Better public health systems lessen people's need to save for emergencies

Since the outbreak of Covid-19, governments and international institutions have been acting to make national health systems more resilient to pandemics, but in reality the scope of such policies appears wider. For example, two recent initiatives in Europe, the *ESM pandemic crisis support* and the *EU4Health program*, are designed not only to respond to pandemic threats, but also to improve the accessibility and efficiency of health systems more generally. Similar developments are also taking place on the other side of the Atlantic: at the end of September the Trump administration presented the *America-First Healthcare Plan* with the declared goal of improving health services for all patients. Biden himself puts health care among his priorities, with the aim, among others, of reducing the costs of health service for the citizens.

The objective of a more efficient or extended public health system is, first of all, to improve the health and quality of life of citizens. However, there are also economic implications, including on the propensity to save of individuals, who worry about their health conditions, and how ill health can impact their finances. To the extent that they have to rely on privately-provided healthcare, individuals may be induced to accumulate precautionary wealth to finance unexpected treatments. Conversely, having access to free or low-cost public schemes can mitigate the impact of the risk of getting sick on savings.

An indicator of the intensity of such a risk can be represented by the actual and expected costs incurred by citizens for health services that are not covered by either private insurance or public health systems. These expenses, commonly referred to as *out-of-pocket*, represent a significant share of current healthcare expenditures in various countries. This share is slightly below 35% globally, ranging from an average of over 40% in the Southeast Asian region to around 11% in the United States; Europe lies in the middle, around 30% (see WHO, 2020a and 2020b). As a consequence, improving public health systems or increasing their coverage can reduce the *out-of-pocket* expenses expected by citizens, thus mitigating the intensity of this precautionary saving motive.

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Several papers have documented the link between *out-of-pocket* spending and precautionary savings, also highlighting the government's role in mitigating precautionary attitudes through the extension of social health programs. For example, Kotlikoff (1989) develops a model in which individuals can become sick during their lifetime, in which case they pay the costs of treatment. He shows that the precautionary savings generated by the presence of such health care expenses explains a large part of the aggregate savings observed in the United States and that public health programs – aimed at supporting individual medical costs – can attenuate this precautionary motive. The empirical evidence provided by Gruber e Yelowitz (1999) corroborates the theoretical channel mentioned above and the related quantitative evidence. The authors focus on some extensions of *Medicaid* – the famous US social program aimed at supporting medical expenses for some disadvantaged categories of the population – which occurred at the turn of the 1980s. *Medicaid* eligibility had a negative effect on wealth and a positive association with consumer spending, results that the authors interpret with the lens of the precautionary motive.

As mentioned above, health risks can also be affected by the quality of health services provided by the government. A low-quality public health system – one with long waiting lists, few hospital beds, or poor medical tools – makes people save more to pay for private health care when needed. Indeed, Jappelli et al. (2006) show, for Italy, that individuals living in health districts with poor health quality save proportionally more than those living in high quality districts. Ercolani e Pavoni (2019), who also focus on Italy, show that higher health spending by regional governments lowers consumption volatility, wealth holdings and a measure of 'desired precautionary wealth' at the household level. Further, these relationships are found to be stronger for households with a greater proportion of elderly people, who are presumably hit more frequently by health shocks.

The fact that a better or more extended public health system mitigates precautionary savings means that more resources can be devoted to consumption. However, to assess the degree of such an expansionary effect, all the economic effects generated by these health policies should be taken into account. For example, the above-cited Ercolani e Pavoni (2019) consider – within a macroeconomic model – in addition to the decrease in precautionary savings, also the increase in taxation to finance the higher public health expenditure. In the short term, the "insurance" effect is stronger than that associated with a higher taxation, thus generating an increase in consumption. Assessing the long-term effects on consumption is a much more complex task because, as time goes by, other mechanisms certainly come into play, such as the consequences that changes in the health system can have on the productivity or life expectancy of individuals.

To conclude, health risk appears to be a significant driver of household savings. This relationship, established well before the outbreak of COVID-19, gains further relevance in light of the current pandemic, and of the risk that new ones may emerge in the future. As argued by recent articles (Ercolani, 2020 and Dossche and Zlatanov, 2020), health-related uncertainty is among the causes of the stark increase in savings observed in the current epidemic. Investing in more resilient health systems, including on all mechanisms that may help contain the spread of the virus, is per se a valuable goal. However, it may also contribute to encourage consumers to spend more and thus support aggregate demand, to the extent that it helps attenuate the precautionary attitude of individuals who care about the implications of health shocks on their own economic situation.

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Notes:

- *This blog post summarises the Bank of Italy Covid-19 Note.*
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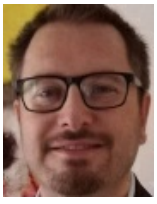

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