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Economic Arguments for Action on the Social Determinants of Health

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Introduction and Background

Recent policy redesign in the European Union and in Canada can be understood as a part of a paradigm shift, where economic and social policies are increasingly interdependent as the notion of the welfare state is transformed (Saint-Martin, 2004; Jenson, 2004). There is widespread agreement amongst policy-makers that governments are an important part of the production process, either as employers, subsidizers or rules setters (legislators), particularly in distributing resources and analyzing well-being (Fouarge, 2003). There is also evidence that growth is affected by public goods, finance, demographic parameters, income distribution, and social norms, all of which contribute to social cohesion (Knack and Keefer, 1997; Temple, 1999; Osberg, 1995, 2003; Harris, 2002; OECD, 2005a). This overall perspective is sometimes captured within an important discourse known as "social policy as a productive factor." It is this discourse that frames the subject of economic arguments in support of action on the social determinants of health.

Policy-makers across the European Union, international organizations and Canada primarily pursue "social policy as a productive factor" within an efficiency argument for specific social policies – usually referring to the economic costs and risks of non-social policy. In short, poverty and inequality are regarded as evidence of an inefficient society. For example, according to the Organisation for Economic Co-operation and Development (OECD):

> …a failure to tackle poverty…will weigh heavily on our capacity to sustain economic growth for years to come (OECD, 2005a).

Comparative social policy research and dialogues sponsored by CPRN suggest that the contribution of social policies to economic growth and prosperity are key in redesigning Canada's social security system, for the following reasons (Jenson, 2004):

- Strong and sustainable social programs can enhance economic competitiveness by supplying vital social infrastructures – health care, a skilled and knowledgeable workforce, resilient families, and healthy and secure societies – that bestow comparative advantage.
- Persistent inequalities of outcomes are a costly economic deadweight in terms of lost productivity, foregone tax revenue, reduced consumer spending and higher expenditures on income assistance, social services, health care and security. Inequalities impose economic as well as social and individual costs.
- Social policy can serve to create and stabilize collective goods, channel and mitigate industrial conflict in periods of structural adjustment, and, in turn, is likely to foster political stability and social cohesion.

The principle of "social policy as a productive factor" implies that there is a virtuous circle of interaction among macro-economic, employment and social policies – an understanding that is critical to developing quality social policy. For this reason, there has been an increasing focus on active social policies as further reducing the negative effects of social protection systems on economic growth. However, this important perspective is applied erratically across various social policy fields; and there is no national discourse or synthetic theoretical framework within which the economic effects of active social policies, and the risks of non-social policies, can be fully analyzed.

In research terms, the contribution of social policy investments, i.e. taking action on the social determinants of health, is a testable hypothesis – social factors contribute to economic growth, productivity and prosperity. Social factors would include the distribution of income and wealth in an economy, the range of social policy interventions including early childhood, health, education, labour market regulation, and a variety of income support programs. These social policies may be defined to include the tax-transfer system, which finances the social budget. If indeed social determinants are a quantitatively significant factor in productivity growth, then social policies to promote equity could also be defended on grounds that they simultaneously increase economic growth.

Hence, on the positive side of the equation, social policy is regarded as a:

- Good investment in the knowledge-based economy and society
- Contribution to economic efficiency and progress
- Stabilizer of collective goods, which mitigates industrial conflict in periods of structural adjustment, which is likely to foster political stability and social cohesion

On the negative side of the equation, it is suggested that non-social policy increases risk in a society through the creation of:

- Persistent inequalities of outcomes, which lead to economic costs through lost productivity, foregone tax revenue, as well as social costs leading to social instability
- Reduced consumer spending
- Higher expenditures on income assistance, social services, health care and security

The Economic Argument: The Equity-Efficiency Trade-Off

Modern industrial democracies can be characterized by their pursuit of two major policy goals, economic progress and social justice (Harris, 2002). The argument among many economists, however, is that these two goals are in conflict – any pursuit of policies that promote equity consequently hinders efficiency and the rate of economic growth (Okun, 1975; Osberg, 1995). This is because there are costs of social protection such as administration and negative effects on work effort, saving and investment. Spending on social policies should be limited, it is argued, as the expenditures, however socially necessary, will not add to the flow of incomes or the stock of wealth in the economy.

Single-minded pursuit of efficiency and economic growth has consequences for equity, however. Increased income inequality has been a parallel outcome of countries with high rates of growth, although to differing degrees, and not necessarily so (Harris, 2002). This has also led to speculation and some research on the contribution of increasing inequality to increases in growth. This evidence has proved to be contradictory, however, with some studies arguing the complete opposite – that lower inequality would be associated with higher growth. The differences in the conclusions arise from the findings of comparative country studies that show different outcomes for different countries.

Many of the arguments made for a relationship between social policy and growth focus on economic growth overall, sometimes specifying employment growth. For industrial countries, however, productivity growth is generally found to be the most important contributor to overall economic growth. Explanations of productivity growth have primarily concentrated on economic determinants, with the conclusion that a large part of productivity growth is best captured by investment, human capital, innovation and technology (Harris, 1999; 2002).

The Purpose of Social Policy and Social Protection

All public policy seeks to achieve desired goals for the society in question. All public policies are not always directed towards the entire population, however. For example, policies concerned with crime prevention, public health, and income assistance protect society as a whole by only focusing on those in need (Torjman, 2005). Generally, there are two main functions of social policy – redistributing resources to reduce poverty and inequality and improve life opportunities; and, stabilizing overall household spending during economic downturns.

There are at least two ways to examine more closely the purpose of social policies – by the type of financial expenditure, or by the goals pursued (Harris, 2002). According to public finance theory, social policy spending can be defined under *merit goods and services* (e.g. education, health care) and *social transfers* (e.g. income transfers, pensions). Social policy goals pursued include increasing self-reliance, improving flexibility and economic growth, reducing low-income, improving social cohesion, and so on.

The purpose of social policies conforms to four “logics” (Boychuk, 2004; Hay, 2005):

- Universal *social provision* for the whole population, for services that “do not fully belong” in the market (e.g. universal programs such as health care, pensions, education);
- *Social insurance* against risk, usually borne by workers, to encourage labour market attachment (e.g. workers’ compensation, unemployment insurance, contributory pensions);
- Ensuring *social inclusion* through establishing a social minimum, to mitigate the effects of marginalization (e.g. refundable tax credits, social assistance, social housing); and
- Ensuring *social cohesion* by fostering social integration in a community, emphasizing “place-based” solutions (e.g. community development programs, programs for Aboriginal peoples and immigrants, industrial adjustment programs).

Certainly, using this framework, the argument is that social policies and programs contribute to economic adjustment and thus economic growth. The European Commission, through its own research and research conducted through the Organisation for Economic Co-operation and Development, concludes that social policy is “integral to the dynamic development of modern, open economies and societies; and that it brings cumulative benefits through time” (European Commission, 2003). Particularly effective social policy areas identified are investments in education and training (directly raising productivity and life-time earnings), workplace standards (reducing losses due to illness and accidents), and active inclusion policies (facilitating labour market participation through supports for things like parental leave and child care).

It is clear that there is a history of development, support, and delivery of policies and programs that contribute to the improvement of the general quality of life for individuals, families, communities and societies. At least part of this improvement is a contribution, mostly indirect, to economic growth. What are the costs of social policies and programs? And what are the costs, to individuals, families, communities and societies – and how far-reaching – if there was no spending on social policy?

The Costs of Social Policy and Non-Social Policy

Spending on social policy has traditionally been seen as consumption, i.e. an immediate and short-term cost to the economy, not as an investment in individual or public goods. For example, policies in support of equal opportunities for women can raise training, wage and social protection costs, and indirectly affect economic growth (Rubery *et al.*, 1999). Characterizing social policy spending as an investment, however, changes the orientation of policy-makers to focus on outcomes in the medium- and long-term and away from a narrow focus on inputs and outputs. Equal opportunities policies could then be seen as ensuring effective use of human resources, supporting educational attainment, ensuring childbearing and care, and so on.

The major challenge facing developed countries is not whether to spend on (or invest in) social policies or not to spend or invest – it is finding the "sustainable" level of spending and investment. Many countries face increasing cost pressures, and the need to keep taxes and contributions at "reasonable" levels. Economic globalization has created opportunities and threats, one of them being the competitive pressure to keep taxes at economically and politically acceptable levels. This introduces a criterion of affordability into the consideration of spending on social policies, along with equity and efficiency.

Neglecting social protection has its own set of costs, and is borne by society as a whole (Bonilla Garcia and Gruat, 2003; Fouarge, 2003; Harris, 2002; Suhrcke *et al.*, 2005):

- ***Poverty and Vulnerability***

There is an established positive correlation between poverty and vulnerability and weak social policies (Saunders, 2006). Poor and vulnerable populations are excluded from purchasing essential goods and services. In materialist, market-oriented societies this means that these populations are restrained from pursuing and achieving their human development potential. And they lose the ability to contribute fully to collective social, political and cultural development in their communities.

- ***Economic Development***

There is a productive loss to the economy when many people are living in poverty or are unemployed. Without public provision of economic security through insurance or other means wage demands will rise – costs that employers or the state will be forced to bear. And medium- and long-term costs for the state can be the result of short-term savings from reductions in spending on health and social services.

- ***Human Capital***

A society’s stock of human capital – for the present and the future – will be diminished with inadequate spending on public benefits and services. Consequences include reduced life expectancy, greater illness, lower literacy levels and educational attainment, and insufficient supports for the successful development of children and youth.

- ***Social Capital***

The family bears the brunt of lack of public supports from the state, risking its sustainability as a social institution. Social trust, social cohesion and social solidarity also suffer – key values for effective functioning of modern democracies (MacKinnon, 2004; Policy Research Initiative, 2005).

- ***Political Capital***

The legitimate foundations of the state are undermined if social policies and programs are neglected or abandoned altogether. This threatens the functioning of democracy and reduces political capital.

If the above sets of costs are cumulative, the social sustainability of the society is at stake. Beyond the threats to social and political capital that have been outlined, there can be a mounting danger of political unrest and even extremist politics.

These types of arguments for social policy constitute both equity and efficiency. Efficiency arguments for social policy are related to the problems and costs of non-social policy. But are inadequate or insufficient levels of social spending also economically inefficient? Fouarge (2003) argues social policy does, indeed, promote market efficiency. The next section reviews his arguments and other evidence of economic effects of social policy investments.

Evidence of Economic Effects of Social Policy Investments

Fouarge (2003) conducted a review of the costs and benefits of social policies for the European Commission. Costs and benefits are not actually quantified, but a “considerable volume” of specific evidence was assessed. Fouarge concluded that a general economic framework can be proposed to understand social policy as a productive factor, although broadly costs are short-term and benefits are long-term. From the evidence reviewed he also concluded that there are economic and social costs to not having social policies of “adequate quality.” Following is the general line of argument and the consideration of additional evidence.

There is an interrelationship or synergy between economic efficiency and social equity (which is also referred to as “social efficiency”). The private market is inefficient in ensuring an adequate distribution of resources amongst citizens. This supports arguments for the state to have a number of policies and programs with redistributive and social minimum goals; provided, essentially, within Boychuk’s (2004) four “policy logics” noted above. Again, the major challenge for policy-makers is how to maximize three major policy objectives – employment, equality and a balanced budget – to achieve the goals of efficiency, equity and affordability. Social policies are one of the contributors to all three of these objectives as they are investments that promote market efficiency. And not simply by correcting market inefficiencies, but by actively addressing these market imperfections "before they happen."

Of all the social policy investments, investments in "human capital" (as differentiated from "physical capital") are seen to be the most economically productive. Human capital investments are primarily through spending on education and training, and according to the literature (*see reviews in* Dodge, 2003; Fouarge, 2003; Harris, 2002), "there is a very large body of evidence showing that increasing education has a substantial effect on productivity" (Harris, 2002: 35). And there is a dynamic relationship between human capital formation, a more equal distribution of income and economic performance.

Human capital investments are particularly important for modern "economies in transition" – economies that are moving away from major dependence on resource extraction and manufacturing to increasing dependence on human services and knowledge-based work. Demographic considerations in these economies, e.g. increasing reliance on immigrants and older workers, also reinforce the importance of education and training. Returns to investment in education and training are private (i.e. for the individual) and social (i.e. for society), raising questions about the optimal balance between private and public expenditure (Gilbert, 2005; Pearson and Martin, 2005).

In the human capital literature, there is some debate regarding the particular educational investments that will have the greatest economic return. In advanced economies, many of the arguments have focused on investments in post-secondary education (PSE) and training as producing the greatest returns to growth (Dodge, 2003). This conclusion is predicated on evidence that the higher the level of education for populations as a whole, the higher the level of economic growth (or minimally, economic growth potential). Dodge (2003) asserts that this conclusion is misguided, however, arguing that the greatest marginal returns to investments in quality education are to be found from spending on early childhood education (ECE) programs, not PSE. This is because ECE programs contribute to children being more "ready to learn" when they enter the school system, "raising the efficiency of the school system as a tool of human capital formation" (Dodge, 2003: 5).

There have been a fairly large number of studies – mostly from the United States – that have provided evidence for positive economic returns to investments in ECE (see summaries in Canadian Population Health Initiative, 2004; Dodge, 2003). A study from the Brookings Institution in the United States is a recent addition to this literature (Dickens, 2006). The study creates a model of the economic returns (measured in percentage and dollar increase in gross domestic product (GDP)) to spending on a "high quality pre-school education program" for all 3 and 4 year-olds in the United States. Costs are significant, but (relatively) short-term. Benefits, once realized, continue to grow and grow.

There are two points of note to the findings provided by Dickens (2006). First, the benefits are indeed significant, estimated to contribute 3.5% annually to GDP – over $2 trillion (2005) dollars. That level of benefit takes 75 years to achieve, however. The "relatively" short-term nature of the costs mentioned in the previous paragraph is of the nature of 35 years. I.e. the GDP return from the increased education levels achieved by the ECE participants only begins to offset the costs of the program 35 years after the first cohort of students complete the program.

It is an understatement to say that 35 years is a long time, particularly in political terms – "the political system tends to be biased against making such investments" (Dickens, 2006: 7). But it is argued that any business that didn't take advantage of a similarly solid investment opportunity would not be successful. And likewise a "dim prospect may be in store for a country that fails to take advantage" of such opportunities.

Second, the Dickens model only estimates the social returns to program participants from the additional level of education they achieved. There is no other economic contribution considered. Two that would be relatively substantial are the private returns for participants, and the private and social contributions from the increased labour force participation of the parents. The cost/benefit time horizon could be shortened by a number of years if contributions like these were factored into the estimates.

The evidence linking other areas of social policy and program spending to economic growth and productivity are much less robust than the human capital evidence. There is some evidence that active labour market policies contribute to economic growth while passive social spending detracts from growth (Arjoua, Ladaique and Pearson, 2001). Active labour market policies are consistent with the human capital evidence.

Another recent study sponsored and published by the European Commission investigated the contribution of health to the economy (Suhrcke *et al.*, 2005). It is argued that health and economic development are in a dynamic interrelationship, with health both a by-product of economic growth and a contributing determinant. Most of the evidence is from low-income and developing countries, however, and the evidence from high-income countries is mixed. It is not clear what the marginal economic return is from investments in health and health care. Again, the strongest evidence is from the indirect relationship of health to growth via its contribution to human capital formation, i.e. a healthy workforce is a (potentially) productive workforce.

An emerging area of research is in the area of "social capital" (Policy Research Initiative, 2005). Social capital is about the nature of trust engendered through forms of community association, including social networks (Harris, 2002). Although this is a promising area of research, it is currently underdeveloped and there is insufficient empirical evidence linking forms of social capital to economic growth.

Summary, Conclusions and Next Steps

This short paper has considered the evidence in support of economic arguments for action on the social determinants of health (Figure 1 represents the determinants of health). To examine this question the literature on "social policy as a productive factor" was reviewed and outlined. Overall, social policy seems to be only weakly related to productivity and economic growth, and the evidence is thin, and debatable, for most social policy areas. The strongest and least debatable area of social policy contributing to economic growth is policy in support of human capital formation. The evidence in this area is not clear, however, as to what particular additional investment in education and training – for high-income countries – will bring the greatest economic benefit, although proponents of ECE make a relatively strong economic case (Dickens, 2006; Dodge, 2003).

- ***Research questions / opportunities***

There are a number of research issues that should be noted. First, the evidence reviewed has been primarily from the field of economics. Economists and econometricians have been accused of being the "most optimistic of causal modelers" (Dowd and Town, 2002). There are many threats to modeling; two prominent ones being omitted variables and reverse causality. The exclusion of variables means the potential exists for relationships found to be spurious. And causal direction can at best be inferred, not proven.

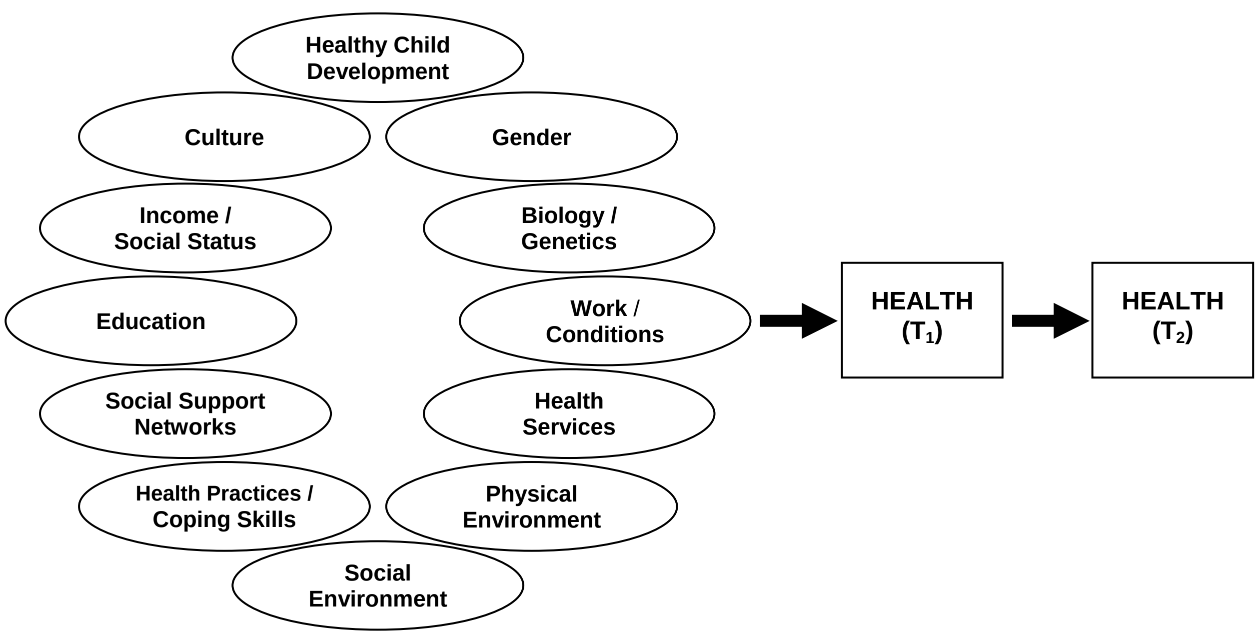
Second, the relationship between social policy and economic growth may not be sufficiently "measured" to be "understood." That is, the narrow range of measures and indicators; the focus on resources, inputs and outputs versus outcomes; the lack of data to provide measures and indicators for all concepts of interest; and the limitations of available research methods and analytical techniques all compromise our "true" understanding of the relationship.

- ***Strategic policy questions / opportunities***

Evidence is only one component of policy-making, however. Policy choices are guided by a complex and dynamic system of evidence, political and bureaucratic considerations and processes, public opinion, fiscal considerations and so on.

Advocates of investments in social policies and programs should remember that the major rationale for social spending has never been higher productivity growth. "The general concerns for social justice, and the political demands of an increasingly wealthy society for improved education, health and social insurance have long been the major reasons" (Harris, 2002: 36).

Figure 1. The Determinants of Health



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