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Economic Policies, Political Considerations and Overall Health[1]

Stavros A. Drakopoulos
Department of Philosophy and History of Science,
University of Athens,
University Campus 157 71,
Athens,
Greece
(Email: sdrakop@phs.uoa.gr)

Abstract: Socioeconomic factors play a crucial role in determining physiological and psychological health levels of the population. The level of unemployment, income inequality and poverty levels are largely affected by economic policies and the economic cycles. Economic policies can also influence the occurrence of economic cycles which in turn influence socioeconomic factors and therefore health inequalities. Economic policies are influenced by political considerations as the historical record of many countries indicates. The paper discusses the conduct and the effects of economic policy on health inequalities. It starts with a discussion of the need and of the instruments of economic policy and also its effectiveness in smoothing the economic cycle. It also examines the interplay between main policy targets such as unemployment and inflation with political considerations. Finally, it concentrates on the effects of economic policies for health inequalities in view of economic recessions.

I. INTRODUCTION

Many health experts are convinced that socioeconomic factors play a crucial role in determining physiological and psychological health levels of the general population. Numerous empirical studies for many countries have shown that health follows a social gradient: the higher the social position, the better the health (for general reviews, see Marmot and Wilkinson 2006; Skalli, Johansson and Theodossiou 2006). This implies that socioeconomic inequalities tend to produce health inequalities. Furthermore, more recent studies have indicated that apart from the absolute social status, relative social status also plays a role on health outcomes[2]. In particular, very low relative position is associated with worse physical health and that very

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2 For a discussion of relative income and positional concerns, see Fischer and Torgler (2006).

high relative position is associated with lower probabilities of reporting common chronic diseases (Demakakos, Nazroo, Breeze, and Marmot 2008; Pham-Kanter 2009). The main socioeconomic factors which affect health outcomes are unemployment, income inequality and poverty (Brenner 1995; Siegrist and Marmot 2004).

It is also generally accepted that the level of unemployment, income inequality and poverty levels are largely affected by economic policies and the economic cycles. In particular, economic policies such as the level of government expenditure, tax rates, the level of interest rates, income and education subsidies, and the level of social benefits have a crucial impact on socioeconomic factors. In addition, economic policies can influence economic growth, human capital levels and thus productivity which in turn play an important role on health inequalities. Finally, economic policies can also influence the occurrence, frequency, duration and the strength of economic cycles which in turn influence socioeconomic factors and therefore health inequalities (e.g. Stuckler et al. 2009).

All the above imply the importance of the study of the conduct and effects of economic policy for overall population health. Political considerations also influence the conduct of economic policies. Although there is a large literature examining the effects of economic policy on main economic variables, there are no many works focusing on the link among economic policies, political considerations and overall health. Thus, this paper will discuss the conduct and the effects of economic policy on health inequalities especially during recessionary periods. The paper will start with a discussion of the need and of the instruments of economic policy and also its effectiveness in smoothing the economic cycle. The next section will provide a brief historical record of economic policy conduct in major western countries. It will also examine the interplay between main policy targets such as unemployment and inflation with political considerations. The following section will concentrate on the effects of economic policies for health inequalities especially during recessionary periods. Finally, a concluding section will close the paper.

II. THE NEED FOR ECONOMIC POLICY: TWO SCHOOLS OF THOUGHT

Given the link between health and economic environment, the issue of the determinants of main economic variables becomes important for the study of overall population health levels. Economic policies have a decisive influence on economic variables like unemployment, income inequality and poverty which affect overall health. Furthermore, they also have an influence on the occurrence and duration of economic cycles. One can discern two main approaches in the history of economic thought concerning the central issue of economic cycles and thus recessions. The first approach claims that the free market mechanism is self-adjusting and therefore any cyclical phenomena are short-run and are caused mainly by unnecessary interventions. This implies that long-run unemployment is theoretically impossible. The second approach argues that the free-market system has an inherent tendency to instability and economic cycles and thus market interventions are needed to stabilize the system. According to this stream of economic thought, unemployment is a constant feature of the free market and thus certain policy measures are important for reducing unemployment.

The first approach originates from the writings of many important members (e.g. Smith, Say, Mill) of the Classical school of economics and continued up to the first decades of the 20^{th} century with A. C. Pigou as the most influential figure (Pigou 1927). It was the dominant view concerning economic cycles, unemployment and economic policy until the 1930's when Keynes' main work (1936) started to become influential. In particular, Keynes challenged the established theory that free-market tends towards full-employment equilibrium and demonstrated that the natural tendency was underemployment equilibrium. Namely, Keynes builds a theoretical analysis where the levels of production and employment are set by effective demand. This is combined with his view of the non-neutrality of money and his theory of private investment in order to build a theory of economic fluctuations and thus of recessions and depressions. Keynes argued that active macroeconomic policy measures are necessary in order to ensure full or near full employment equilibrium or in general to smooth out the economic cycles (Keynes 1936). The instruments of fiscal and monetary policy are necessary for minimizing economic fluctuations. In particular, active fiscal policy (especially increase of government spending) is the only tool to push the economy out of deep depression, given that private investment remains stagnant due to uncertainty.

Keynesian views concerning the role of economic policies became established and were followed by most western countries until the early seventies. The oil crisis of that period and the resulting stagflation in many countries gave rise to the reappearance of the classical views about economic policies albeit in a more sophisticated theoretical framework. In particular, the Monetarist school of macroeconomic thought with M. Friedman as its main representative, called for an abandonment of active government intervention. Friedman believed that the aggregate supply is almost vertical in the short run and this means that any fiscal policy measures will have an inflationary effect. According to Friedman, the role of monetary policy is the increase of money supply to keep up with increases in real output in order to keep inflation at minimum levels (Friedman 1968).

In the same spirit and during the same period, the New Classical macroeconomics was gradually formed mainly with the works of Lucas, Sargeant and Wallace as its basis (e.g. Lucas 1975). There are two basic points of this school: 1) the aggregate supply hypothesis emphasizes that all markets in the economy continuously clear in the manner of a Walrasian general equilibrium system. This is in the same line of thought as the classical ideas. 2) Agents (workers and firms) are characterized by rational expectations implying that their expectations about future economic variables are not biased. These two points imply that all policy decisions by the government are fully anticipated by the agents and thus neutralize their effect on real output and employment. In this framework, even the Monetarist prescription concerning monetary policy is not accepted. The New Classicals believe that only microeconomic policies can increase output. In particular, governments must create incentives for firms and workers to produce more output by reducing marginal tax rates and social benefits. Furthermore, they should increase wage and price flexibility by removing any legal and institutional obstacles (see also Gerrard 1996).

Although New Classical approaches became very influential for the formation of economic policies in many countries, Keynesian inspired theorists criticized New Classical macroeconomics and offered their own policy prescriptions. The New Keynesian theorists build on what they believe to be the fundamental aspect of Keynes's thought: the existence of wage and price rigidities which imply non-market clearing and thus economic fluctuations and unemployment. New Keynesians have provided a number of reasons why the labour market and the goods market do not clear thus generating involuntary unemployment (for a collection of papers on New Keynesian economics, see Mankiw and Roemer 1991; also Okun 1981 and for a review, Gordon 1990).

The previous discussion is linked to the controversial debate concerning the effectiveness of policy measures to minimize economic fluctuations and combat unemployment. According to the first stream of thought, the Monetarists and the New Classicals, argue that a free-market economy is self-adjusting and therefore any active macroeconomic policy is likely to be harmful. In fact, they maintain that even exogenous shocks to the economy do not cause big fluctuations because economic agents act rationally (consumers smooth out consumption over time and investors make long-run decisions) and the market mechanism is efficient. In their view, expansionary fiscal policy is completely unnecessary and only raises prices.

More specifically and as far as unemployment is concerned, New Classical and Monetarist oriented economists adopted the notion of the natural rate of unemployment (e.g. Friedman 1968). This approach essentially redefines full employment in terms of a unique unemployment rate (the Non-Accelerating Inflation Rate of Unemployment: NAIRU) where inflation is stable, and which is determined by aggregate supply. This also implies that demand side policies cannot change the NAIRU but can only alter inflation (Staiger, Stock and Watson 1997). According to this approach, unemployment reflects failures on the supply side such as individual disincentive effects arising from welfare provision, skill mismatches, and excessive government regulations (Mitchell and Muysken 2008). Thus, the key for increasing employment and output lies in microeconomic reforms which can shift the aggregate supply curve (sometimes termed Supply-side-economics). Abolishing minimum wages, social security payments and employment regulations are main examples of such microeconomic measures. In general, it follows that the sole objective of economic policy is to remove disincentives mainly through tax and welfare provision cuts, to relax legal and institutional rigidities and also to reduce government spending.

In the traditional Keynesian approach to economic policy, the idea of government intervention to smooth out economic cycles and to promote economic growth is basic. More specifically, in the case of a recessionary period, traditional Keynesian economists advocate a combination of fiscal and monetary policies to pull the economy out of the economic downturn. Fiscal measures such as increased government spending and lowering taxation are considered as having a stronger effect than monetary measures. Because the government spending multiplier is stronger than the tax multiplier, the policy emphasis is placed on the role of government. Furthermore, a number of Keynesian theorists have argued that the balanced budget government multiplier might be stronger if the economy is characterized by imperfect competition (e.g. Mankiw 1988). Monetary policy measures such as the increase of money supply and/or the reduction of interest rates are also thought to be effective. Their effectiveness though, is much lower if the economy is experiencing an economic depression because of the liquidity trap (no effect of interest rate reduction on private investment). In general, Keynesian economists believe that the best way to moderate the effects of economic recession is by stimulating the economy through the expansion of aggregate demand (see also Gordon 1990).

The recent severe recession in most western economies and the nature economic policy measures that most authorities followed, has provided important insights for the above controversy between the two schools of thought. Given the extent and the severity of the crisis, it seems that the idea of self-adjusting free market economy has been seriously undermined. The fact that the monetary and the fiscal authorities in most countries have engaged in active intervention by providing fiscal and monetary stimulus in order to mitigate the effects of recession, is also a very strong indication that free market self-regulation hypothesis has lost considerable credibility. In other words, Keynesian oriented approaches have been adopted across countries during the recent recession (for an extensive discussion, see Stiglitz 2009).

III. ECONOMIC POLICY TARGETS

3.1 Economic Policy and Politics: Brief Historical Record

As was pointed out in the previous section, macroeconomic policy can influence socioeconomic factors which in turn affect overall health levels. Health provision policies are also part of macroeconomic policy. Thus, a brief historical discussion of macroeconomic policies and the politics of macroeconomic policies is necessary in order to establish a greater picture of the general population health determinants. There are significant indications that after the Second War World period, many western governments had explicit targets of macroeconomic policy objectives. This was in accordance with the emerging Keynesian orthodoxy of the time which provided a sound theoretical justification for the conduct and of the objectives of macroeconomic policy. The historical record shows that during the first decades of the post war period, most western governments considered full employment as the main target of economic policy. The first major example towards this direction was Beveridge's (1944) *Full Employment in a Free Society* and the related Beveridge report. According to Beveridge, the State has full responsibility for full employment: "the ultimate responsibility for seeing that outlay as a whole … is sufficient to set up a demand for all the labour seeking employment, must be taken by the State.' (Beveridge 1944, pp.123-135). The basic principles of this report were adopted by Churchill and the subsequent governments in the UK. Thus, maintaining a high level of employment was an explicit priority goal for U.K. governments in the first post war years (Kennedy 1982, p.25). Another example of policy target which attempted to keep employment levels high was the 1972 "dash for growth" budget which was designed to raise the annual rate of growth to 5 per cent. Fiscal and monetary instruments concentrated on raising the growth rate to the specified level (Gowland and James 1990, p.318).

In the same spirit, U.S governments of the first post war years also perceived employment as the most important policy target, as is demonstrated by the 1946 Employment Act where there was a legal commitment to full employment. Clearly, the government thought of full employment as the most important policy objective. This was also the case subsequently when the Kennedy-Johnson administration officially adopted a full employment goal of 4 per cent unemployment. During the 1970's there were implicit targets of 5 and 6 per cent unemployment levels (Tobin 1987,p.95).

In general, in most western countries in the Post World War II period up until the mid-1970s, very few individuals who wanted to earn an income were not able to find employment

(Mitchell and Muysken 2008). Maintaining full employment was an overriding goal of economic policy which governments of all political persuasions took seriously. Unemployment rates below two per cent were considered normal and when unemployment threatened to increase, government intervened by following policies to stimulate aggregate demand. Unemployment levels higher than 2 per cent were considered by the public and government alike as unacceptable (see Mitchell and Muysken 2008).

Subsequently, and more specifically in the mid 1970's, inflation control gradually replaced unemployment as the most important objective of macroeconomic policy in most western countries. One can mention two main factors for this major shift in macroeconomic policy: The first one had to do with the simultaneous increase of inflation and unemployment levels. This was mainly due to the external shock of the oil crisis but also to the increasing instability of the financial and banking sectors (Minsky 1982). The experience of stagflation undermined public confidence to the Keynesian oriented economic policies. The second reason was the gradual dominance of conservative governments which emphasized inflation control backed by the emerging Monetarist/Neoclassical macroeconomic theories. There a number of theoretical explanations concerning the mechanism of a major shift in the political spectrum (for a discussion see Hogan, 2009). According to one of them, the 'critical junctures' framework, developed by Hogan and Doyle (2007), emphasizes the sequence of crisis, ideational change, and policy change. This approach is not very far from the observed shift towards conservative policies in the 1980's in many western countries.

Thus, as the result of the rise of conservative policies in the US : "[In the last two decades] the Fed has placed a greater emphasis on keeping inflation low" (Taylor 2000, p.21). Furthermore, most policy-makers argued that price stability should be the ultimate goal and in practice this implied an inflation rate between one and three percent (Bernanke and Mishkin 1997). In the same spirit, as in the US, British policies were directed to the control of inflation rather than unemployment as was the case in earlier decades (Greener 2001). In the mid 1970's inflation started to acquire importance and gradually became the primary policy objective. This was made more obvious in the 1980's with the rise in power of Conservative governments. Policy tools were directed explicitly towards keeping inflation low (Gowland and James 1990, p.332 and for a historical review of British economic policy see Greener 2001). Again as was the case in the U.S., policy makers explicitly stated that macroeconomic policy should be devoted to combating inflation (Artis and Lewis 1991,p.55). Unemployment level concerns became a secondary objective:

> "Macroeconomic Policy formulation in Britain since 1979 would seem to have followed a markedly different approach. Rather than attack economic problems together, it has been argued that they need to be tackled sequentially: inflation first, then unemployment". (Artis and Lewis 1991,p.54)

This policy attitude was also not uncommon in other countries like Germany where low inflation has long been viewed as the primary policy objective and essentially more important than any other goal (see Hibbs 1985, pp.194-195).

The general change in policy objectives can also be seen by the OECD Jobs Study (1994). This document effectively approved the growing macroeconomic orthodoxy by articulating that the major task for macroeconomic policy was to allow governments to "work towards creating a healthy, stable and predictable environment allowing sustained growth of investment, output and employment. This implies a reduction in structural budget deficits and public sector debt over the medium term … [together with] … low inflation." (p.74). In general, in the last decades, the emphasis of economic policy in most countries was towards eliminating inflation at the expense of unemployment (see also Mitchell and Muysken 2008).

3.2 Unemployment, Inflation and Politico-Economic Cycles

The previous discussion of the conduct of economic policy in historical context points to the idea that the targets of economic policy are subject to a great extent, to political and ideological considerations. This is also the basic idea underlying many contemporary theories on politico-economic cycles. In this framework, political decision-making has been studied as a function of economic variables, governmental re-election prospects and also of ideological goals (see for instance Roemer 2001). In particular, electoral cycle based politico-economic models were the first to provide a rationale for believing that governments are not only willing to stabilise the economy but that they have an interest in creating some types of cycles (Frey 1978, p.218; Alesina and Tabellini 1988 and for a general survey, see Gartner 2000).

The issue of public debt development in many countries is a good example of the application of the rationale of many politico-economic models. In particular, the constant rise of public dept in many countries cannot be explained with the orthodox assumption that governments following optimizing economic policies and that voters are rational, forward-looking and perfectly informed (Austen-Smith and Banks 1988; Taylor 2000; Alesina 2000). In contrast, rising public debt could be explained in terms of short-period maximising governments which borrow in order to bribe the electorate and ignore any problems that arise after the next election (Alesina 2000).

Electoral cycle based politico-economic models start from the fact that in many countries there are two major political parties/formations: centre-right and centre-left. The centre-right party advocates free market as the way to achieve prosperity while the centre-left party advocates government intervention. There is also a socioeconomic basis of electoral success here in the sense that usually individuals who are concerned more about unemployment, tend to support the centre-left party while the ones who care more about inflation tend to support the centre-right. In particular, according to Hibbs (1987), lower-income, blue collar, wage-earners are more vulnerable to unemployment than are higher-income, white-collar, salary-earning workers. In the same framework, it is argued that higher income individuals have more to lose from inflation than those in lower-income jobs (see also Blinder 1987). This implies that the two parties follow re-election concerns as well as ideological considerations.

Political considerations and electoral cycles can be combined in a unified framework which might be able to explain governmental choices over inflation and unemployment. In this setting, governments have a "menu of choices" over inflation and unemployment which is best expressed as a Phillips curve type relationship (Phillips 1958; Samuelson and Solow 1960). This relationship demonstrates the trade-off between unemployment and inflation and can be combined with a government welfare function which shows preferences regarding unemployment and inflation. According to many politico-economic models, the choice of a centre-left government will favour lower unemployment and higher inflation while the opposite holds true for the centre-right one (Hibbs 1987; Keech 1995). One can argue that the historical record in many countries that was observed, can largely be explained along these lines (see also Drakopoulos 2004).

IV. EFFECTS ON OVERALL HEALTH LEVELS

As was mentioned in the beginning, numerous studies have showed that socioeconomic factors affect overall population health. The term "social factors" or "social determinants" is a generic term and it may include a number of parameters including for example, income, wealth, class, education, occupation and employment. Earlier studies such as Navarro (1990), have indicated that wealth and income inequalities are linked to great disparities in health both in terms of mortality and morbidity even if the effects of race are netted out. More recently, there are several studies which report a strong link between social factors and physical and psychological health in many countries (for general reviews see Smith 1999; Marmot and Wilkinson 2006). Clearly, most of the social factors such as income levels, unemployment and poverty levels, are closely associated to the prevailing economic policies.

Starting from unemployment, numerous studies have indicated that unemployment negatively affects different facets of health, ranging from psychological health to physical symptoms (e.g. Theodossiou 1998; Winkelmann and Winkelmann 1998; Riphahn 1999; Skalli, Johansson and Theodossiou 2006). Furthermore, it has been found that unemployment can also be a risk factor for population health as this is reflected by mortality rates (e.g. Creed 1998). Given that unemployment reduces the individuals' financial resources and standard of living, this can lead to poor nutrition and limited access to medical health care. It can also result in poor mental health given the social and family attitudes towards unemployment. Furthermore, many studies have shown that aggregate unemployment reduces the well-being and social status of the workers (e.g. Clark 2003) which are both known to have a negative effect on health levels (for a collection of articles, see Berkman and Kawachi 2000). The important implication here is that expansionary economic policies which target the reduction of unemployment are likely to have positive effects on health levels and thus reduce health inequalities.[3] In the same framework, anti-cyclical policies which smooth out recessionary periods will have a mitigating effect on falling health levels (see also Lorant *et al*. 2003).

Given the discussion on the politico-economic choice between unemployment and inflation, it has to be noted that the costs of inflation on health seem to be much lower than those of unemployment. Inflation usually burdens savers more than borrowers given its negative impact on real interest rates. Low income or poor individuals are likely to be borrowers. Furthermore, the main impact of inflation is on business and investors future planning decisions. Thus, low income groups are much more affected by unemployment than by inflation. As one would expect, persistent high inflation can negatively affect the income of low income groups indirectly

[3] C. Ruhm (2000) published an empirical paper claiming that the opposite holds true. In particular, he argued that the general health levels improve when the economy deteriorates (i.e. higher unemployment causes better diet, less smoking and obesity). However, these results go against the vast epidemiological and health economics literature, a sample of which is mentioned in the present paper.

through the erosion of purchasing power. This is especially the case when the low income groups do not have bargaining power for wage indexation. In general, however, inflationary pressures (except hyperinflation) do not usually cause mass reduction in living standards which in turn reduce overall health levels (for extensive discussion, see Blinder 1987; Solow 1998). Finally, there is almost no empirical study which has found a robust negative effect of inflation on health. One of the very few of such studies, indicated the negative effect of hyperinflation for very low income urban households in Buenos Aires, Argentina (Aguirre 1994).

According to many researchers, there is a vicious relationship between poverty and ill health: poverty leads to ill health, which, in turn, keeps people poor, and so the circle spins (e.g. Sen 1998). It is also accepted that during the economic downturn, more people are likely to fall in to poverty (Adda, Chandok, and Marmot 2003). Poverty is associated with high infant, child and maternal mortality, malnutrition and poor or no access to medical care. Furthermore, loss of health or a health shock can be of such magnitude as to lead to poverty or prevent people from escaping from poverty (for a review see Wagstaff 2001). Finally, there is evidence that childhood socio-economic deprivation has negative effects on later adulthood health status, thus negatively affecting productivity and also imposing further demands on national health systems (Drakopoulos, Lakioti and Theodossiou 2011). All these imply that economic policies aiming to reduce poverty such as minimum wages, social security benefits, income transfers and health care policies for the poor can have a positive impact on reducing health inequalities.

Similarly to poverty, income inequalities are associated with health inequalities. The basic idea here is that health is a concave function of income. This implies that the effects of income on health are greater for low income groups than for high income groups. For instance, in a large empirical study for the US, Kington and Smith (1997) uncover the existence of a strong positive relationship between levels of household income or wealth and health status. The policy implication of this is that the effects of income transfers from rich to poor will have a significant impact on improving the health of the poor thus improving average health also. As another large international empirical study has concluded "reducing income inequality by raising the incomes of the most disadvantaged will improve their health, help reduce health inequalities, and generally improve population health" (Lynch et al, p.83, 2004). On the aggregate level, countries with more equal distribution of income will have higher average health levels. In the same framework, an increase of real income per capita of a poor country will have a much greater effect on average health than a similar increase of income of a rich country (see for instance, Deaton 2001). The link between income inequality and life expectancy can also be seen in terms of stronger income impact for the poor. In particular, an increase of poor people's income has strong effects in reducing important determinants of life expectancy such as infant and child mortality and malnutrition (Wilkinson 2006). There is ample empirical evidence for many countries that a reduction in income inequality increases life expectancy (e.g. Wilkinson 1989; Sen 1999). One of the adverse effects of recessionary periods is that they can increase income inequalities which as was seen, are very likely to have a negative impact on health.

Given the positive influence of income on health, the issue of the relationship between economic growth and health is also important. Economic growth theorists have long emphasized the importance of human capital and productivity for economic growth and development (for the basic paper, see Grosmann, 1972). In this framework, health is a determinant of human capital. Furthermore, human capital formation, with the help of health services and education, contribute to individual development. Investment in these assets will earn a future individual and aggregate return. In the same tone, healthy individuals are more efficient at assimilating knowledge and, in consequence, obtain higher productivity levels which in turn are crucial for achieving higher national growth rates (for an extensive discussion, see Jack 1999). Thus, an improvement at overall health levels can lead to an increase in human capital, productivity and thus economic growth and development. This is also confirmed by empirical studies in which health gains are associated with widespread economic growth and also an escape of ill-health traps in poverty (World Health Organization 1999). These imply that policies aimed at promoting economic growth, can lead to a virtuous circle through their beneficial effects on raising real incomes, employment and poverty reduction which in turn, result to better health outcomes and thus further promoting economic growth. However, there is an important caveat here which is the central issue of income distribution. If economic growth is not accompanied by a more equal income distribution, its effects on improving health levels might not be as strong (see Kuznets 1973, for the basic arguments concerning the relationship between income distribution and economic growth).

Finally and in order to have a more complete picture, there also are a number of general studies which discuss the overall effect of economic upturns for health levels in a number of countries. In particular, Brenner (2005) found that there are significant decreases of overall mortality rate when there is a period (approximate 10 years duration) of economic expansion. This study concentrates in the US and the data examined covers one hundred years (1901-2000)[4]. Similar results are presented for Sweden where Gerdtham and Johannesson (2005) found a significant countercyclical relationship between the business cycle and the mortality risk especially among men. The negative relationship between improving macroeconomic conditions and mortality rates has also been found for Brazil (Jacinto et al, 2010). Furthermore, a study using data from 26 European Union countries indicated a negative cyclical effect to mortality rates and also a positive effect of active labour market measures for the reduction of the adverse health effects of economic downturns (Stuckler *et al*. 2009).

The above discussion of the empirical findings indicates that the main socioeconomic factors such as unemployment, income inequality and poverty levels are adversely related to health levels. However, there are some important shortcomings of the relevant literature and issues which are still debated. First of all, the important theme of the direction of causation between socioeconomic factors and health is not yet entirely clear. In other words, do low income and unemployment have independent effects on health or is it that poor health leads to low income and unemployment? Various studies have attempted to disentangle the relationship but there is still no widely accepted conclusion (Smith 1999; Hurd and Kapteyn 2003; Bender and Theodossiou 2009). It is evident that a clear-cut answer to this issue is important for the full understanding of the setting of overall health levels. Second, there is the issue of the empirical investigation of the role of the public policies in influencing the socioeconomic-health relationship. An obvious difficulty here is that policy changes take considerable time to have

4 It has to be mentioned that contrary to the established literature, Tapia Granados (2005) presents reverse findings for the US.

an impact on the socioeconomic environment. Furthermore, there is the problem of separating the effects of political institutions, culture and population characteristics from policy measures. The issue becomes even more complicated when there is comparison of policy measures on health among different countries with different characteristics and institutions (for discussions see Hurd and Kapteyn 2003; Bender and Theodossiou 2009). Therefore, these difficulties are an integral part of health economics future research agenda. In spite of these shortcomings, most experts have identified the crucial role that socioeconomic factors and public policies play on the determination of the health level of the general population.

V. CONCLUDING COMMENTS

The previous discussion indicated the close interrelationship between socioeconomic factors, economic policies, political considerations and health inequalities. The discussion presented the links between economic policy decisions and their impact on socioeconomic factors and therefore on overall health. Given that most countries are currently faced with economic recession, these links became more important. The review of the literature indicated that many empirical works from many countries suggest that recessions have adverse effects on health and this implies that policies aimed to mitigate their effects, are also likely to have an impact on health. In particular, expansionary fiscal and monetary policies such as increased government spending, lowered taxation and low interest rates, which target unemployment reduction are likely to have a beneficial effect on health. The same holds true for employment subsidies to firms in order to maintain/increase employment levels. Moreover, policies designed in strengthening the purchasing power of low income earners, such as income and benefits transfers, will not only increase aggregate demand and alleviate unemployment pressures, but also raise their health levels given that health is a concave function of income. Policies aimed to increase education and training levels will result in human capital improvements which in turn increase productivity. Productivity increases are particularly important during economic downturns because they resist falling growth rates and thus mitigate income inequality and poverty effects on health. Finally, social policies targeting the unemployed and the poor will also resist the deterioration of health levels of these groups during the recessionary period.

Although, the link between socioeconomic factors and overall health levels is generally accepted by most health experts, the impact of macroeconomic policies on health is not a very well researched theme. The majority of economists perceive economic policies mostly as having an impact on main economic variables such as unemployment, inflation and economic growth. Thus, most of the relevant research focuses on the above mentioned issues. However, the paper indicated that these policies have also considerable influence on health levels through the socioeconomic factors-health relationship and this implies that a more complete understanding of overall health determinants should also involve the study of the conduct and politics of economic policies. Furthermore, the exact nature of this relationship needs a more thorough approach mainly in terms of empirical methodology. Overall, it seems that these important issues need further investigation if one is to have a more general analytical framework of population health levels and also of the important observed differences of health levels among different countries.

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