

# The Trade-off Between Health and Wealth



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## 1- Introduction

On March 11, 2020, the World Health Organization declared that COVID-19 was a global pandemic, indicating significant global spread of an infectious disease<sup>i</sup>. At that point, there were 118,000 confirmed cases of the coronavirus in 110 countries. The virus was extremely contagious and led to death in the most vulnerable population.

The most critical cases led to an overwhelming number being admitted into the intensive care units of hospitals, leading to a concern that the virus would overwhelm local health care systems.

In early July 2020, there have been nearly 580,000 deaths worldwide, with over 13,400,000 confirmed cases<sup>ii</sup>. The human toll is staggering, and experts are predicting a second wave.

The number of COVID-19 cases in Lebanon stands at 2542 and 38 deaths (MoPH. 2020). The authorities have implemented a range of measures to try and limit the spread of the virus encompassing a general mobilization. Adding to those facts, Lebanon is actually facing a highly challenging economic situation with high public debt, current account deficit, and funding needs. The spread of COVID-19 is contributing to the economic recession.

## 2- Impact of COVID-19 on Cost of Health Spending

Counterintuitively, spending on healthcare has been falling in some countries throughout the coronavirus pandemic.

Though resources are being poured into combating the virus, non-urgent care has been reduced or cancelled, and patients have been staying clearly out of hospitals in fear of contracting the virus or placing an extra burden on healthcare workers. Lebanon is no exception to that rule. Moreover, the Lebanese government adopted effective health policies facing the pandemic, in fact, isolation of vulnerable people, testing at random, tracing positive cases, expanding health care capacities, convert estates to health facilities, and many other measures were key to success. This definitely expanded the health expenditures. To measure this cost, we need to investigate cost of illness which can be stratified into three cost categories-direct, indirect, and intangible costs. Since the indirect and intangible costs are difficult to quantify due to the measurement difficulties and related controversies, we will mainly focus here on the first category which is the direct cost.

A study conducted by the Bassel Fleihane Institute<sup>iii</sup> of Finance estimated costs related to COVID-19 treatment based on data collected from reports showed the followings: The study covered Testing kits, regular hospital days, intensive care units and personal protective equipment.

Table 1 - Estimated costs related to COVID-19 treatment

Item	Price in USD
Average cost of testing per patient	90.00
Weighted average cost per patient per day	373.34
Weighted average cost per patient per day in the intensive care unit	1,200.00
Personal protective equipment for 2 weeks	133.34

Those figures are estimates (IOF)

Based on the above, the cost of treatment for COVID-19 cases would be estimated as follows:

Table 2 - Cost of COVID-19 treatment according to premises

Item	Price in USD
Cost for home care quarantine per case for 2 weeks	503.00
Costing hospital quarantine per case for 15 days	5,937.00
Costing hospital intensive care unit per case (20 days ICU and 5 days regular)	26,202.00
Costing of the equipment of community facilities (cost per bed)	7,270.00

Those figures are estimates (IOF)

The above tables show the estimated unit cost per treatment. Having all the above assumptions at hand, the estimated cost per case can be calculated according to the number of cases affected by the virus.

The health expenditures on covid-19 may vary according to the future trends of the pandemic. If we assume only two simple scenarios: a mild new wave, and a severe second wave.

Under normal circumstances, the MoPH would have received a total amount of 461 million USD in 2020 budget. The MoPH consequently needs additional funding for the direct treatment of COVID-19 patients, excluding other health related costs (of which the acquisition of health machinery, consumables and personal protective equipment for the medical corps, deep clean and disinfection measures, staffing and training for all healthcare professionals and others), that funding will need to vary according to scenarios of the behavior of the virus in the coming months. If we are heading to a mild wave, we should expect an increase in health expenditure of around 10%, which comes to  $(461 * 10\%) = 46,1$  million USD.

In case we are into a severe second wave, we might be looking at 15% or more, which leaves us with  $461 * 15\% = 69,15$  million USD.

No matter what the future holds in terms of the pandemic course and outcome, the Government will need to spend more on private and public health sector.

## 3- Impact of Closure Caused by COVID-19 on Economy

Economy is interdependent, made of interrelated agents (suppliers, customers, consumers, workers, banks). What is individually a rational decision can cause a catastrophic chain reaction on the national level, so what is good for health is bad for the economy.

On the demand side, if consumers do not spend because of self-isolation, firms will cut costs and reduce workers, default on loans and suppliers will follow, and banks with non-performing loans will cut lending.

On the supply side, disruptions generate heightened uncertainty and panic for households and businesses, this will lead to drop in consumption and investment.

Large drop in demand dries up corporate cashflows, triggering firms' bankruptcies, this will lead to layoffs and exiting firms generate sharp rise in unemployment.

Labor income falls significantly, and non-performing loans spike up, which weakens demand and increases uncertainty further. And then back to another loop!

The economic costs of a suppression strategy will assumedly lead us to a temporary drop in economic activities. Prolonging the countries lock down longer and keeping the supply/demand downward spiral, will impact the actual costs (without policy interventions) in a way that could exceed 15% of GDP!

The government is already seeking to have an exceptional parliamentary approval for a supplementary budget of LL 1,200 billion, as a rules-based fiscal stimulus package to mitigate the impact of the lockdown. Part of the package will be channeled as a cash transfer to the poorest households. Another portion will be used to mitigate the disruption in supply chain and provide support to specific sectors such as agriculture, SMEs, and manufacturing. The questions remain how this package will be funded and what mechanisms will be followed to ensure its success.

No one can accurately predict the final financial damage from COVID-19. This obviously depends on timing, the severity of the pandemic in the future coming weeks/months, and countries' policy responses.

## 4- Potential Strategies

Looking at the global experience in addressing the crisis implications, governments, and central banks all over the world have introduced fiscal and monetary measures to offset the impact of the crisis and prevent economic fallout. Governments are supporting the financial system



to avoid the health crisis becomes a financial crisis. Sadly, Lebanon is facing a financial crisis already.

Nevertheless, Government needs to spend more on private and public health sector, it should develop policies on tax cuts, interest rates cuts, it should back up households (food and rental payments), pay survival amount for the most vulnerable people (400,000 LBP), try to help small and medium business to pay their workers and avoid laying off employee.

The problem is that these policies need to be financed; debt is attractive, especially given the ultra-low interest rates. But who will guarantee them? Is the Lebanese government credible enough to afford it without too much sovereign risk and to ensure good coordination with the central bank? The Lebanese Government needs to look at resources from all kind of sources; it could be from the savings made on oil prices and operating costs in the public and private sector made during the lockdown. These saving could be used in financing the stimulus package that was lately approved by the parliament. Government needs to look at donations through the World Bank: some of the money can come at a preferential interest rate compared to the market, with long term repayment and grace periods, and is considered as foreign currency injection.

From a fiscal policy perspective, effective measures were taken with the Parliament approval of an additional allocation to the 2020 budget worth LL1200 billion for Social Safety Nets; The government established a national solidarity fund that would accept in-kind and monetary donations. In addition, the Ministry of finance announced the extension of all deadlines related to payment of taxes and fees and approved the disbursement of LL450 billion (\$293 million) of dues to private hospitals. The Ministry of social affairs, in collaboration with the ministries of industry, agriculture, defense, interior, labor, finance, economy and information, started the implementation of a plan to be executed in coordination with municipalities, mayors, social affairs centers and the army to distribute cash assistance to families hit economically and financially as a result of COVID-19.

Also, on the monetary and macro-financial level, the Central Bank issued circular 547 allowing banks and financial institutions to extend exceptional five-year zero percent interest rate loans in Lebanese Pounds and in dollars to customers that already have credit facilities but are unable to meet their obligations, operating expenses, or pay the salaries of their employees during March, April and May 2020 as a result of the interruption of activity due to the COVID-19. BDL will in turn provide banks and

financial institutions five-year zero percent interest rate credit lines in dollars equivalent to the value of exceptional loans granted. On the other hand, no relevant measures were taken on the exchange rate and balance of payments, knowing that these measures are crucial to the recovery.

#### IV. Conclusion and Recommendations

The Coronavirus disease has become a severe pandemic and poses many serious challenges at national, regional and global levels. The consequences, even if they are difficult to calculate, are expected to be enormous in view of the rapid spread of the Covid-19 and the drastic measures taken by countries whatever their size worldwide.

The socio-economic impact of the Covid-19 crisis is real. It is therefore essential to inform the population on the impact and advice policy makers in order to better prepare and lessen the adverse impact of the pandemic.

In this regard, the policy recommendations would be structured around two axis: i) those responding to the short term situation; and ii) those corresponding to the medium and long term level.

• On the Short-term actions, Lebanon should:

Check systematically all suspected cases in order to ensure early detection of the infection and trace as much as possible, and forestall contacts between infected patients and the healthy population;

- Revise its budget in order to prioritize spending in the health care system (infrastructure and logistics, purchasing of pharmaceutical and medical products, equipment and materials, etc.);

- Create an emergency fund for scaling up social protection;

- Consider borrowing for emergency funds at the international market to support spending as the commercial interest rate is currently low;

- Take economic and financial measures to support enterprises, SME and individuals as a response to temporary jobs cut to safeguard economic activities, such as guarantees to private sector debt;

- Waive tax payments in critical sectors and local sourcing by the public sector in its response to the crisis would support the SMEs and other businesses.

• On the medium and long term and since Lebanon is extremely exposed to external shocks, a paradigm shift is needed in order to change the trade patterns of the country and the rest of world. As such Lebanon should turn the current Covid-19 pandemic into an opportunity to translate

the policy recommendations of the government on productive transformation into a reality in order to create economies that are resilient to external shocks and achieve sustainable development. Therefore, Lebanon should:

- Diversify and transform its economy by strengthening the productive capacity of the Lebanese private sector to transform raw materials locally

- Increase agricultural production and enhance the food value chains to meet domestic consumption and exports;

- Complete the effort of reinforcing and establishing public private partnerships to produce medical and pharmaceutical products in order to reduce imports and ensure high quality control of the production;

- Set up Innovative ways of spending on health: governments should boost investments that strengthen the health system to enable faster treatment and containment.

- Reposition Lebanon to take full advantage of the changes expected to happen in the aftermath of covid-19 crisis, as major economies will probably diversify their centers of production by shifting at part of them to other regions by equipping youth with skills needed to attract Multinational Enterprises (MNEs) and other global trade players. This has also the benefit of boosting local transformation<sup>5</sup>.

i - Fouad, N. (2020), Editor in Chief's Introduction to *Essays on the Impact of COVID-19 on Work and Workers*, *Journal of Vocational behavior*, 119, 103441, Elsevier Inc

ii - Johns Hopkins (2020) *Coronavirus Outbreak Mapped*. Retrieved May 5, 2020 from <https://coronavirus.jhu.edu/map.html>.

iii- Institut des Finances Basil Fuleihan Institute (2020), *The economic cost of policy action against the outbreak scenarios of COVID-19 in Lebanon, Costing health care intervention*, ([www.institutdesfinances.gov.lb](http://www.institutdesfinances.gov.lb), accessed July 2020)

iv - Surico, P., Galeotti, A., (2020), *The economics of a pandemic: the case of Covid-19*, London Business School, Wheeler Institute for Business and Development (<https://sites.google.com/site/paolosurico/covid-19>, accessed July 2020)

v - African Union, (2020), *Impact of Coronavirus (COVID 19) on the African economy*, ([tralac.org](http://tralac.org) accessed July 2020)