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The political economy of austerity and healthcare: Cross-national analysis of expenditure changes in 27 European nations 1995–2011 ☆☆

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ABSTRACT

Why have patterns of healthcare spending varied during the Great Recession? Using cross-national, harmonised data for 27 EU countries from 1995 to 2011, we evaluated political, economic, and health system determinants of recent changes to healthcare expenditure. Data from EuroStat, the IMF, and World Bank (2013 editions) were evaluated using multivariate random- and fixed-effects models, correcting for pre-existing time-trends. Reductions in government health expenditure were not significantly associated with magnitude of economic recessions (annual change in GDP, $p=0.31$, or cumulative decline, $p=0.40$ or debt crises (measured by public debt as a percentage of GDP, $p=0.38$ or per capita, $p=0.83$)). Nor did ideology of governing parties have an effect. In contrast, each \$100 reduction in tax revenue was associated with a \$2.72 drop in health spending (95% CI: \$1.03–4.41). IMF borrowers were significantly more likely to reduce healthcare budgets than non-IMF borrowers (OR = 3.88, 95% CI: 1.95 –7.74), even after correcting for potential confounding by indication. Exposure to lending from international financial institutions, tax revenue falls, and decisions to implement cuts correlate more closely than underlying economic conditions or orientation of political parties with healthcare expenditure change in EU member states.

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1. Introduction

Virtually all European countries have experienced economic recessions since 2007. Those nations with large financial centres, including the UK, were among the first to be affected, with many other nations' banking sectors soon caught in the ensuing turmoil. In several, politicians used large financial stimulus packages to bail out banks, absorbing their debts into the public sector's balance sheet. In parallel, recessions led to increasing job losses and falling incomes, leading to declining consumer spending and associated tax revenues. This resulted in large increases in government deficits (where annual government spending exceeded revenues), increasing national public debts. How best to respond to these combined threats of large falls in output, unemployment, and escalating debts and deficits has been a topic of vociferous debate.

The European Commission, European Central Bank, and International Monetary Fund (so-called 'troika'), along with leaders of many European nations, placed an explicit priority on deficit reduction. In a letter to Europe's finance ministers on 13th Feb 2013 the European Union's

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Commissioner for Economic and Monetary Affairs, Ollie Rehn, wrote that "when public debt levels rise above 90% they tend to have a negative impact on economic dynamism" [1]. Concerns were widespread that high levels of debt could trigger declines in economic growth [2], as well as lead to costly, unsustainable debt repayments. To reduce deficits, governments began implementing austerity programmes, so named because they typically involve budget cuts. However, austerity measures also may include policies that increase taxes on corporations, individual or household incomes, value-added or sales taxes, and other forms of taxation.

Why are some EU policymakers making large cuts to healthcare spending while others are not? It has been hypothesised that larger economic shocks, such as GDP falls, unemployment, and debt, may trigger policymakers to make deep healthcare cuts [3]. Yet, a brief look at cross-national data in Europe shows that there is no inevitable relationship between recessions and healthcare cuts. When comparing the size of the economic recessions that began in 2007, defined as the peak-to-trough change in GDP, with the subsequent magnitude of budget cuts, reflecting the delay in budget cycles, there is little or no obvious correlation [4]. Take Austria and Germany, for example. Both experienced recessions of similar size and timing (2008–2009), yet Austria saw reduced government spending on health, of US$90.1 per capita, adjusted for purchasing-power and inflation, while Germany saw an increase of US$57.4 per capita. As Fig. 1 demonstrates, policymakers have made widely differing budgetary choices about health expenditures in response to these downturns [5–8]. Some countries have allowed total spending to rise in the face of increasing population needs, in spite of budgetary pressures from rising deficits and debts. Another group of countries has specifically allowed healthcare expenditure to rise, a measure that would facilitate improvement in the quality and accessibility of health services while fostering economic growth [9]. Yet a third group of governments, potentially influenced by an influential consensus among international institutions that fiscal consolidation would promote future growth, appears to have substantially reduced government spending [10,11].

This large variation in political responses to a European-wide economic shock creates a quasi-natural experiment for understanding the political economy of healthcare budget allocations. While currency fluctuations may account for some of the variation among countries outside the Eurozone, some countries (e.g., Iceland, Greece, Ireland, UK, Spain, Slovenia and Spain) implemented large reductions in spending on health, while others (e.g., Netherlands, France, and Switzerland) have allowed real levels of spending to increase (Fig. 1; see Web Appendix 1). However intuitive it may seem that recessions lead to cuts, these data indicate that there is scope for different policy choices, with recent research showing that the depth of recession does not seem to correspond directly to changes in health expenditure [12].

Previous research has identified at least four further explanations beyond the depth of recession for how healthcare budgets will be affected by an economic crisis. First, a 'visibility' hypothesis suggests that cuts to prominent areas of public spending, such as health, will be politically unpopular and less likely to be implemented in periods of retrenchment [13]. Summarising previous episodes of fiscal retrenchment in Europe during the 1980s and 1990s, Pierson observes that because healthcare spending is highly visible, accounting for >10% of GDP in almost all European countries, and is used by virtually all the population, "governments generally found health care to be a cause of political headaches rather than a target for successful retrenchment" [14]. Second, the ideology of the governing political parties has been proposed to shape budgetary responses to recessions. For example, while left-leaning parties may be more likely maintain safety net programs through increased government spending, right-leaning parties may prioritise deficit and debt reduction by shrinking the role of the state, including health system spending [15]. Thus, this "party hypothesis" suggests that reductions in healthcare spending are more likely to occur when the majority party in power has a right-wing orientation. Third, a 'debt crisis' hypothesis suggests that rising levels of public debt will necessitate reductions in government spending, to avoid increasing rates of debt service payments, a position often articulated by politicians pursuing deep cuts as an austerity strategy [2,16]. The prominence of healthcare within government spending makes it an obvious target for governments that concentrate their efforts on cuts rather than tax rises.

A fourth major hypothesis in the political economy literature focuses on the role of external factors, such as international financial institutions (IFIs). Historically, IFIs have advocated for 'structural adjustment programmes', which include privatization, liberalization, and austerity policies, privileging conditions that facilitate private-sector investment [17–19]. The involvement of the International Monetary Fund has been identified as a major determinant of reductions in healthcare budgets, with its policy prioritising accumulation of reserves [20,21]. In Eastern Europe, countries that borrowed from the IMF had 8% greater cuts to government spending [22]. Across 135 countries, between 1996 and 2006 non-IMF borrowing countries, on average, increased government spending on health by $0.45 for every $1 of donor aid while IMF borrowing countries increased health spending by only $0.01 for every additional dollar [23]. The IMF has historically encouraged reductions in social protection spending by increasing co-payments for care [24]. In Europe during the Great Recession, external pressure has come from a tripartite coalition of the European Central Bank, European Commission, and International Monetary Fund. In Greece, for example, conditionalities of troika bailout packages included a restriction of public health spending to less than 6% of GDP. Hence, an alternative hypothesis is that pressure from international financial institutions may account for a greater propensity to pursue cuts and, within them, to concentrate reductions in the healthcare sector.

In this paper, we test each of these alternative hypotheses about government budgetary changes using multivariate cross-national statistical models and data from 27 EU countries between 1995 and 2011. First, we assess whether healthcare reductions were a direct result of economic recessions by modelling annual changes to

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