



FISCAL AFFAIRS

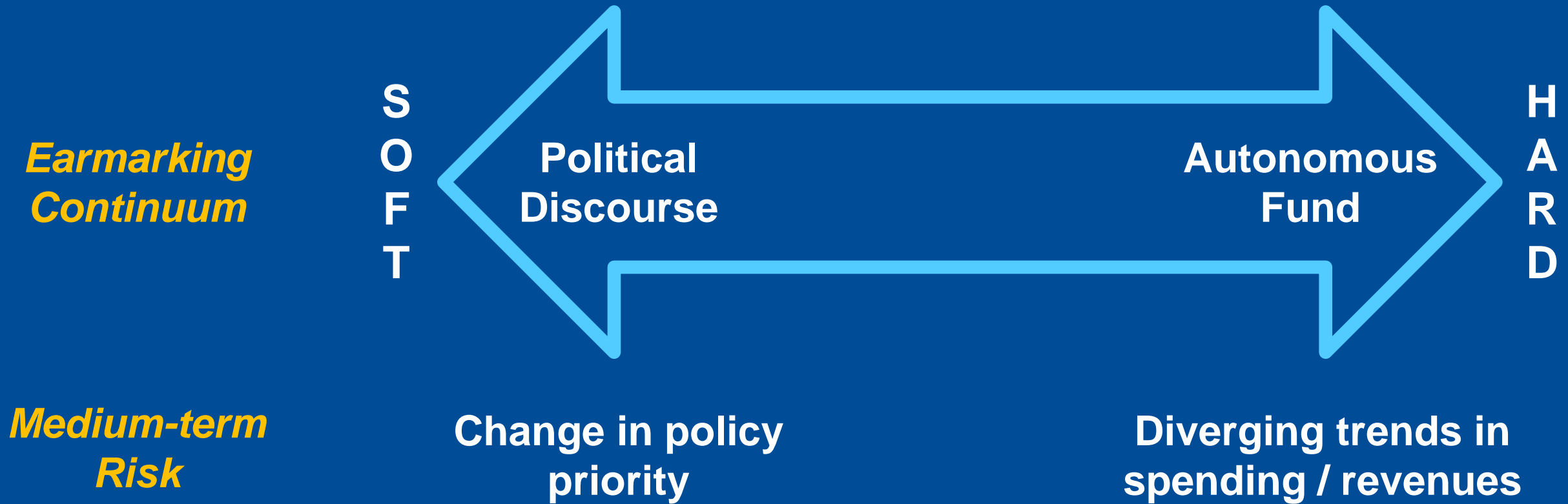
Earmarking Health Taxes

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Earmarking gives political visibility to a “revenue + spending” package, with the implicit assumption of commensurability



Sustainable financing can be achieved through the combination of non-health and health related taxes

Non-health

- No direct link with health outcomes, e.g., VAT, CIT, PIT, fuel taxes
 - Generally broad-based and important revenue sources
 - High and low health risks contribute together (probably net benefit progressive in the short run)
- Allows development of health systems at scale
- Supports universal healthcare

Health

- Direct link with health outcomes, e.g., tobacco, alcohol, sugar taxes
 - Narrow base and relatively small revenue sources
 - Mostly high health risks contribute (probably net benefit progressive in the long run)
- Allows potentially large health-related savings in the long run
- “Polluter pays” narrative

Pros and cons of hard earmarking discussed in the literature

In the short run, a coherent “revenues + spending” package

- Can generate willingness to pay new taxes
- Ease oversight of budget allocation by vested stakeholders (e.g., members of parliament, industry, unions)

In the medium run, a less coherent package

- Can rigidify the budget process
- Can crowd out financing from general budget (destabilizing systems)
- Can require piling up new sources of financing (lower willingness to pay and mistrust of government’s management)

Concluding remarks

- The COVID-19 pandemic gives momentum to strengthen health systems
 - Willingness to channel resources to health systems is high
 - Other structural weaknesses call for strengthening (social protection, education)
- Countries need to prioritize scarce resources
 - Evidence-based, costed, and prioritized Medium-Term Health Expenditure Plan
 - Consistent with operational capacity
 - Accounting for the possibility of another pandemic and lockdown-easing cycle