Financial Crisis and Health Policy

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The 2009 European Health Forum, which will be held in Gastein, Austria, in early October, will take place against a background of global economic crisis. Speakers at the Forum will explore what we know about the economic crisis' causes and effects, and what European governments might do to mitigate its consequences for the health of their populations.

The precise reasons for the current crisis remain a subject of intense debate. What is clear is that many of the highly-paid investors operating in the global financial markets had little or no concern for the consequences of their actions. Among the small minority who did, a few, such as Bernie Madoff, were crooks – operating simple and extremely lucrative pyramid selling schemes. Some commentators had wondered if this situation, in which many individuals made fortunes before they reached their 30s, could last. Their concerns were dismissed by the so-called »masters of the universe« who were benefiting from this system. But the sceptics were right. In mid-2008, the system began to fall apart as it became apparent that it was built on sand. Banks had built up massive lending portfolios for properties that were essentially worthless, to individuals who had been encouraged to exaggerate their ability to repay the loans. The money involved was wrapped up in complex derivatives that no one fully understood, so that when the loaned money was needed, no one knew where to find it. Essentially the economy rested on a massive system of betting on other people's bets, caught in a sea of poorly-constructed loans and greedy attempts to make large profits without investing in long-term production of actual goods and services.

The consequences are all too obvious. Stock markets have crashed, bringing misery to those who depended on them for their pensions. Demand for manufactured goods has dried up, leading to widespread layoffs, with the resulting unemployment dragging demand down even further.

These financial events have given rise to concerns about their implications for health, a topic that will feature prominently throughout the Forum. It is well known, at an individual level, that both the fear of impending unemployment and the actual loss of work have adverse consequences for health. Yet what we are experiencing now is on an entirely different scale from the usual economic swings. What might we anticipate will be the effect of the current crisis on the health of Europe's citizens?

To avert a potential public health catastrophe before it begins, we can learn from the crises of the past. There have been three major international economic crises in the twentieth century: the Great Depression, the post-Communist mortality crisis, and the East Asian financial crisis of the 1990s. During the Great Depression in the late 1920s and early 1930s, international trade fell by more than 50%. Unemployment rose rapidly and some countries experienced hyperinflation. The political consequences were profound, giving rise to the conditions from which fascism emerged in Germany and Italy, a development that would lead, in the following decade, to a world war.

The second major crisis came in the early 1990s, this time in the countries that had been part of the USSR. As republics within the USSR, each had been part of a complex and interlinked trading system, in which a single tractor emerging from a factory in Minsk might contain components from perhaps ten other republics. The system worked to some extent (but at a level far below that in the west) by virtue of a system of central planning, which was only possible when the state owned all the factories. A combination of factors, including a breakdown of trading relations and mass privatisation of industries led to economic collapse. Once again, economies plummeted, unemployment rose, and savings were wiped out by inflation.

The final crisis of the 20th century took place in South East Asia. The Thai government, which had tied the Baht to the US Dollar, was no longer able to defend its currency against intense speculative pressure. Real-estate investors and their partners had given poorly-chosen loans and generated spending in sectors that led to fast fortunes built without careful research into their long-term viability. When this was realized, the Baht was forced to devalue, causing it to lose up to half of its value. The problems spread rapidly to its neighbours, leading to capital flight and mass unemployment across the region, accompanied by major labour migration that has been attributed to the rapid transmission of HIV in the region.

When viewing these crises from a Public Health perspective, what should we expect for our current crisis, and what should we do about it?

The first point to make is that each crisis was different. It will come as a surprise to many people who learned about the Great De-

Abstract

Wirtschaftskirse und Gesundheitspolitik

Die Wirtschaftskrise hat viele tief verwurzelte Ansichten über Banken, Märkte und den Finanzsektor in Frage gestellt. Zwangsläufig wurden auch Bedenken über ihre Auswirkungen auf die öffentliche Gesundheit laut. Wie wird sich die öffentliche Gesundheit infolge der weltweiten Rezession voraussichtlich entwickeln? Welche Maßnahmen kann man setzen? Im Rückblick können aus den bisherigen großen Wirtschaftskrisen zwei zentrale Lehren gezogen werden: Erstens sind die gesundheitlichen Risiken am größten, wenn wirtschaftliche Veränderungen rasch ablaufen und verzweifelte Menschen nicht vor einer beschränkten Anzahl von gesundheitlichen Gefahren geschützt sind. Zweitens können die Regierungen zur Verringerung dieser Risiken beitragen, indem sie die Netze der sozialen Sicherheit und Hilfsorganisationen stärken. Glücklicherweise haben die europäischen Staaten Maßnahmen zur Gewährleistung sozialer Unterstützung ergriffen, wobei aber die Situation für gefährdete Personengruppen wie Migranten und Flüchtlinge sowie für die Bevölkerung in mittel- und osteuropäischen Ländern, in denen das Sozialsystem weniger gut ausgebaut und mit geringeren Ressourcen ausgestattet ist, nicht so beruhigend ist.

pression through images of failed businessmen jumping from window ledges on Wall Street that mortality rates in American cities actually fell during the crash, by about 10 %. This contrasted markedly with what happened in the former Soviet Union. There, death rates increased rapidly, by up to 20%. There were over three million excess deaths, an unprecedented figure in peacetime. The situation in Asia was somewhere in the middle, with no obvious change in death rates in Malaysia but short term increases in Thailand and Indonesia.

To understand these differences, it is necessary to turn to a growing body of research, some looking at the experiences of individuals and some at the experiences of entire populations that have gone through economic difficulties ranging from the international crises listed above to more localised crises, such as the closure of a large local employer. A few key common findings emerge.

Firstly, it seems that rapid economic change is particularly problematic to Public Health. The direction of change is less important than its speed. Deaths increase in both good times and bad. Research in the ex-Soviet countries shows how those that implemented privatisation most rapidly experienced the greatest increases in deaths.

Secondly, a lot depends on whether desperate people are protected from health risks, particularly risks that can be self-inflicted. The Great Depression took place at a time when prohibition was in place. Of course it was possible to obtain alcohol, whether by making it yourself in a still on your ranch or from a speakeasy in Chicago. However, it was a lot more difficult than it had been prior to the ban. It was not possible to go to a local supermarket and stock up with whiskey. In contrast, alcohol had long been consumed in large quantities in the USSR. Entrepreneurs took advantage of the new market economies to produce anything that could be sold. Inevitably, sales of vodka increased. However, others began the industrial scale production of other forms of alcohol, typically sold as aftershaves that were up to 95% ethanol and which, as they were ostensibly not sold for drinking (even though everyone knew that they were drunk) were free of tax. Volume for volume of alcohol, they cost about one sixth of the price of vodka.

Thirdly, it helps to have friends that you can depend on. The research from the ex-Soviet countries described above also found that the effects of rapid economic change on death rates were substantially reduced in those countries where many people were members of social organisations, such as trade unions or sports clubs. This is intuitive. In times of crisis it is important to have someone you can turn to for help, whether to borrow money or other resources, or to get advice on what to do.

Fourthly, governments can do much to protect their populations by creating and strengthening social safety nets. One of the reasons why Malaysia was protected is likely because it ignored the advice of the international financial community to reduce social support. In contrast, Indonesia, which did experience a short-term increase in mortality, cut back on social protection at the behest of the international financial community.

The available research also provides some pointers to the consequences of financial crisis for different causes of death. In general, economic problems tend to be associated with increases in suicides and, in some cases, homicides. In contrast, there are often reductions of deaths from road traffic injuries, plausibly because people drive less.

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So what does this mean for Europe? Prediction is always difficult but it seems likely that countries of western Europe, with well-developed social protection systems, may experience fewer health consequences than their eastern and central European counterparts. This is borne out by the experience of Iceland, which was hit early and severely by the crisis. Despite major bank failures and a currency collapse, the Icelandic authorities had put in place an extremely detailed monitoring system, which detected almost no health effects at all except for a short-lived increase in attendances at hospital emergency departments. However, the situation may be less reassuring in the countries of central and eastern Europe, where social safety nets are less well developed and resourced. In all countries, those already on the margins of society, such as migrants and refugees, may be disproportionately affected.

A caveat, however, is required to these conclusions. Much of the research is on the short-term effects of economic crisis. There may also be changes in behaviour that only give rise to health problems several years in the future. Thus, the fast food industry is one of the few sectors in the economy that is predicting growth, as people facing loss of earnings consume more junk food. We may, however, see some reduction in the rate at which people quit smoking. Finally, declining public finances, especially in those countries that have had to intervene to prop up failing banks, may lead to long-term reductions in expenditure on health care and social welfare, with adverse consequences for Public Health.

The European Health Forum will, as always, bring together experts from many different sectors, including academia, industry, and government. This year they will have much to discuss. ■

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