

Health Investments and Economic Growth

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Synopsis

This paper reviews what is known about the correlations and potential links between health and economic growth as they emerge from recent literature. The evidence on health and growth is decidedly mixed and often tied to the choice of health measures. While measuring income is in principle straightforward, measures of health are subject to both conceptual ambiguity and empirical imprecision. Even where there is a statistical link between income growth and (changes in) health, the economic and behavioral mechanisms driving such a relationship are likely to depend on the selected measure of health status. An understanding of these underlying mechanisms is critical to the assessment of the evidence and the eventual formulation of relevant public policy recommendations, and the paper will explore what we know about these understandings.

More generally, assessing the evidence on which public policies in the health sector either make households and countries richer, or allow them to grow faster is the focus of the paper. These will depend on (i) how effective those policies are in improving a given measure of health, and (ii) how closely changes in that measure of health are associated with income and/or income growth. In (i), the impact of public spending on health depends in standard ways on the nature of the intervention (public good versus private good), and the existing market structure, but also on issues of governance and corruption in the public sector, *which themselves are likely correlated with growth*. We review the evidence on the effectiveness of public health spending on health outcomes. The link in (ii) from improved health to growth often depends on the levels of one or both.

This paper summarizes these conundrums and explores the micro and macro evidence to assess the role of government in improving health status, and the effects of improved status on income at the household and national levels. Specifically it will review issues in the measurement of health status as they relate to measures of growth; the effects of health policies and investments on health status and how this link is correlated with economic growth; and, explores governance in health care delivery and financing in developing countries. Ultimately the paper reviews whether public spending in the health sector (including, but not exclusively, those financed by donors) is necessary or sufficient to improve growth in the short or medium term, how those effects play out, and what public policies and investments in the sector are relevant to enhancing health status and promoting economic growth.