crisis that broke out in the late 2008 began in developed countries later spreading to the rest of the world. Its effects are still being felt, and any upward worldwide trend is not expected in the near future, regardless of various optimistic economic projections.

JEL classification: I1, I11, I18

Key words: global recession, health systems, health system financing, health reforms

1. INTRODUCTION

The upward economic trend came to a sudden stop at the end of 2008 because most countries were, by then, entering the global economic recession. The financial and economic crisis has had - and will probably continue to have - serious implications for public funds, as government revenues have, without delay, been affected by the economic slowdown and the downfall of prices. Under these circumstances, notable efforts have been made in order to support the financial sector (through capital contributions, purchases of assets, lines of credit for financial institutions, as well as warranties for the debts of the financial sector), but the broad utilization of tax incentives has eventually led to serious consequences that continue to plague emerging countries, bringing about the deterioration of fiscal balances and major government debts.

For example, by mid 2009, Italy ranked highest in Europe with a public debt of more than 100% of GDP¹, while Greece, France, Belgium, Norway and Hungary reached public debts of over 60% of GDP² each. By the beginning of 2010, Iceland's public debt had also doubled. Between the fourth quarter of 2007 and the second quarter of 2009, the U.S. GDP contracted by 4.1%³ marking 'the deepest decline since the Great Depression of 1929-1933'⁴. In essence, the global gross domestic product

* **Acknowledgement.** This work was partially supported by the strategic grant POSDRU/88/1.5/S/49516 Project ID 49561 (2009), co-financed by the European Social Fund – Investing in People, within the Sectoral Operational Programme Human Resources Development 2007-2013.

¹ WHO – „The financial crisis and global Health”, Geneva, Switzerland, 2009

² McKee M., Nolte E. „Assuring the quality of healthcare in the European Union”, Observatory Study Series 12/2009

³ „The Employment Situation: June 2009”, United States Department of Labor, Bureau of Labor Statistics, July 2, 2009

⁴<http://www.tradingeconomics.com/united-states/out-of-pocket-health-expenditure-percent-of-private-expenditure-on-health-wb-data.html>

shrank by 1.7%⁵ in 2009, giving rise to the largest decline of the contemporary global economy.

2. GLOBAL HEALTHCARE IN A CRISIS

With regard to the effects of the current downturn on health systems, the World Bank estimated sizable repercussions, caused by lower employment rate, individual income and GDP. The most important effects are being felt in countries with an economic decline over 10%. General reforms, intended to maintain the level of public spending on health care, have not been able yet to warrant universal access to healthcare. This aspect is critical, as learnt from previous economic recessions, suggesting that healthcare budgets in developing countries are vulnerable to economic downturns, thus creating the need for an increased financial effort of the insured under the form of additional co-payments. In light of these concerns, the World Bank recently encouraged governments of developed countries to donate 0.7% of their own funds - as agreed in the Monterrey Consensus during the International Conference on Financing for Development - in order to support vulnerable populations who have been severely affected by the global financial crisis.

This objective is, to my opinion, difficult to achieve given the particular situation of each country and individual strategies. In the United States for example, despite the level of economic development, health expenditure amounted to 17.6%⁶, representing one sixth of the total available resources. Assessed in relation to total federal income, health expenditure increased from 38% in 2008 to 54% in 2009⁷. Even without the economic crisis, increasing health care costs and default insurance policies led employers to seek new ways to restructure insurance benefits. Insurance costs have recorded a higher growth rate than wages and inflation, ultimately leading to 5.8 million uninsured⁸.

For the period 2016-2019, based on the aging of the population, an increasing number of people are expected to move from private health insurance to federal funded programs thus boosting federal spending for health care, from 6.3% to 7.6% in 2015 in 2019⁹.

Given the need to manage their own problems, it is unlikely that a country like the United States will actively contribute to improve global access to health care services neglecting, in a way, their own, national needs.

On the other hand, the European situation is not far from different, with countries like Austria, Portugal, Czech Republic, Estonia, Latvia, Lithuania, Hungary and Slovakia operating budgetary adjustments since 2009. Even developed Western European countries (Sweden and Italy) have been forced to diminish funds allocated to health care while Germany increased mandatory contributions from 14.9% to 15.5%¹⁰.

⁵ „The Employment Situation: June 2009”, United States Department of Labor, Bureau of Labor Statistics, July 2, 2009

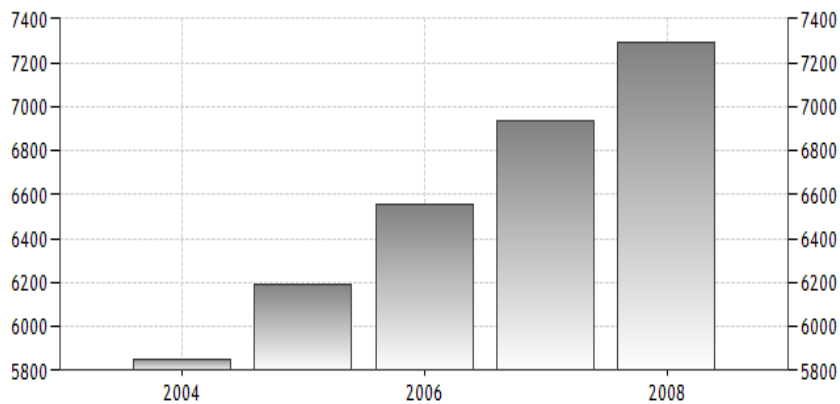
⁶ „The Economic Crisis: The Toll on the Patients and Communities Hospitals Serve”, American Hospital Association, April 27, 2009

⁷ U.S. Department of Human Services, Centers for Medicare and Medicaid, <http://www.cms.gov/>

⁸ U.S. Department of Human Services, Centers for Medicare and Medicaid, <http://www.cms.gov/>

⁹ Truffer J.C., Keehan S., Smith S., Cylus J – „Health Spending Projections Through 2019: The Recession’s Impact Continues”, *Helaht Affairs* 29, no. 3/2010, Project Hope—The People-to-People Health Foundation, Inc.

¹⁰ www.bundesgesundheitsministerium.de/service/publikationen



Source: Tradingeconomics.com/USA

Figure 1. Total health expenditure in the US between the years 2004-2008 (US Dollars)

At the same time, other countries have implemented structural reforms and cost control measures, using the recession as an opportunity to promote unpopular decisions such as expenditure rationalization and restructuring of the hospital sector. Increasing efficiency and effectiveness is now accompanied by the need to cap spending growth, while maintaining universal access and non-discriminatory health care services.

In Austria, the main consequence of the financial crisis on the health insurance system has resulted in a reduction of the overall financial resources available, due to lower tax levies and lower contributions to health insurance. Moreover, the adoption of a med-term strategy aimed to stabilize public deficit within 3.0% of GDP reference value, brought into question a decrease of 1.7 billion Euros in the health sector spending during the 2010-2013 period, which is to aggregate savings of approximately 0.6% of GDP¹¹.

The budget of the National Health Insurance System (NHS) in Britain has been, during the economic recession, protected by additional allocations of funds. Despite this, the settlements required by the population, the cost of new technologies and increasing expectations of policyholders have generated an annual rate of increase in spending of 4%-5%¹². Thus, the NHS has to generate savings of around 20 billion Euros over the next four years, in order to ensure sustainability of the system, while maintaining the same coverage and quality.

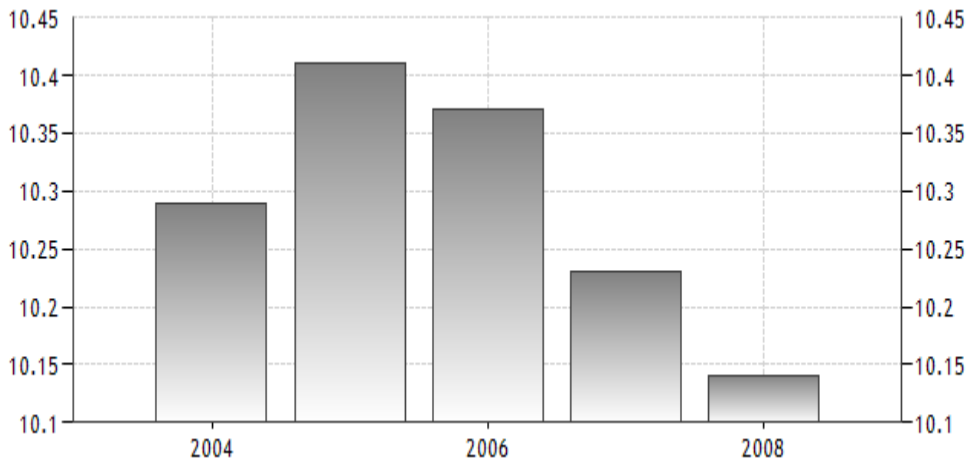
Current estimates predict an increase in NHS spending from 121.7 billion Euros in 2010 to 133.7 billion in 2015¹³. However, the rates paid to medical providers have been camped at the 2007 level and hospitals were required 5% savings per year, with an expected decrease of allocated resources of 25% by 2015¹⁴.

¹¹ OECD – „Economic Survey of Austria 2009: Facing the financial crisis”

¹² OECD - „Recession hits demand for private medical cover”, July 2010

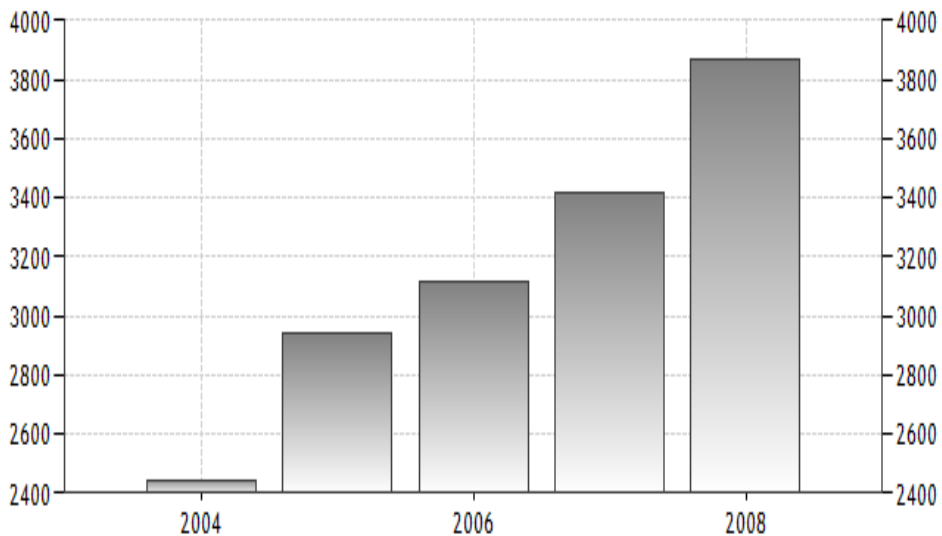
¹³ Smith P.C. – „Resource allocation and purchasing in the health sector: the english experience”, Bulletin of the World Health Organization 2008

¹⁴ Smith P.C. – „Resource allocation and purchasing in the health sector: the english experience”, Bulletin of the World Health Organization 2008



Source: Tradingeconomics.com/Austria

Figure 2. Total health expenditure in Austria between the years 2004-2008 (US Dollars)



Source: Tradingeconomics.com/United Kingdom

Figure 3. Total health expenditure in UK between the years 2004-2008 (US Dollars)

As shown in the previous examples, each country has had its healthcare system influenced by the economic downturn and has been forced to implement various reforms in order to ensure sustainability.

Some relied on capping health spending by setting maximum growth limits, while others have diminished operating costs, prices paid to suppliers for services provided on behalf of health insurance, spending on pharmaceuticals and procurement of goods, services and tangible assets for medical institutions.

Certain effects were felt in the field of employment, meaning that governments have promoted policies aimed at dismissing or replacing retired staff. An additional package of measures was to reduce wages, a common trend for the entire public sector. Decreased wages, in some countries up to 25%, generated a veritable exodus of health

professionals. Also, the reforms imposed by the economic and financial crisis affected the insured as a whole. Thus, some states have rethought the entire health insurance system, changing procedures for services provided, the amount of services that can be accessed in a period of time and the amount of contributions to health insurance. As a result, hospital costs increased significantly, which triggered additional co-payments.

Under these circumstances, the World Bank resolution is, at least, a utopia as long as health insurance systems throughout the world are, with or without the recession, facing numerous threats. For the time being, as long as health systems continue to inefficiently use resources, the only two solutions at hand are either to reduce coverage by health insurance or diminish the basic health services package.

5. CONCLUSIONS

As stated beforehand, the financial crisis has reached global dimensions, and countries are now seeking appropriate ways to ensure long-term sustainability of their health insurance systems. Preceding recessions have underlined the fact that health sectors are rapidly affected by the overall economic situation which always causes predicaments related to funding. Moreover, constraints have often initiated outcomes that led to budget cuts, increases or introductions of taxes, co-payments or certain other forms of additional private funding. While the downturn progressed, new concerns have emerged and some uncovered long ignored systematic problems.

The dependence between health care funds and state budgets require further action, including:

- promoting of open competition in health insurance;
- facilitating public-private partnerships;
- removing constraints for private insurers;
- a better differentiation of health insurance models. When the proposed regulatory measures affect private health insurance market, it is necessary to take into account the diversity of national healthcare systems;
- improving quality of care through the use of interventions and appropriate medical services and eliminate unnecessary or ineffective procedures, old or obsolete technologies;
- to limit and eliminate fraudulent practices in health insurance. Fight against fraud could be improved by promoting the best practices.

In the end, even though worldwide health system effectiveness is the ultimate goal, improvements will seize to appear as long as countries are not able to ensure an optimum at national level.

REFERENCES

1. Gottret, P. Protecting Pro-Poor Health Services during Financial Crises Lessons from Experience, World Bank, April, 2009
2. Smith, P.C. Resource allocation and purchasing in the health sector: the english experience, Bulletin of the World Health Organization 2008
3. Truffer, J.C., Health Spending Projections Through 2019: The Recession's Impact
Keehan, S., Continues, *Health Affairs* 29, no. 3/2010, Project Hope—The
Smith, S., People-to-People Health Foundation, Inc.
Cylus, J
4. OECD Economic Survey of Austria 2009: Facing the financial crisis, 2009

Revista Tinerilor Economişti (The Young Economists Journal)

5. OECD Recession hits demand for private medical cover, July 2010
6. American The Economic Crisis: The Toll on the Patients and Communities
Hospital Hospitals Serve, American Hospital Association, April 27, 2009
Association
7. United States The Employment Situation: June 2009”, United States Department
Department of of Labor, Bureau of Labor Statistics, July 2, 2009
Labor
8. * * * www.bundesgesundheitsministerium.de/service/publikationen
9. * * * <http://www.cms.gov/>
10. * * * www.tradingeconomics.com