

ДЕМОГРАФІЯ, ЕКОНОМІКА ПРАЦІ, СОЦІАЛЬНА ЕКОНОМІКА І ПОЛІТИКА

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THE ROLE OF HEALTHCARE EXPENDITURES AS A FACTOR OF ECONOMIC GROWTH

The issue on economic growth is attracting the attention of scientists during last decades, as economic growth is the source of further social and economic development, improvements in welfare, consumption and living conditions in general. Thus, Solow–Swan model of economic growth, developed in 1956, suggested that economic growth can be reached due to some exogenous factors as physical capital accumulation, labour (population growth), and increases in productivity (technological progress) [1; 2].

Later, the concept of human capital was added to economics as a factor of an increase in labour productivity by Gary Becker in 1964 in a book titled “Human capital: a theoretical and empirical analysis, with special reference to education” [3]. According to Becker, human capital mainly includes knowledge and skills and can be accumulated through education, trainings and healthcare expenditures, where each component leads to an increase in overall productivity of labour force.

The relationship between education and labour productivity is quite straightforward as new obtained skills and knowledge can be used in the process of production which will increase the overall efficiency. Thus, any additional year of education or an obligation to take a specific training approved by the government would lead to economic growth as an increase in productivity of labour force contributes to a rise in gross domestic

product (GDP) and an improvement in welfare, expressed as GDP per capita, as the labour force is constant.

Regarding the correlation between health and economic growth, the link, on contrast, is not that obvious, as the improvements in health and /or nutrition cannot be utilized in the process of production. At the same time, current studies proved the importance of health in economic growth through theoretical and empirical analysis.

The nature of the relationship between healthcare expenditures and economic growth can be explained through the following steps (see figure 1):

1. an increase in healthcare expenditures improves the health status, frequently measured by life expectancy, and the level of nutrition;

2. better health conditions of adults lead to a reduction in infant mortality rates, which contributes to an increase in the labour force. Thus, additional labour force would lead to economic growth;

3. at the same time, healthy workers are more productive comparing to unhealthy employees, as sicknesses depress the ability to work productively [4], as a result, the healthier employees are the larger national output will be;

4. finally, there is a reverse causality between economic growth and healthcare expenditures. According to the data presented by The World Bank Group, the amount of investment in healthcare depends on the level of economic development, thus, countries with low income spent on average less on healthcare (around 37 US \$ per capita) comparing to middle income countries, that spent around 256 US \$ per capita and high income countries with 4 874 US \$ per capita in 2015 [5]. As well, the difference can be seen at the micro level, as individuals with higher income tend to spend more on healthcare, better nutrition, recreation etc. , which in turn indirectly leads to an increase in productivity and further growth in income.

To conclude, healthcare expenditures as a factor of economic growth should not be left behind, as it is a vital source of continuous economic growth through the two-sided model. At the same time, it should be mentioned that because of the essence of healthcare sector, investments in health do not give positive return in the short-run, the effect can be seen only in the long-run. Consequently, this type of investments is not widespread within governments and individuals, but it's one of factors providing sustainable growth.

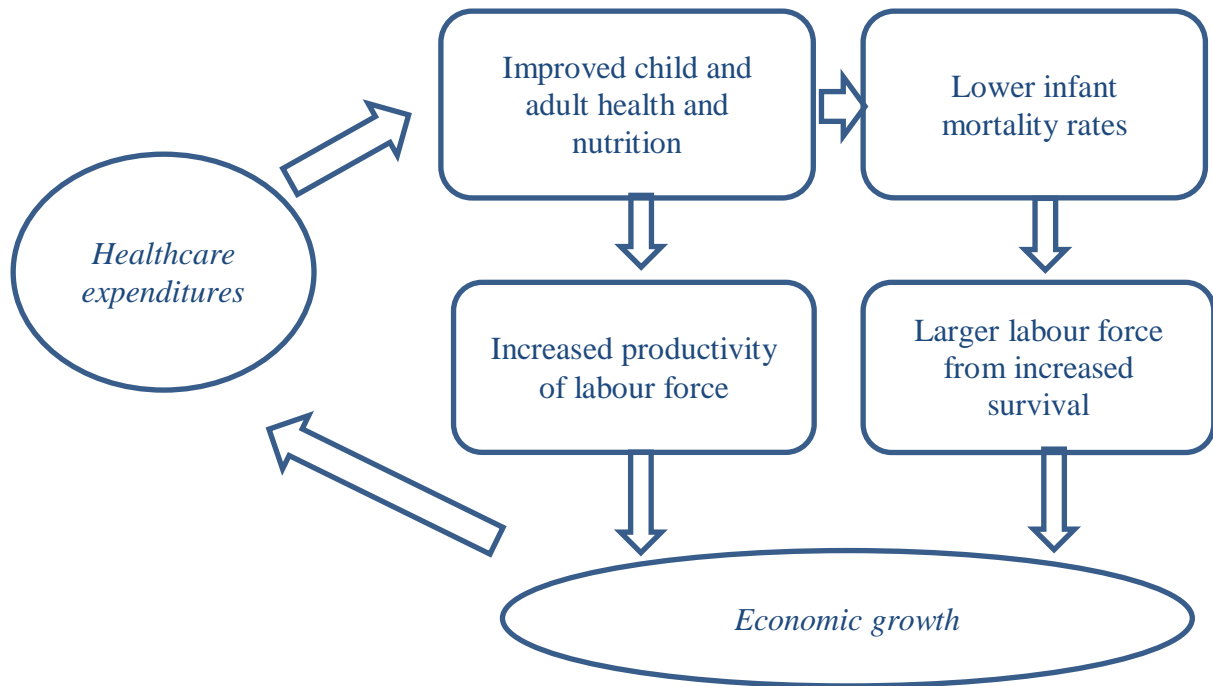


Figure 1. The model of two-sided relationship between economic growth and healthcare expenditures

Source: designed by the authors

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