

Recycling fuel subsidies as health subsidies

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As debates concerning global sustainable development goals intensify, there is one policy that seems to unite all development agencies: the reduction or elimination of energy subsidies – especially those for fossil fuels. It has been estimated that the world's governments spend approximately half a trillion United States dollars (US\$) each year on subsidizing fossil fuels.¹ This subsidy – of commodities that appear to be the major cause of climate change – has recently been described as a reckless use of public funds.² Although many governments would like to reduce fuel subsidies, such subsidies are so popular with the general public, that their reduction can cause civil unrest – as already seen in Egypt, Indonesia and Nigeria.³

Politically, it may not be feasible to remove fuel subsidies without giving something back to the general public. The money currently spent on fuel subsidies might therefore need to be reassigned to highly visible subsidies on other goods or services. However, if civil unrest is to be avoided, the general public would need to experience tangible benefits relatively quickly following any such reassignment of funds. These benefits would also need to outweigh any perceived loss of welfare that might result from higher fuel costs. In the selection of targets for subsidies that have rapid impacts but do not distort national economies, health services may be a good choice.

Given the large market failures in the provision of health services, there is a strong economic rationale for governments to subsidize health care.⁴ Furthermore, public spending on health services can generate huge economic returns.⁵ After comparing the recent development of the two countries, it was argued that China had outperformed India – in terms of growth and social indicators – because China had invested more heavily in social services in general and, particularly, in health.⁶

The subsidy of health services therefore appears to be a sensible policy.

However, it is also a popular policy – and this makes it particularly attractive to governments. Across the world, politicians are recognizing that the extension of health coverage wins votes and can bring them substantial political benefits.⁷ Moreover, because virtually all households use some health services within any given year, any investment in health services can deliver results quickly to most of the population. In contrast, benefits from investments in infrastructure – e.g. in roads and electrification projects – tend to take many years to benefit the majority of the population.

Perhaps the most obvious area where governments can generate quick wins from increased public health investments is in the provision of free medicines, commodities and diagnostic tests. Since – for many people in developing countries – these goods account for the majority of any out-of-pocket expenditure on health,⁸ their free provision would have an appreciable impact on household disposable incomes.

Some developing countries are already promoting the benefits of free health care, especially free medicines, to justify reductions in fuel subsidies. For example, the Government of Sudan – a country that suffered violent riots over rising fuel prices – is explicitly using the resources it has saved from reducing fuel subsidies to provide free medicines for children under five years of age.⁹ Furthermore, the Islamic Republic of Iran has just announced that it will soon launch major reforms to achieve universal health coverage and use savings made from reducing fuel subsidies to pay for those reforms.¹⁰ Indonesia, which annually spends an astonishing 2.7% of its gross domestic product (GDP) – about US\$ 30 billion – on fuel subsidies but only 1% of its GDP on public health services might benefit from a similar strategy.¹¹ The World Bank has calculated that health coverage could be extended to the entire population of Indonesia for an additional cost equivalent

to just 0.9% of the country's GDP.¹² Successive national governments have tried to reduce the levels of fuel subsidies in Indonesia but substantial reforms have been met with fierce and sometimes violent opposition. There would appear to be a tremendous opportunity for the country's new President to extend health coverage to the entire population by reallocating just a third of the funds currently spent on subsidizing fuel.

The launch of popular health reforms could be a sensible strategy for other political leaders who would like to reduce fuel subsidies although they are worried about the political consequences. From a policy perspective, the recycling of fuel subsidies as health subsidies could improve health indicators, stimulate growth and reduce carbon emissions. Just as importantly, this strategy could also be an effective political strategy and increase the popularity of any government in power – as it improves the health of its people, its economy and the health of the planet. ■

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