

Commentary

The health implications of financial crisis: A review of the evidence

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ABSTRACT

What will the current economic crisis mean for the health of the people of Northern Ireland? We review the experience of three major economic crises in the 20th century: the Great Depression (1929), the Post-communist Depression (early 1990s) and the East Asian financial crisis (late 1990s). Available evidence suggests that health is at risk in times of rapid economic change, in both booms and busts. However the impact on mortality is exacerbated where people have easy access to the means to harm themselves and is ameliorated by the presence of strong social cohesion and social protection systems. On this basis, Northern Ireland may escape relatively unscathed in the short term but as every crisis also provides an opportunity, this is an appropriate time for the Northern Ireland Executive to reflect on whether they are making a sufficient investment in the long term health of their population.

INTRODUCTION

Northern Ireland has been hit hard by the global economic crisis. The province has suffered a sustained economic contraction, driven by falling activity in the construction and manufacturing sectors, and is now confronted by unemployment increasing from 4.0% to 6.2% between April and June 2008.¹ The retail sector, especially in border areas, may have benefited from the decline in Sterling against the Euro, but even these gains are being dampened by the scale of recession in the Republic of Ireland.

What might the economic downturn mean for the health of Northern Ireland's population? There is extensive evidence that both unemployment and the fear of unemployment have adverse consequences for the health of individuals², but what is being experienced now is on an entirely different scale from usual economic swings³. Retired people are finding that the interest on their savings has diminished almost to zero. Families had taken advantage of cheap credit to buy houses, but now find themselves trapped in negative equity. Even those who remain in employment cannot be complacent, knowing that jobs no longer implicitly include lifetime employment guarantees.

HISTORICAL EXPERIENCES

We can look to experiences of the past to guide our expectations of the public health effects of this crisis. There have been three major international economic crises in the twentieth century: the Great Depression, the post-Communist

Depression, and the East Asian financial crisis of the 1990s.

The first of these, the Great Depression that began in 1929, saw a fall in international trade of more than 50%. Unemployment rose rapidly across the industrialised world. A few countries experienced hyperinflation, with profound political consequences as the economic conditions paved the way for the emergence of fascism in Germany and Italy.

The second came in the early 1990s. Gorbachev's attempt to reform the Soviet Union was brought to an abrupt halt by an attempted coup in August 1991. Within a few days, the Soviet Union had broken apart as its constituent republics successively declared independence. Each had been part of a complex and interlinked trading system in which a single truck emerging from a factory in Kiev might contain components from ten other republics, with the whole process controlled through a system of central planning that was only possible when the state owned all the factories⁴.

Many of the political leaders in the newly independent republics made a seamless transition from party apparatchiks to some form of democracy and capitalism^{5, 6}. In some countries, however, the economic changes were profound. Encouraged by western advisors, who were largely motivated by the political imperative of ensuring that communism would be prevented from resurgence, they engaged – to varying degrees across countries – in what was termed “shock therapy”^{7, 8}, as part of which state-owned assets were given away to anyone that would take them. Often, this involved the distribution of vouchers to the public, who after 70 years of state socialism had no idea what to do with them⁹. Economic collapse ensued; unemployment rose, and savings were wiped-out by inflation.

The third economic crisis of the twentieth century took place in South East Asia. The Thai government had tied the Baht to the US Dollar but was no longer able to defend its currency

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against intense speculative pressure. Careless lending by banks created an unsustainable bubble. Once international investors realised the true state of the economy the Baht was forced to devalue by 50%. Problems spread rapidly to Thailand's neighbours, leading to mass withdrawal of capital and rapidly rising unemployment across the region.

What can we learn from the experience of these three crises as we seek to anticipate the consequences of the current recession for population health? This is more difficult than at first appears to be the case. Each crisis was different. Although popular imagery of the Great Depression is dominated by failed businessmen standing on window ledges in Wall Street contemplating a leap to their deaths, mortality rates in American cities actually fell during the crash by about 10%.

In marked contrast, the collapse of the Soviet Union, which was accompanied by economic decline on a similar scale, saw a rapid increase in death rates, by up to 20%. This equated to approximately three million excess deaths, a devastating figure in a peacetime era.

The East Asian crisis fell somewhere between these two extremes; there was no obvious change in death rates in Malaysia, but Thailand and Indonesia experienced short term increases¹⁰⁻¹².

LESSON LEARNING

How can we make sense of these differences? We can draw on a growing body of research, some of which has focused on the experiences of individuals and some on the experiences of entire populations. The scope of this research ranges from the international crises listed above to local crises, such as the closure of a large local employer. Certain key findings emerge.

One finding is that the rapidity of economic change appears to be a key hazard to health. The direction of change seems less important. Several studies looking at "normal" economic cycles find that deaths increase when the economy is expanding or contracting, relative to steady state¹³⁻¹⁸. Our research on the post-Soviet economic crisis found that those that implemented privatisation most rapidly experienced the greatest increases in deaths¹⁹, while within Russia the increase in death rates was greatest in those regions experiencing the most rapid labour turnover²⁰.

However, it also seems that the extent to which economic changes impact on health depends on the extent to which people are protected from harm. Three issues are relevant: exposure to risk factors; social cohesion (informal welfare); and social protection (formal welfare).

The Great Depression began in a country that had introduced prohibition a decade earlier. Alcohol was still obtainable, with considerable variation in the extent to which states and cities enforced the law, but it was more difficult to obtain than in the past. In contrast, a culture of heavy drinking was deeply ingrained in the USSR²¹. Entrepreneurs took advantage of the new market economies to produce anything that could be sold. Some of these sales were of vodka but there was also industrial production of other forms of alcohol, such as the aftershaves that were up to 95% ethanol and which, as they were ostensibly not sold for drinking (even though it was widely known that they were drunk) were free of tax²². Volume

for volume of alcohol, they cost about one sixth of the price of vodka²³. In western countries, economic downturns are often associated with worsening diets, as people turn to cheap junk foods. Thus, two of the few employers increasing recruitment in the current economic crisis are McDonalds and Kentucky Fried Chicken^{24,25}. Yet, some nutritional improvements may occur, as during recessions people also tend to eat out less and cook more at home overall^{14,26,27}. When Cuba experienced serious economic problems after it lost its subsidies from the USSR in the early 1990s, people turned to cheap but healthy foods, in particular fruit and vegetables. The American economic blockade, designed to harm Cuba, had inadvertently protected it from exposure to American fast food chains²⁸.

Societies vary in the availability of social support. Our research in the former USSR showed how the adverse health effects of rapid economic change were reduced substantially where many people were members of social organisations, such as trade unions or sports clubs^{19,29}. This is not surprising. In times of crisis it is important to have someone who can be turned to, whether to borrow money, food or shelter, or to get advice on where to get help.

They also vary in terms of systems of social protection. The available evidence suggests that the reason the health of Malaysians did not suffer in the East Asian economic crisis was because, unlike its neighbours, it ignored the advice of the international financial community to reduce spending on social protection¹⁰⁻¹². Our work in the EU has shown that rising unemployment rates had no effect on suicides when spending on active labour market programmes, which aim to maintain jobs and quickly re-integrate workers who lose jobs into the workforce, were above US\$190 per capita¹³.

IMPLICATIONS FOR NORTHERN IRELAND

So what does this mean for Northern Ireland? Prediction is always difficult but a combination of social support networks, in particular the high level of membership of churches and other voluntary associations, coupled with a well developed welfare state (currently spending roughly US\$150 per capita on social labour market protections), is likely to protect the population from the adverse health consequences that might be expected in many of the eastern European countries. This conclusion is supported by the experience of Iceland, which suffered a seemingly catastrophic banking and currency crisis. The Icelandic authorities had put in place an extremely detailed monitoring system and detected almost no health effects at all, except for a short-lived increase in attendances at hospital emergency departments (G Magnusson, personal communication).

Of course, even where support systems are well developed, there are individuals who fall through the gaps^{30,31}. Recession may have negative health effects on those who lose their jobs, as well as slightly positive effects on those who stay in work. This would result in a neutral overall population effect but a rise in inequalities. Also, it is important to recognise that the research reviewed here has focussed on the short-term effects of economic crisis but there may also be changes in behaviour that only give rise to health problems several years in the future. Unemployment is often associated with increases in daytime drinking, with obvious long-term consequences for health. A fall in disposable income may lead people to eat

diets that are less healthy and there may also be a slowing down in the long-term decline in smoking rates. It is also likely that there will be short-term reductions in road-traffic fatalities, as traffic volume and intensity drop³².

There is a growing body of evidence on the intimate relationships between public health and the economy that can offer some guidance to the Northern Ireland Executive. This knowledge was synthesised in a series of reports prepared for the ministerial conference on Health Systems, Health and Wealth, held in Tallinn, Estonia, which brought together health ministers from all of the countries in the European Region of the World Health Organisation³³. These reports highlighted the importance of policies where investment in health systems feeds into sustained benefits not only in health but also in economic growth, but which by doing so reduce the future demands on those health systems. By this means it is possible to develop a virtuous circle leading to both health and wealth. From this perspective, governments should invest in the health of their population in the same way that they invest in their education and in the physical infrastructure necessary to build healthy societies and sustain economic growth.

Crucially, for Northern Ireland, this does not mean business as usual. There is a need to make the best possible use of what is likely to be a diminishing pool of public finance, given that it accounts for a much higher proportion of total economic activity than other parts of the UK³⁴. At present much of this is spent on picking up the pieces of a broken society, rather than looking to the future. Although headline unemployment is still low, nearly one-third of the working age population is no longer in the labour market, the greatest rate of inactivity in the UK. There is a clear need to address this problem, addressing genuine health problems where they exist and making use of welfare-to-work programmes where they do not. Although politically highly controversial, the latter have been shown to be effective in getting people back to work and, in doing so, improving their material and mental health circumstances³⁵⁻³⁸. There is also a need to tackle education. Although the percentage of children achieving 5 or more GCSEs at grade C or above compares favourably to the rest of the UK, this must be interpreted in the context of the long tail of educational underachievement in the UK compared with its European neighbours³⁹. Finally, there is a need to attract more inward investment, building on the work being done by bodies such as MATRIX, the Northern Ireland Science Industry Panel⁴⁰. Policies such as these will be essential to break the cycle of deprivation and ill health that still affects too many parts of the province.

Policies such as these are, however, challenging, as they require active engagement by all parts of government, whatever their primary responsibility. Yet this is often easier at a regional level, as unlike national governments they do not have to concern themselves with matters such as defence or foreign affairs, with parts of Europe such as Catalonia, Wales, or North-Rhine Westphalia showing what can be done⁴¹. What is important is that politicians in Northern Ireland recognise the importance of looking to the long term, which must involve investment in the health of current and future generations.

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