

Drakopoulos, Stavros A.

Working Paper

Economic Policies, Socioeconomic Factors and Overall Health: A Short Review

EERI Research Paper Series, No. 13/2010

Provided in Cooperation with:

Economics and Econometrics Research Institute (EERI), Brussels

Suggested Citation: Drakopoulos, Stavros A. (2010) : Economic Policies, Socioeconomic Factors and Overall Health: A Short Review, EERI Research Paper Series, No. 13/2010

This Version is available at:

<http://hdl.handle.net/10419/142575>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

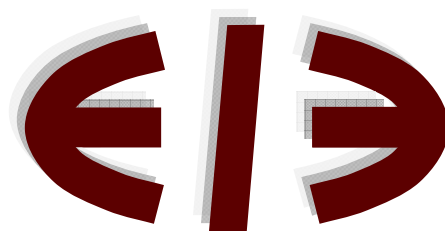
If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Economic Policies, Socioeconomic Factors and Overall Health: A Short Review

Stavros A. Drakopoulos

EERI Research Paper Series No 13/2010

ISSN: 2031-4892



EERI
Economics and Econometrics Research Institute
Avenue de Beaulieu
1160 Brussels
Belgium

Tel: +322 299 3523
Fax: +322 299 3523
www.eeri.eu

ECONOMIC POLICIES, SOCIOECONOMIC FACTORS AND OVERALL HEALTH: A SHORT REVIEW

April 2010

BY

SA DRAKOPOULOS

UNIVERSITY OF ATHENS

ABSTRACT

Many researchers have found that socioeconomic factors play a crucial role in determining physiological and psychological health levels of the population. This implies that socioeconomic inequalities tend to produce health inequalities. It is also generally accepted that the level of unemployment, income inequality and poverty levels are largely affected by economic policies and the economic cycles. They can also influence economic growth, human capital levels and thus productivity which play an important role on health inequalities. Economic policies can also influence the occurrence, frequency, duration and the strength of economic cycles which in turn influence socioeconomic factors and therefore health inequalities. Thus, this short review will discuss the conduct and the effects of economic policy on health inequalities especially during recessionary periods. The paper starts with a discussion of the need and of the instruments of economic policy and also its effectiveness in smoothing the economic cycle. It also examines the interplay between main policy targets such as unemployment and inflation with political considerations. Finally, it concentrates on the effects of economic policies for health inequalities in view of economic recessions.

Keywords: Economic Policy, Health, Socio-economic Factors
JEL Codes: I1, H5

An earlier version of the paper was presented in a mini conference on Macroeconomics and Health indicators in the Technical University of Berlin (March 2009). Special thanks for comments are due to Professors H. Brenner, and I. Theodossiou.

I. INTRODUCTION

Many health experts are convinced that socioeconomic factors play a crucial role in determining physiological and psychological health levels of the general population. Numerous empirical studies for many countries have shown that health follows a social gradient: the higher the social position, the better the health (for general reviews see Marmot and Wilkinson, 2006; Skalli, Johansson and Theodossiou 2006). This implies that socioeconomic inequalities tend to produce health inequalities. The main socioeconomic factors which affect health outcomes are unemployment, income inequality and poverty (see Siegrist and Marmot 2004).

It is also generally accepted that the level of unemployment, income inequality and poverty levels are largely affected by economic policies and the economic cycles. In particular, economic policies such as the level of government expenditure, tax rates, the level of interest rates, income and education subsidies, and the level of social benefits have a crucial impact on socioeconomic factors. In addition, economic policies can influence economic growth, human capital levels and thus productivity which in turn play an important role on health inequalities. Finally, economic policies can also influence the occurrence, frequency, duration and the strength of economic cycles which in turn influence socioeconomic factors and therefore health inequalities.

All the above imply the importance of the study of the conduct and effects of economic policy for overall population health. This is especially true during the downturn of economic cycle (i.e. recessionary periods), a phase that most countries seem to currently experience. Thus, this paper will discuss the conduct and the effects of economic policy on health inequalities especially during recessionary

periods. The paper will start with a discussion of the need and of the instruments of economic policy and also its effectiveness in smoothing the economic cycle. The next section will provide a brief historical record of economic policy conduct in major western countries. It will also examine the interplay between main policy targets such as unemployment and inflation with political considerations. The following section will concentrate on the effects of economic policies for health inequalities in view of economic recessions. Finally, a concluding section will close the paper.

II. THE NEED FOR ECONOMIC POLICY: TWO SCHOOLS OF THOUGHT

One can discern two main approaches in the history of economic thought concerning the central issue of economic cycles and thus recessions. The first approach claims that the free market mechanism is self-adjusting and therefore any cyclical phenomena are short-run and are caused mainly by unnecessary interventions. This implies that long-run unemployment is theoretically impossible. The second approach argues that the free-market system has an inherent tendency to instability and economic cycles and thus market interventions are needed to stabilize the system. According to this stream of economic thought, unemployment is a constant feature of the free market and thus certain policy measures are important for reducing unemployment.

The first approach originates from the writings of many important members of the Classical school of economics. The basic arguments are the following: There are two fundamental characteristics of the free market which ensure that economic downturns and thus the persistence of unemployment are at the worst, temporary. The first is Say's Law which states that the quantity of products demanded is determined by the quantity of the products created. This means that all markets

clear and there is no overproduction of goods which can be seen as the main cause of involuntary unemployment. The second characteristic is the perfect adjustment of prices and wages to any changes in the market. This implies that there are no unsold goods or excess labour (unemployment). In terms of the overall economy, Say's Law and price and wage flexibility ensure that the aggregate supply (AS) curve is perfectly inelastic at the full capacity level of output. The main representative figure expressing these views was A. C. Pigou. He believed that industrial fluctuations, sprung mainly from disturbances relating to credit and confidence and that the business cycle is a temporary disturbance. According to Pigou, the free-market is a smoothly functioning system, tending to full employment and that short run fluctuations give rise, to fluctuations in employment only because wage rates are not sufficiently flexible (Pigou, 1927). The general price index is thus set by aggregate demand (AD) which is based on the quantity theory of money. In terms of economic policy, the classical approach argues that any policies which aim to shift AD to the right will only cause an increase to the general price index and if continued, an inflationary effect (see also Phelps, 1990).

The above was the dominant view concerning economic cycles, unemployment and economic policy until the 1930's when Keynes' main work started to become influential. In particular, Keynes challenged the established theory that free-market tends towards full-employment equilibrium and demonstrated that the natural tendency was underemployment equilibrium. Keynes rejected the classical belief to Say's Law and also to perfect price and wage flexibility. He argued that there is no reason why the economy will always be at full employment equilibrium. Namely, Keynes builds a theoretical analysis where the levels of production and employment are set by effective demand. This is combined with his

view of the non-neutrality of money and his theory of private investment in order to build a theory of economic fluctuations and thus of recessions and depressions. Keynes' believes that active macroeconomic policy measures are necessary in order to ensure full or near full employment equilibrium or in general to smooth out the economic cycles (Keynes, 1936). The instruments of fiscal and monetary policy are necessary for minimizing economic fluctuations. In particular, active fiscal policy (especially increase of government spending) is the only tool to push the economy out of deep depression, given that private investment remains stagnant due to uncertainty. Furthermore, in a depressionary period, monetary policy might become ineffective because of the phenomenon of the liquidity trap (for a review, see Dow, 1985).

Keynesian views concerning the role of economic policies became established and were followed by most western countries until the early seventies. The oil crisis of that period and the resulting stagflation in many countries gave rise to the reappearance of the classical views about economic policies albeit in a more sophisticated theoretical framework. In particular, the Monetarist school of macroeconomic thought with M. Friedman as its main representative, called for an abandonment of active government intervention. Friedman believed that the aggregate supply is almost vertical in the short run and this means that any fiscal policy measures will have an inflationary effect. According to Friedman, the role of monetary policy is the increase of money supply to keep up with increases in real output in order to keep inflation at minimum levels (Friedman, 1968).

In the same spirit and during the same period, the New Classical macroeconomics was gradually formed mainly with the works of Lucas, Sargent and Wallace as its basis (e.g. Lucas, 1975). There are two basic points of this

school: 1) the aggregate supply hypothesis emphasizes that all markets in the economy continuously clear in the manner of a Walrasian general equilibrium system. This is in the same line of thought as the classical ideas. 2) Agents (workers and firms) are characterized by rational expectations implying that their expectations about future economic variables are not biased. These two points imply that all policy decisions by the government are fully anticipated by the agents and thus neutralize their effect on real output and employment. In this framework, even the Monetarist prescription concerning monetary policy is not accepted. The New Classicals believe that only microeconomic policies can increase output. In particular, governments must create incentives for firms and workers to produce more output by reducing marginal tax rates, and social benefits. Furthermore, they should increase wage and price flexibility by removing legal and institutional obstacles (see also Gerrard, 1996).

Although New Classical approaches became very influential for the formation of economic policies in many countries, Keynesian inspired theorists criticized New Classical macroeconomics and offered their own policy prescriptions. The New Keynesian theorists build on what they believe to be the fundamental aspect of Keynes's thought: the existence of wage and price rigidities which imply non-market clearing and thus economic fluctuations and unemployment. New Keynesians have provided a number of reasons why the labour market and the goods market do not clear thus generating unemployment (for a collection of basic papers on New Keynesian economics, see Mankiw and Roemer, 1991; for a review, Gordon, 1990).

Starting from the labour market, a possible cause of wage rigidity might be that workers are risk averse about changes to their income. Thus, firms offer them implicit contracts which protect their wages from fluctuations (Azariadis, 1975). This

means that when there is an economic downturn, firms do not lower wages or lay off labour as much as they should, and in return workers stay loyal to the firms when there are booms. Another line of explanation for wage stickiness is the idea of efficiency wages (see for instance, Yellen, 1984) The starting point here is that labour productivity is related to wages. Thus any wage fall will negatively affect the firm's productivity and therefore its profits. As a result, in a recessionary period firms may not lower wages enough to eliminate unemployment. The insider-outsider theory explains wage rigidity in terms of workers' bargaining power (Lindbeck and Snower, 1986). Employed workers in a firm have acquired firm specific training and this gives them bargaining power to mitigate wage cuts and lay-offs. Firms accept the demands of insiders because the cost of substitution of these by outsiders is high since it involves hiring and training costs. Again this implies that wages do not fall enough to reduce unemployment. Finally, another source of wage rigidity might be the notion of comparison or fair wage. Under this approach, firms offer contracts which guarantee no wage reduction because workers compare their wages with similar workers wages (Akerlof and Yellen, 1990). If workers think that they are underpaid, they reduce the level of effort and thus productivity and firm's profits. This leads to institutional wage rigidity (see also Summers,1988). There are also other possible sources of wage rigidity which have to do with behavioural characteristics of labour unions and workers (for a collection of papers, see Beckerman,1986).

New Keynesian economists have also provided a number of theoretical explanations concerning price rigidities in the product market. The first explanation of price rigidities referred as menu costs, emphasizes the costs of changing prices which might be considerable not only in terms of changing price lists but also conveying the change in prices to their customers. Thus, even if there are demand

fluctuations, prices do not adjust fully in order to clear the product market and thus unemployment persists (Ball and Mankiw, 1995). Another explanation has to do with risks and imperfect information in the product market. In a recessionary situation, the demand curve that firms face falls. This means that firms should reduce either price or output. However, price reduction entails higher risk and uncertainty than reducing output. The response of the firms' customers and also the reaction of other firms' to a price reduction, is uncertain (Okun, 1981). For example, customers may anticipate further reductions and thus postpone purchases. Thus, firms prefer to reduce output because it involves less risk and less cost. The overall result of this strategy is that prices remain constant even when demand falls which in turn leads to higher unemployment (Benassy, 2002). A further explanation of non-market clearing in the product market has to do with the existence of kinked demand curves. These curves reflect imperfect competition and imply that firms have an interest to keep prices stable given that they may have more sales to lose if they increase prices than they gain when they lower prices. Furthermore, kinked demand curves mean that firms will not alter prices even when their costs fall considerably, thus contributing to price rigidity and overall unemployment. There are other reasons for the existence of kinks which are due to the non-optimizing behaviour of the consumers (for papers on all the above, see Mankiw and Roemer, 1991).

The previous discussion is linked to the controversial debate concerning the effectiveness of policy measures to minimize economic fluctuations and combat unemployment. According to the first stream of thought, the Monetarists and the New Classicals, argue that a free-market economy is self-adjusting and therefore any active macroeconomic policy is likely to be harmful. In fact, they maintain that even exogenous shocks to the economy do not cause big fluctuations because

economic agents act rationally (consumers smooth out consumption over time and investors make long-run decisions) and the market mechanism is efficient. In their view, expansionary fiscal policy is completely unnecessary and only raises prices.

More specifically and as far as unemployment is concerned, New Classical and Monetarist oriented economists adopted the notion of the natural rate of unemployment (e.g. Friedman, 1968). This approach essentially redefines full employment in terms of a unique unemployment rate (the Non-Accelerating Inflation Rate of Unemployment: NAIRU) where inflation is stable, and which is determined by aggregate supply. This also implies that demand side policies cannot change the NAIRU but can only alter inflation (Staiger, Stock and Watson, 1997). According to this approach, unemployment reflects failures on the supply side such as individual disincentive effects arising from welfare provision, skill mismatches, and excessive government regulations (Mitchell and Muysken, 2008). Thus, the key for increasing employment and output lies in microeconomic reforms which can shift the aggregate supply curve (sometimes termed Supply-side-economics). Abolishing minimum wages, social security payments and employment regulations are main examples of such microeconomic measures. In general, it follows that the sole objective of economic policy is to remove disincentives mainly through tax and welfare provision cuts, to relax legal and institutional rigidities and also to reduce government spending.

In the traditional Keynesian approach to economic policy, the idea of government intervention to smooth out economic cycles and to promote economic growth is basic. More specifically, in the case of a recessionary period, traditional Keynesian economists advocate a combination of fiscal and monetary policies to pull the economy out of the economic downturn. Fiscal measures such as increased

government spending and lowering taxation are considered as having a stronger effect than monetary measures. Because the government spending multiplier is stronger than the tax multiplier, the policy emphasis is placed on the role of government. Furthermore, a number of Keynesian theorists have argued that the balanced budget government multiplier might be stronger if the economy is characterized by imperfect competition (e.g. Mankiw, 1988). Monetary policy measures such as the increase of money supply and/or the reduction of interest rates are also thought to be effective. Their effectiveness though, is much lower if the economy is experiencing an economic depression because of the liquidity trap (no effect of interest rate reduction on investment). In general, Keynesian economists believe that the best way to moderate the effects of economic recession is by stimulating the economy through the expansion of aggregate demand (see also Gordon, 1990).

III. ECONOMIC POLICY TARGETS

A. Economic Policy and Politics: Historical Record.

There are significant indications that after the second world period, many western governments had explicit targets of macroeconomic policy objectives. This was in accordance with the emerging Keynesian orthodoxy of the time which provided a sound theoretical justification for the conduct and of the objectives of macroeconomic policy. The historical record shows that during the first decades of the post war period, most western governments considered full employment as the main target of economic policy. The first major example towards this direction was Beveridge's (1944) *Full Employment in a Free Society* . and the related Beveridge report. According to Beveridge, full employment is defined as an excess of

vacancies at living wages over unemployed persons and furthermore, that “the ultimate responsibility for seeing that outlay as a whole ... is sufficient to set up a demand for all the labour seeking employment, must be taken by the State.’ (Beveridge, 1944, pp.123-135). The basic principles of this report were adopted by Churchill and the subsequent governments in the UK. Thus, maintaining a high level of employment was an explicit priority goal for U.K. governments in the first post war years (Kennedy,1982,p.25). Another explicit example of policy target which attempted to keep employment levels high was the 1972 "dash for growth" budget which was designed to raise the annual rate of growth to 5 per cent. Fiscal and monetary instruments concentrated on raising the growth rate to the specified level (Gowland and James,1990, p.318).

In the same spirit, U.S governments of the first post war years also perceived employment as the most important policy target, as is demonstrated by the 1946 Employment Act where there was a legal commitment to full employment. Clearly, the government thought of full employment as the most important policy objective. This was also the case subsequently when the Kennedy-Johnson administration officially adopted a full employment goal of 4 per cent unemployment (Tobin,1987,p.95). During the 1970's there were implicit targets of 5 and 6 per cent unemployment levels (Tobin,1987,p.95).

In general, in most western countries in the Post World War II period up until the mid-1970s, everybody who wanted to earn an income was able to find employment. Maintaining full employment was an overriding goal of economic policy which governments of all political persuasions took seriously. Unemployment rates below two per cent were considered normal and when unemployment threatened to increase, government intervened by following policies to stimulate aggregate

demand. Unemployment levels higher than 2 per cent were considered by the public and government alike as unacceptable (see Mitchell and Muysken, 2008).

Subsequently, and more specifically in the mid 1970's, inflation control gradually replaced unemployment as the most important objective of macroeconomic policy in most western countries. One can mention two main factors for this major shift in macroeconomic policy: The first one had to do with the simultaneous increase of inflation and unemployment levels mainly because of the oil crisis. The experience of stagflation undermined public confidence to the Keynesian oriented economic policies. The second reason was the gradual dominance of conservative governments which emphasized inflation control backed by the emerging Monetarist/Neoclassical macroeconomic theories. In the US for instance, "[In the last two decades] the Fed has placed a greater emphasis on keeping inflation low" (Taylor, 2000, p.21). Furthermore, most policy-makers argued that price stability should be the ultimate goal and in practice this implied an inflation rate between one and three percent (Bernanke and Mishkin, 1997).

In the same spirit, as in the US, British policies were directed to the control of inflation rather than unemployment as in earlier decades (see Greener, 2001). In the mid 1970's inflation started to acquire importance and gradually became the primary policy objective. This was made more obvious in the 1980's which were characterised by Conservative governments. Policy tools were directed to the control of inflation rather than unemployment as in earlier decades (Gowland and James, 1990, p.332 and for a historical review of British economic policy see Greener, 2001). Again as was the case in the U.S., policy makers explicitly stated that macroeconomic policy should be devoted to combating inflation (Artis and

Lewis,1991,p.55). In addition, it was evident that the government saw inflation as the most important policy objective:

"Macroeconomic Policy formulation in Britain since 1979 would seem to have followed a markedly different approach. Rather than attack economic problems together, it has been argued that they need to be tackled sequentially: inflation first, then unemployment". (Artis and Lewis,1991,p.54)

This policy attitude was also not uncommon in other countries like Germany where low inflation has long been viewed as the primary policy objective and essentially more important than any other goal (see Hibbs,1985,pp.194-195).

The general change in policy objectives can also be seen by the OECD Jobs Study (1994). This document effectively approved the growing macroeconomic orthodoxy by articulating that the major task for macroeconomic policy was to allow governments to "work towards creating a healthy, stable and predictable environment allowing sustained growth of investment, output and employment. This implies a reduction in structural budget deficits and public sector debt over the medium term ... [together with] ... low inflation." (p.74). In general, in the last decades, the emphasis of economic policy in most countries was towards eliminating inflation at the expense of unemployment (see also Mitchell and Muysken, 2008).

B. Unemployment and Inflation.

The previous discussion of the conduct of economic policy in historical context points to the idea that the targets of economic policy are subject to a great extent, to political and ideological considerations. This is the basic idea underlying contemporary theories on politico-economic cycles. In this framework, political

decision-making has been studied as a function of economic variables, governmental re-election prospects and also of ideological goals (see for instance Keech, 1995). In particular, politico-economic models were the first to provide a rationale for believing that governments are not only willing to stabilise the economy but that they have an interest in creating some types of cycles (Frey, 1978, p.218; Alesina and Tabellini, 1988 and for a general survey, see Gartner, 2000).

The issue of public debt development in many countries is a good example of the application of the rationale of many politico-economic models. In particular, the constant rise of public debt in many countries cannot be explained with the standard assumption that governments are optimizing economic policies and that voters are rational, forward-looking and perfectly informed (Austen-Smith and Banks, 1988; Taylor, 2000; Alesina, 2000). According to many politico-economic models, rising public debt could be explained in terms of short-period maximising governments which borrow in order to bribe the electorate and ignore any problems that arise after the next election (Alesina, 2000).

Many politico-economic models start from the fact that in many countries there are two major political parties/formations: centre-right and centre-left. The centre-right party advocates free market as the way to achieve prosperity while the centre-left party advocates government intervention. There is also a socioeconomic basis of electoral success here in the sense that usually individuals who are concerned more about unemployment, tend to support the centre-left party while the ones who care more about inflation tend to support the centre-right. In particular, according to Hibbs (1987), lower-income, blue collar, wage-earners are more vulnerable to unemployment than are higher-income, white-collar, salary-earning workers. In the same framework, it is argued that higher income individuals have more to lose from

inflation than those in lower-income jobs (see also Blinder, 1987). This implies that the two parties follow re-election concerns as well as ideological considerations.

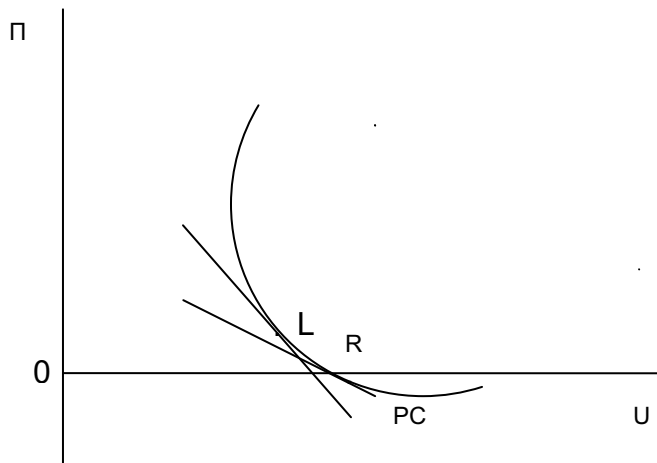
The ideas of ideological considerations and electoral cycles can be combined in a unified framework which might be able to explain governmental choices over inflation and unemployment. In this setting, governments have a “menu of choices” over inflation and unemployment which is best expressed as a Phillips curve type relationship (Samuelson and Solow, 1960). This relationship shows the trade-off between unemployment and inflation and can be of the general form

$$\Pi = g(U) \text{ with } g'(U) < 0 \text{ and } g''(U) > 0 \quad (1)$$

where U is unemployment, and Π is inflation. This can be combined with a government welfare function which shows preferences regarding unemployment and inflation, a form of which can be the following:

$$M = \alpha U + \Pi \quad (2)$$

Where α is a weighting parameter (sometimes relation (2) is also known as the ‘the misery index’). According to many politico-economic models, the parameter α is high for center-left governments and low for centre-right ones (Hibbs, 1987; Keech, 1995). This means that the slope of the line based on relation (2) will be steeper for center-left governments and flatter for centre-right ones. In this case the level of inflation and unemployment is a political choice. In terms of a simple graph:



In the above graph, the curve PC shows a Phillips curve-type trade-off, L represents the choice of the centre-left government implying low unemployment and high inflation and R represents the choice of centre-right government implying low inflation but high unemployment. One can argue that the historical record in many countries that was observed, can be explained in terms of the above simple politico-economic model (see also Drakopoulos, 2004).

IV. EFFECTS ON OVERALL HEALTH LEVELS

As was mentioned in the beginning, numerous studies have showed that socioeconomic factors affect overall population health. The term “social factors” or “social determinants” is a generic term and it may include a number of parameters including for example, income, wealth, class, education, occupation and employment. Earlier studies such as Navarro (1990), have indicated that wealth and income inequalities are linked to great disparities in health both in terms of mortality and morbidity even if the effects of race are netted out. More recently, there are

several studies which report a strong link between social factors and physical and psychological health in many countries (for a general review see Marmot and Wilkinson, 2006). Clearly, most of the social factors such as income levels, unemployment and poverty levels, are closely associated to the prevailing economic policies.

Starting from unemployment, numerous studies have indicated that unemployment negatively affects different facets of health, ranging from psychological health to physical symptoms (e.g. Theodossiou, 1998; Winkelmann and Winkelmann 1998; Riphahn 1999; Skalli, Johansson and Theodossiou 2006). Furthermore, it has been found that unemployment can also be a risk factor for population health as this is reflected by mortality rates (e.g. Creed, 1998). Given that unemployment reduces the individuals' financial resources and standard of living, this can lead to poor nutrition and limited access to medical health care. It can also result in poor mental health given the social and family attitudes towards unemployment. The important implication here is that expansionary economic policies which target the reduction of unemployment are likely to have positive effects on health levels and thus reduce health inequalities. In the same framework, anti-cyclical policies which smooth out recessionary periods will have a mitigating effect on falling health levels (see also Lorant et al, 2003).

Given the discussion on the politico-economic choice between unemployment and inflation, it has to be noted that the costs of inflation on health seem to be much lower than those of unemployment. Inflation usually burdens savers more than borrowers given its negative impact on real interest rates. Low income or poor individuals are likely to be borrowers. Furthermore, the main impact of inflation is on business and investors future planning decisions. Thus, low income groups are

much more affected by unemployment than by inflation. In general, inflationary pressures (except hyperinflation) do not usually cause mass reduction in living standards which in turn reduce overall health levels (see also Blinder, 1987; Solow, 1998). Finally, there is no empirical study which has found a robust negative effect of inflation on health.

According to many researchers, there is a vicious relationship between poverty and ill health: poverty leads to ill health, which, in turn, keeps people poor, and so the circle spins. It is also accepted that during the economic downturn, more people are likely to fall in to poverty (Adda, Chandok, and Marmot, 2003). Poverty is associated with high infant, child and maternal mortality, malnutrition and poor or no access to medical care. Furthermore, loss of health or a health shock can be of such magnitude as to lead to poverty or prevent people from escaping from poverty (for a review see Wagstaff, 2001). All these imply that economic policies aiming to reduce poverty such as minimum wages, social security benefits, income transfers and health care policies for the poor can have a positive impact on reducing health inequalities.

Similarly to poverty, income inequalities are associated with health inequalities. The basic idea here is that health is a concave function of income. This implies that the effects of income on health are greater for low income groups than for high income groups. For instance, in a large empirical study for the US, Kington and Smith (1997) uncover the existence of a strong positive relationship between levels of household income or wealth and health status. The policy implication of this is that the effects of income transfers from rich to poor will have a significant impact on improving the health of the poor thus improving average health also. On the aggregate level, countries with more equal distribution of income will have higher

average health levels. In the same framework, an increase of real income per capita of a poor country will have a much greater effect on average health than a similar increase of income of a rich country (see for instance, Deaton, 2001). The link between income inequality and life expectancy can also be seen in terms of stronger income impact for the poor. In particular, an increase of poor people's income has strong effects in reducing important determinants of life expectancy such as infant and child mortality and malnutrition. There is ample empirical evidence for many countries that a reduction in income inequality increases life expectancy (e.g. Wilkinson, 1989; Sen, 1999). One of the adverse effects of recessionary periods is that they can increase income inequalities which as was seen, have negative impact on health.

Given the positive influence of income on health, the issue of the relationship between economic growth and health is also important. Economic growth theorists have long emphasized the importance of human capital and productivity for economic growth and development (for the basic paper, see Grosman, 1972). In this framework, health is a determinant of human capital. Furthermore, human capital formation, with the help of health services, and education contribute to individual development. Investment in these assets will earn a future individual and aggregate return. In the same tone, healthy individuals are more efficient at assimilating knowledge and, in consequence, obtain higher productivity levels which in turn are crucial for achieving higher growth rates (for an extensive discussion, see Jack, 1999). Thus, an improvement at overall health levels can lead to an increase in human capital, productivity and thus economic growth and development. This is also confirmed by empirical studies in which health gains are associated with widespread economic growth and also an escape of ill-health traps in poverty (World

Health Organization, 1999). These imply that policies aimed at promoting economic growth, can lead to a virtuous circle through their beneficial effects on raising real incomes, employment and poverty reduction which in turn, result to better health outcomes and thus further promoting economic growth.

V. CONCLUDING COMMENTS

The previous discussion indicated the close interrelationship between socioeconomic factors, economic policies, politico-economic cycles and health inequalities. The discussion presented a framework for understanding the links between economic policy decisions and their impact on socioeconomic factors and therefore on overall health. Given that most countries are currently faced with economic recession, these links became more important. The review of the literature indicated that many empirical works from many countries suggest that recessions have adverse effects on health and this implies that policies aimed to mitigate their effects, are also likely to have an impact on health. In particular, according to many Keynesian oriented economists, expansionary fiscal and monetary policies such as increased government spending, lowered taxation and low interest rates, which target unemployment reduction will have a beneficial effect on health. The same holds true for employment subsidies to firms in order to maintain/increase employment levels. Moreover, policies designed in strengthening the purchasing power of low income earners, such as income and benefits transfers, will not only increase aggregate demand and alleviate unemployment pressures, but also raise their health levels given that health is a concave function of income. Policies aimed to increase education and training levels will result in human capital improvements which in turn increase productivity. Productivity increases are particularly important

during economic downturns because they resist falling growth rates and thus mitigate income inequality and poverty effects on health. Finally, social policies targeting the unemployed and the poor will also resist the deterioration of health levels of these groups during the recessionary period.

REFERENCES

- Adda J., Chandok, T. and Marmot, M. (2003) "Socio Economic Status and Health: Causalities and Pathways" Journal of Econometrics, vol.112, pp.57-63.
- Akerlof, G and Yellen,J. (1990). "The Fair Wage-Effort Hypothesis and Unemployment", Quarterly Journal of Economics, vol.105, pp.255-84.
- Alesina, A. (2000) "The Political Economy of the Budget Surplus in the United States", Journal of Economic Perspectives, vol. 14, pp.3-20.
- Alesina, A. and Tabellini, G. (1988) "Credibility and Politics", European Economic Review, vol. 32, pp.542-550.
- Artis, M. and Lewis, M. (1991) Money in Britain, London: Philip Allan.
- Austen-Smith, D. and Banks, J. (1988) "Elections, Coalitions and Legislative Outcomes", American Political Science Review, vol. 82, pp.405-22.
- Azariadis, C. (1975) "Implicit Contracts and Unemployment Equilibria", Journal of Political Economy, vol.83, pp.539-52.
- Ball, L. and Mankiw, G. (1995) "Relative-Price Changes as Aggregate Supply Shocks." Quarterly Journal of Economics (February): pp. 161-93.
- Beckerman, W. (ed.) (1986) Wage Rigidity and Employment, London: Duckworth.
- Benassy, J.-P. (2002), Macroeconomics of Imperfect Competition and Nonclearing Markets – A Dynamic General Equilibrium Approach, MIT Press, Cambridge Mass.
- Bernanke, B. and Mishkin, F. (1997) "Inflation Targeting: A New Framework for Monetary Policy", Journal of Economic Perspectives, vol. 11, pp.97-116.
- Beveridge, W.H. (1944) Full Employment in a Free Society, London, Allen and Unwin.
- Blinder, A. (1987) Hard Heads Soft Hearts, Reading, Addison-Wesley.
- Creed, P.A. (1998), "Improving the Mental and Physical Health of Unemployed People: why and how?", Medical Journal of Australia, Vol. 168 No. 4, pp. 177-78.
- Deaton A. (2001) "Health, Inequality, and Economic Development", Paper No. WG1:3 prepared for Working Group 1 of the Commission on Macroeconomics and Health.
- Dow, S. (1985) Macroeconomic Thought, Oxford: Basil Blackwell.

Drakopoulos, S. (2004) "Satisficing and Sequential Targets in Economic Policy Design: A Politico-Economic Approach", Contributions to Political Economy, vol.23, pp. 49-64.

Frey, B. (1978) "Politico-Economic Models and Cycles", Journal of Public Economics, vol. 9, pp.203-220

Friedman, M. (1968) "The Role of Monetary Policy", American Economic Review, vol. 58, pp. 1-17.

Gerrard, B. (1996) "Competing Schools of Thought in Macroeconomics –an ever-Changing Consensus", Journal of Economic Studies, vol.23, pp.53-69.

Gordon, R. (1990) "What is New-Keynesian Economics?" Journal of Economic Literature, vol.28, pp. 1115-71.

Gowland, D. and James, S. (1990) "Macroeconomic Policy" in Understanding the UK Economy, by P. Curwen (ed.), London: Macmillan.

Greener, I. (2001) "Social Learning and Macroeconomic Policy in Britain", Journal of Public Policy, vol.21, pp.133-152.

Grossman, M. (1972) "On The Concept Of Health Capital and the Demand For Health". Journal of Political Economy vol.80, pp.223-55.

Hibbs, D. (1985) "Inflation, Political Support, and Macroeconomic Policy", in The Politics of Inflation and Economic Stagnation, by Lindberg, L and Maier, C. (eds.), Washington: The Brookings Institution.

Hibbs, D. (1987) The American Political Economy, Cambridge Mass.: Harvard University Press.

Jack, W. (1999) Principles of Health Economics for Developing Countries Washington, D.C.: World Bank Institute Development Studies.

Keech, W. (1995) Economic Politics, Cambridge: Cambridge University Press.

Kennedy, M. (1982) "The Economy as a Whole", in The U.K. Economy, A. Prest and D. Coppock (eds.), London: Weidenfeld and Nicolson

Keynes, John M. (1936) The General Theory of Employment, Interest and Money, London, Macmillan.

Kington, R. and Smith, J.P. (1997) "Socioeconomic Status and Racial and Ethnic Differences in Functional Status Associated with Chronic Diseases" American Journal of Public Health, vol.87(5), pp.805 - 16.

Linbeck, A. and Snower, D. (1986) "Wage Setting, Unemployment, and Insider-Outsider Relations", American Economic Review, vol. 76, pp.235-9.

Lorant, V., Deliege, D., Eaton, W., Robert, A., Philippot, A. and Anseau, M. (2003) "Socio Economic Inequalities in Depression: A Meta-Analysis" American Journal of Epidemiology, vol.157, pp.98-122.

Lucas, R. (1975) "An Equilibrium Model of the Business Cycle" Journal of Political Economy, vol. 83, pp.1113-44.

Mankiw G. (1988) "Imperfect Competition and the Keynesian Cross", Economics Letters, vol.26, pp.7-13.

Mankiw, G. and Roemer D. (eds) (1991) New Keynesian Economics, Cambridge, Mass. The MIT Press.

Marmot, M. and Wilkinson R.G (2006) "Social Determinants of Health" Second Edition, Oxford University Press: New York.

Mitchell, W. and Muysken, J. (2008) Full Employment Abandoned: Shifting Sands and Policy Failures, Aldershot, Edward Elgar.

Navarro, V. (1990) "Race or Class Versus Race and Class: Mortality Differentials in the United States." The Lancet, 336(8725), pp. 1238-40.

OECD (1994) Jobs Study, Organisation for Economic Co-operation and Development, Paris.

Okun, A. (1981) Prices and Quantities, Oxford: Basil Blackwell.

Phelps, E. (1990) Seven Schools of Macroeconomic Thought, Oxford: Oxford University Press.

Pigou, A. C. (1927) Industrial Fluctuations, London: Macmillan & Co

Riphahn, R. (1999). "Income and Employment Effects of Health Shocks: A Test Case for the German Welfare State." Journal of Population Economics, vol.12, pp.363-89.

Samuelson, P. and Solow, R. (1960) "Analytical Aspects of Anti-Inflation Policy", American Economic Review Papers and Proceedings, vol. 50, pp.177-194.

Sen, A. (1999) Development as Freedom. New York, Oxford University Press, and Oxford, Knopf.

Siegrist J. and Marmot M. (2004) "Health Inequalities and the Psychosocial Environment —two Scientific Challenges" Social Science and Medicine, vol.58, pp.1463-1473.

Skalli A., Johansson, E., Theodossiou, I. (2006) Are the Healthier Wealthier or the Wealthier Healthier? p-14. The European Evidence The Research Institute of Finnish Economy, Taloustieto Oy. Helsinki.

Solow, R. (1998) "What is the Labour Market Flexibility? What is it good for?" Proceedings of the British Academy, vol.97, pp.189-211.

Staiger, D., Stock, J. and Watson, M. (1997). "The NAIRU, Unemployment and Monetary Policy." Journal of Economic Perspectives, vol.11, pp. 33-50.

Summers, L. (1988). "Relative Wages, Efficiency Wages, and Keynesian Unemployment", American Economic Review, Papers and Proceedings, vol.78, pp.383-88.

Taylor, J. (2000) "Reassessing Discretionary Fiscal Policy", Journal of Economic Perspectives, vol. 14, pp.21-36.

Theodossiou, I. (1998), "The Effects of Low-pay and Unemployment on Psychological Well-being. A logistic Regression Approach" Journal of Health Economics, vol.17, pp.85-104.

Tobin, J. (1987) Policies for Prosperity, Brighton: Wheatsheaf Books

Wagstaff A. (2001) Poverty and Health. Paper No. 5 prepared for Working Group 1 of the Commission on Macroeconomics and Health (CMH).

Wilkinson RG. (1989) "Class Mortality Differentials, Income Distribution and Trends in Poverty 1921–1981", Journal of Social Policy, vol. 18, pp. 307–335.

Winkelmann, L., and Winkelmann, R. (1998) "Why are the Unemployed so Unhappy? Evidence from Panel Data," Economica, vol.65(257), pp. 1-15.

World Health Organization. (June 1999). "WHO on Health and Economic Productivity" Population and Development Review 25.2: pp.396-401.

Yellen,J. (1984) "Efficiency Wage Models of Unemployment", American Economic Review, vol.74, pp.200-205