

# What Macroeconomists Should Know about Health Care Policy



William C. Hsiao and Peter S. Heller



International  
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## Abbreviations

CMH	Commission on Macroeconomics and Health (WHO)
DRG	Diagnostic related group
GDP	Gross domestic product
GNI	Gross national income
HIV/AIDS	Human immunodeficiency virus/acquired immune deficiency syndrome
IFI	International financial institution
IMF	International Monetary Fund
LICUS	Low Income Countries Under Stress
MDG	Millennium Development Goals
MSA	Medical savings account
NHA	National Health Account
OECD	Organization for Economic Cooperation and Development
PAYG	Pay-as-you-go
PPP	Purchasing power parity
SARS	Severe acute respiratory syndrome
SI	Social insurance
UN	United Nations
WHO	World Health Organization



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## Preface

Economic policymakers often measure their success solely by their country's economic growth. As a result, they devote most of their time and efforts to thinking about macroeconomic policy issues, overlooking the way in which macroeconomic policy is influenced by and influences the social sectors—education, health, and income security. Over the past decades, structural adjustment policies have had a profound impact on the social sectors and on social development in low-income countries. And in many industrial countries, policymakers are increasingly aware that developments in the health and pension areas will create fiscal pressures that have implications for the macroeconomic policy framework.

Although incorporating health concerns into macroeconomic policy (and vice versa) requires an understanding of health economics, macroeconomics and health economics are two distinct fields. Seldom does a specialist in one field have more than a modest understanding of the other. More important, macroeconomists and economic policymakers frequently assume that social sector policies should follow the free market strategy that has worked so well in fostering economic growth. This leads them to simply apply efficient market theory in devising policies related to the social sectors, thus ignoring the ways in which various market failures make such an approach undesirable.

This primer is a step toward bridging the divide between macroeconomic policy and health policy. It aims to acquaint macroeconomists with some fundamental facts about the economics of health care and the major health issues confronting countries. It provides a perspective for examining a country's health care system by suggesting some broad parameters that macroeconomists can use to evaluate a country's health policy and the performance of its health system.

This Special Issues paper has been made possible by the generous contributions of many people. The authors benefited greatly from discussions with Sanjeev Gupta of the IMF, and in particular from his insights into macroeconomic policy and social development. Other IMF economists offered insightful comments on the earlier version of this primer, including Juan Pablo Cordoba, Luis Cubeddu, Philip Gerson, Robert Gillingham, Thomas Richardson, Markus Haacker, and George Tsibouris. Philip Musgrove also provided valuable comments. Alexander Preker, George Schieber, and Kei Kawabata of the World Bank helped the authors focus on the major issues facing low-income and middle-income countries and contributed to the paper's substance and empirical evidence. Finally, Yessica Alvarado provided superb secretarial skills in putting this paper to bed.

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