COMMUNICATING THE ECONOMICS OF SOCIAL DETERMINANTS OF HEALTH AND HEALTH INEQUALITIES
Background

The strong links between socio-economic factors or public policies and health were documented in the World Health Organization (WHO) Commission on Social Determinants of Health report. Yet even when health and health equity are seen as important markers of development, expressing the benefits of social determinants of health interventions in health and health equity terms alone is not always sufficiently persuasive in policy settings where health is not a priority, or when trade-offs exist between health and other public policy objectives.

Previous research has shown that increased attention to policies across sectors that improve health and health equity requires better preparation with regard to knowledge on the economic rationales for interventions, and how intersectoral policies are developed and implemented. In 2012, the World Health Assembly passed resolution 65.8, which endorsed the Rio Political Declaration on Social Determinants of Health and emphasized the need for “delivering equitable economic growth through resolute action on social determinants of health across all sectors and at all levels”.

![Image of children sitting together](image-url)
The Economics of Social Determinants of Health project

Improving understanding of economic rationales for intersectoral policy and programme interventions is therefore an important component of work for countries implementing social determinants of health recommendations. For this reason, WHO launched the Economics of Social Determinants of Health project to describe and discuss the potential for economic rationales to make the case for social determinants of health interventions, and to summarize economic evidence in key public policy areas.

The Economics of Social Determinants of Health project resulted in the publication of a resource book on *The economics of social determinants of health and health inequalities*. This booklet has been prepared as an executive summary of the key points from the resource book. As with the resource book, this booklet has the following main objectives:

- to provide an overview and introduction into how economists would approach the assessment of the economic motivation to invest in the social determinants of health;

- to illustrate the extent to which an economic argument can be made in favour of investment in three major social determinants of health areas: education, social protection, and urban development, housing and transport infrastructure (for brevity, urban development and infrastructure); and

- to outline areas for future needed research.
How do economists approach the assessment of economic motivation?

There are two fundamental components of the economic argument:

- **Establishing the basic rationale for public policy intervention.** Establishing the basic rationale for public policy intervention is needed because to economists public intervention is typically only an afterthought that applies if — and only if — the market fails to “work well” in delivering satisfactory outcomes on average (the efficiency-based rationale) or in terms of the distribution of the outcomes (the equity-based rationale).

- **Assessing whether the intervention represents good “value for money”**. In order to mobilize investment in social determinants of health interventions, there is a need to establish the value for money of those interventions. However, the value for money of social determinants of health interventions may not be apparent, for several reasons:
  > health impacts may not be fully (or at all) recognized in cost–benefit analyses;
  > where compelling evidence of the benefits of social determinants of health interventions does exist, policy-makers in both the health sector and other sectors may not be aware of it; and
  > this lack of knowledge may prevent public health advocates from pointing out positive practices in other sectors or from recommending policy health lenses or audits.

Knowing the benefits of particular policy interventions will therefore help the health sector to lend support to policies in other sectors that strengthen the determinants of health. To this end, exchange of knowledge and disciplinary openness is part of the growing practice of Health in All Policies and can help to establish or cement clear synergies between policies where they exist, or reveal tensions where they do not.
Economic arguments for investment in the social determinants of health

Basic economic rationales

To the economist, social determinants of health interventions can be justified both on efficiency and equity grounds. Traditional welfare economics makes a conceptual distinction between the two, but recent thinking and evidence is forging a closer, synergistic link between them. Government interventions on social determinants of health may be justified from an efficiency perspective in instances of “market failure”, when the free market fails to allocate resources efficiently, for example due to imperfect information, existence of externalities, provision of public goods or non-rational behaviour. All of these elements of market failure are of relevance to the social determinants of health.

At the same time, achieving the goal of equity is considered an important economic justification for public policy, even though it is harder to operationalize and more value laden than the efficiency rationale. Equity refers to a distribution of outcomes that is based on some notion or principle of justice. Equity does not necessarily and naturally improve as overall outcomes do, hence the potential need and justification for public intervention.

A concept of justice that is currently widely accepted among economists (and beyond) is that of substantive equality of opportunity – the idea that individuals should have the same opportunity to achieve outcomes such as high income or a long life, but do not necessarily need to achieve the same outcomes due to freedom of choice. Recent economic thinking and evidence is forging a closer, synergistic link between efficiency and equity. The idea of a trade-off between equality and efficiency is likely to have been overemphasized. In reality, neoclassical economics indicates that redistribution does have a price, but sometimes this price is worth paying. If there is a political decision to pay the price, neoclassical economists will (understandably) want to find the least costly strategy to reach that goal. The income distribution obtained through the workings of the market might not be the one that maximizes social welfare. In other words, the social preference for equity might be different to the one produced by the market.

Behavioural economics indicates that people frequently experience bounded rationality. As a consequence, they are likely to underinvest in education and make late entries to welfare programmes, including the utilization of health care. These behaviours generate costs for society that can potentially be avoided through specific interventions.
Macroeconomics and equity and efficiency trade-offs or win-wins

At the macroeconomic level, the traditional economic view emphasized the potential beneficial effects of income inequality on savings, investments and incentives. New evidence suggests that income inequality can be damaging for economic growth. Over the long term, the trade-off between efficiency and equality may not exist.

Regardless of the economic implications of this debate, in more than a few cases (e.g. early child development) efficiency and equity have been shown to have the potential to mutually enhance each other. There are efficient policies that can lead to equitable outcomes and policies or interventions based on equity arguments that lead to increased efficiency. This effect is known as the “double dividend”.

Value for money

As mentioned above, there is a need to establish the value for money of social determinants of health interventions. This is particularly important where policies and practices in other sectors are not aligned with positive impacts on determinants of health and there may be arguments against this alignment. Economic evaluation evidence does exist for social determinants of health interventions, but comes in very different shapes and sizes. However, most cost–benefit studies in policy areas related to the social determinants of health fail to capture the health effects. Hence, there is a need to consider those effects (and provide credible evidence for them), as they may alter the prioritization decisions that would otherwise be based on understated returns of investment. While this sounds straightforward, it encounters a number of challenges in practice, in particular when it comes to:

- attribution of the changes in health outcomes to the intervention;
- valuation of the potentially multifaceted benefits of the intervention; and
- incorporation of distributional effects into the economic evaluation.

Economic burden studies are useful to highlight the importance of health inequality as a policy problem; they cannot help to make the case for particular policy solutions.
Box 1. Economic evaluation studies answer questions relative to specific actions

Imagine you are addressing a minister responsible for a large public sector budget. You want to persuade the minister to take a specific action to tackle health inequality. Imagine, further, that the action will require additional expenditure from the minister’s budget over the next few years. You want to make three arguments:

1. The action will reduce health inequality.
2. The action will improve overall health and well-being.
3. The action will save money and reduce public expenditure.

Question: What evidence can help to make any of these arguments?

Answers:

**Argument 1** requires effectiveness evidence about the impact of the action on the health of different social groups. Information about the size and importance of the health inequality problem is not enough — the minister wants to know how this specific action will influence health inequality.

**Argument 2** requires cost–effectiveness analysis or cost–benefit analysis evidence about the net impact of the action on overall health and well-being — that is, the overall benefit minus the overall opportunity cost in terms of how the minister’s budget could have otherwise been spent.

**Argument 3** requires evidence about how this specific action will save money and reduce public expenditure. Evidence that health inequality in general imposes high costs on public budgets is not enough. The minister wants to know what impact this specific action will have on public budgets — and, in particular, on the minister’s own budget.

The same logic applies to any kind of action in any policy area. It also applies to cases in which you want to persuade the minister to avoid taking a specific action that will increase health inequality.
Findings in specific public policy areas with implications for health

The resource book reviews and discusses the existing evidence in three major areas of social determinants of health: education, social protection, and urban development and infrastructure. In each of these areas, there are important market failures that can in principle justify public policy interventions. For instance, credit markets providing loans to finance education might fail as creditors cannot observe the academic ability of the debtor and, hence, the student’s probability of graduating, and they cannot prevent the debtor from opportunistically reneging on his or her obligation. The economic external benefits of education accrue (for instance) to work teams whose productivity increases due to the interaction among more educated people.

Other benefits of education are related to the higher degree of social cohesion and the higher standards of civilian cooperation that a more educated society typically achieves. For example, crime may fall and child rearing may improve in more educated communities. Positive externalities are also associated with the implementation of social protection schemes, such as unemployment and requalification programmes, as they counter the development of a black economy, which the unemployed might look to for prompt support. Early child development interventions, such as preschool education and kindergarten services, alleviate parents of a part of their duties and help especially mothers re-enter the labour market. An example from another area is enhancing energy efficiency of buildings, which contributes to reduced emissions and pollution, to the benefit of the entire neighbourhood.

The economic argument regarding the value for money of any interventions hinges on the evidence of effectiveness in the first place. This is why for each of the areas a review was undertaken of the extent to which interventions have been found to be effective in achieving their desired primary outcome (for example in terms of improving educational outcomes) and in promoting health. Information was also then gathered on any economic and other benefits, where these had been evaluated. A few highlights from this review are described for the public policy areas of education, social protection and urban development, housing and transport infrastructure.
EDUCATION

The beneficial impact of interventions to promote educational outcomes has been widely documented, at least with respect to early childhood education, and in high-income countries. Particular interventions include resource-based interventions like expanding access to high-quality education, and pre-schooling programmes, which show major positive impacts on all aspects of adult life.

Box 2. Six economic points to argue for education as health policy

Efficiency-based rationales

- There is abundant evidence that greater quantity and quality of education results in individual-level economic benefits, due to increased labour market participation, increased participation in welfare, and a reduction in negative behaviours, including engagement in crime.
- However, imperfect information, for example on the longer-term benefits of education, may lead to market failure in education, providing justification for government intervention to support advantageous initiatives.

Equity-based rationales

- The right to equality of opportunity in education is based on the recognition that quality of education has a fundamental effect on recipients’ lives, and is a major determinant of future income and quality of life.
- Of key importance is ensuring that interventions to rectify market failures reach the most needy recipients; for example, ensuring that preschool or higher education interventions do not only benefit those who are already privileged.

Value for money

- Cost–benefit analysis of interventions in the education sector is difficult, given the complexity of factors that are operating.
- However, there is a growing body of evidence that the economic and health-related returns on school-age interventions, particularly those targeting early education, far outweigh the costs.
SOCIAL PROTECTION

A number of interventions or policies that could be subsumed under the heading of social protection have also been shown to promote people’s economic welfare and often their health. This is particularly the case for targeted conditional cash transfers in middle-income and some low-income countries, which have been more systematically evaluated, or for some early child development programmes (see Education).

Box 3. Six economic points to argue for social protection as health policy

Efficiency-based rationales

- Targeted programmes, mostly conditional cash transfers, generally show positive direct impacts on health outcomes and on the social determinants of health throughout the developing world.
- Social protection interventions aimed at improving the nutritional status of young children show positive long-term outcomes.

Equity-based rationales

- Maternal education, for example with regard to breastfeeding and vaccination, is key to reducing social and health inequalities.
- Interventions targeted at children and parents, supported for example by home visits, can help reduce inequities.

Value for money

- The cost–effectiveness of large-scale social transfer programmes is extremely challenging to determine, as full costs are difficult to obtain and impacts are difficult to attribute and quantify.
- However, some studies have identified promising net benefits derived from insurance-based interventions, safety nets and social protection programmes targeting young children, though the adequate financing of programmes remains a challenge.
URBAN DEVELOPMENT, HOUSING AND TRANSPORT INFRASTRUCTURE

Interventions under the broad umbrella of “urban development, housing and transport infrastructure” also show a range of positive effects for individual and societal welfare, and a number of assessments of their health effects have been undertaken. Interventions aimed at ensuring the affordability of housing, such as assisted rental programmes or measures to improve the internal conditions of housing, appear to have a positive impact on a number of health outcomes. More general urban development interventions, including slum upgrading in developing countries, also show positive health effects, as do traffic-calming programmes. However, as with other areas, most of the available evidence focuses on high-income countries, especially the United Kingdom and the United States.
**Box 4. Six economic points to argue for urban development, housing and transport infrastructure as health policy**

**Efficiency-based rationales**

- Urban development, transport and infrastructure have an impact on many aspects of personal, social and economic life, for example through provision of public spaces and green areas, quality of housing, provision of services, and interconnectivity and safety of transport systems.

- The health impacts of the physical environment in which people live are undeniable, with children being particularly susceptible to internal housing threats, such as lead or carbon monoxide poisoning, and temperature and humidity conditions; and external threats, such as antisocial behaviour and dangerous traffic.

**Equity-based rationales**

- Urban development, housing and transport are key determinants not only of current well-being but also of lifelong opportunities, with conditions such as poor housing, overcrowding, lack of basic services and inadequate infrastructure affecting the future prospects of millions of people throughout the world.

- The link between living conditions and health inequities is strongly mediated by income, with life in extreme-poverty neighbourhoods having a negative effect on a range of health outcomes, as measured by mortality, child and adult physical and mental health, and health behaviours.

**Value for money**

- Programmes providing affordable housing to vulnerable groups have been found to be beneficial, though more evidence is needed; general urban improvement interventions appear to entail large quantifiable gains; and interventions aimed at improving the internal conditions of housing generally show large net benefits.

- A large body of evidence exists on the economic benefits of transport-related interventions in high- and some middle-income countries, including for benefits resulting from reductions in harmful health impacts, though more economic evaluations are needed on the economic value of interventions in developing countries.
Research gaps

There are very good economic reasons, both from an efficiency and an equity perspective, to invest in many areas of the social determinants of health, including the three broad areas covered by way of illustration in the resource book (and summarized in this booklet).

More work is still needed, however, to build evidence to support investment in the social determinants of health.

The following limitations in current knowledge can help set the scope for future research:

- The current evidence in many of the areas is biased towards high-income countries.
- There remain important challenges – in the absence of randomized experiments – in assessing the causal impact of interventions on average health outcomes and in particular on the distribution of health outcomes across socioeconomic groups.
- The majority of “economic evaluation” or “value for money” studies in these areas differ greatly in the types of costs and benefits they consider, and few studies take into account the potential or actual health effects on the benefit side of their evaluation.
- Existing studies tend not to incorporate distributional (equity) effects in cost–benefit evaluations.
For more information on WHO’s resource book on the *Economics of Social Determinants of Health and Health Inequalities* and on Health in All Policies, please contact: hiap@who.int.

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For more information on the work of WHO on social determinants of health, please visit:
www.who.int/social_determinants/en/