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# "FIN DE SIÈCLE" – HOW WE GOT INTO THIS FINANCIAL AND ECONOMIC CRISIS AND WHAT IMPLICATIONS IT HAS FOR THE PRACTICE OF MEDICINE IN SINGAPORE

Fin de siècle:

"Of, relating to, or characteristic of the close of 19th century and its climate of world weariness and despair"

Dear Sir,

San Francisco, where I attended the yearly Gastrointestinal Cancer Symposium, had an eerie "fin de siècle" feeling the week before Obama's inauguration. The icons of the early 21st century boom and of earlier years are still there. Victorian and Neo-classical buildings are beautifully kept and people walk about, seemingly happy. In a very mild winter evening—typical of this city by the bay—children ice-skate on an artificial rink at Union Square, oblivious that the party is over. At Macy's, sales associates stare at the empty halls, punctuated by the odd Asian and Latin American tourist. At Saks 5th Avenue, Pottery Barn, Gap, and the Banana Republic, the story is much the same.

There is one exception – the Apple store is still full of people… but nobody is buying anything, and with Steve Jobs on medical leave, we can't know for how long Apple will continue to be a powerhouse of innovation.[1] The CompUSA store on Market Street is a more appropriate harbinger of days to come. It is just a shell. All of its computers—and jobs—are gone.[2] California has always had a large population of homeless people and beggars on its streets. But I can hardly remember ever seeing so many. A woman in her 40s asks me for US$ 10 to complete her rent payment. Without necessarily believing her, I oblige.We are all now collateral damage of the biggest financial folly since the roaring 20s.

As then, the end of a war (if not of history as Hopkins' Professor Francis Fukuyama once proclaimed)[3] brought with it the promise—and realisation—of better days. The rise of freer trade—brought about and fuelled by the globalisation of capital markets and production—lifted millions of people out of poverty in Asia and Latin America.[4]

But people—and this great mirror of men, the markets—are imperfect. After the currency crisis in 1997, Asian economies created a savings glut[5] – China alone has amassed close to US$ 2 trillion in foreign exchange reserves.[6]

These savings searched for safe—yet high—returns in the United States,[7] fuelling a boom in consumption and a marked decrease in savings. With more money searching for the same assets, an equity and real estate bubble ensued. Moreover, mortgages were packaged into presumably safe securities and sold to third parties. This process generated an enormous moral hazard as the banks that created the loans did not have to worry about their risk of default as these were quickly taken by hedge funds, banks and other investors,[8] further fuelling the bubble.

Former Federal Reserve System (the US central bank) chairman, Alan Greenspan, indeed realised this was happening, but his belief in the invisible hand (and in his mission to control core and not asset-price inflation) led him to keep interest rates too low for too long.[9] The real estate bubble, brought about—among other causes—by a mandate of the US government to increase home ownership,[7] inflated further.

When finally short-term interest rates increased gradually from 1% to 5.25%, the bubble burst. Sub-prime borrowers started to default, and the same multiplier effect that caused monetary expansion now led to a rarely-before-seen contraction.[10] As often in the past, the financial crisis has brought with it a recession, which we are now told by the National Bureau of Economic Research, started in late 2007.[11] How long will it last? Nobody knows—or dares—to predict.

Miracles do happen – just ask the 150-odd passengers who came out alive of an amazing crash "landing" on a near-freezing Hudson River in New York recently.[12] Unfortunately, this downturn is likely to stay with us for a while longer than the average 8 to 11 months we got used to in the last half century.[13]

The Chinese and Indian miracles would not be enough to keep the world economy afloat in the next couple of years. The decoupling seems to be a vanished mirage by now.[14]

President Barack Obama signed his administration's stimulus plan into law—as the American Recovery and Reinvestment Act—on February 17, 2009. Unfortunately, as I write, we still do not know how effective it will be. Even though it has a welcomed US$ 150 billion provision for healthcare, including funds to subsidise health insurance, and increased research grants for the national institutes of health, if economist Richard Koo has it right, it is still likely not to be enough.[15,16]

The Chinese-American author, who was born and spent the last couple of decades in Japan, after working in the US Federal Reserve System, believes the US is in a balance-sheet recession.[17,18] As households and corporations are saddled with debt—and have seen their assets plummet in value—they will decrease consumption until their liabilities are reduced. A much larger and longer government stimulus will be needed. In addition, we face a great risk if nations turn to protectionism once more, as they did in the 1930s.[19]

All this does not bode well for the highly export-dependent Southeast Asian economies. It is likely that the recession we have entered in Singapore will last a year or two, and as such, personal income will decrease. Indeed, Germany's institute for world economy predicts that global gross domestic product (GDP) will shrink 0.8% in 2009.[20]

Economic crises may severely affect the healthcare sector in developed and emerging economies. As GDP contracts or its growth slows, consumer spending decreases, unemployment rises and tax revenues fall. Increased strain in public social spending, inflation and the cost of the current financial services bailouts compound the problem, leading to pressure for cuts in public healthcare spending. Healthcare systems funded by insurance and self-payment fare no better. Indeed those that depend on employment might leave a greater number of uninsured patients if the coverage is not portable.[21]

Total health spending fell in the 1990–93, 1997–98 and 2001–02 global recessions. This fall was not only due to decreased government payments but also due to a decrease in out-of-pocket expenditure. Moreover, as people become less affluent and avoid spending money, they tend to turn from private providers to government hospitals and clinics, as happened in South Korea and Thailand after the Asian crisis and in the United Kingdom now.[22]

This decrease in health outlays has resulted in adverse outcomes. Adult mortality increased in Thailand between 1996 and 1999, and child mortality increased in Peru and Mexico after those countries' national recessions.[22,23] Here, a perverse feedback loop makes things worse – income decreases further as financially-strained families have to cope with healthcare payments.

Interestingly, some developed countries have reported conflicting results. In the US and Western Europe, crises have been responsible for a decrease in the consumption of alcohol and tobacco, accidents and pollution, allegedly decreasing mortality as well.[22,24] As the much cited proverb implies, crises are also moments of opportunity. Recessions have led to an increased social safety net in Mexico, Thailand and South Korea[22] with the creation of universal health schemes.

Fortunately, as part of the significant S$ 20 billion stimulus package unveiled on Budget Day, the government has had the foresight to include a large provision for improving medical care in Singapore. S$ 4 billion will be invested over five years in healthcare infrastructure, including the redevelopment of older hospitals and the construction of new centres, as well as fostering the development of an electronic health record system that eventually might be accessible throughout the island.[25,26]

Lower income and greater uncertainty in the region will most likely decrease the number of international patients who search for healthcare abroad. Indeed, the Singapore Tourism Board reported a 15% decrease in the number of medical tourists between 2006 and 2007, and the Parkway Group reported that the number of international patients decreased by 5%–7% in late 2008. Foreign patient spending in Singapore had increased by 30% to S$ 1.7 billion in 2007 as compared to a year earlier, but similar data are still pending for 2008.[27-29]

Luckily, healthcare institutions tend to be less leveraged than corporations in other industries and are less likely to suffer from tighter credit conditions. With thin margins, however, larger groups will have to continue striving for greater efficiency as revenues are likely to decrease. Smaller physician practices might be affected to a greater extent, and it is plausible that some doctors might be allured back to work in restructured public hospitals (as was the case in Thailand after 1997).[22]

As the Singapore government will run a budget deficit as part of the economic stimulus, means testing should continue to be a way to reserve scarce funds for patients who need it the most. Moreover, there should be a drive to demand greater cost-efficiency from new drugs and technologies, with better use of tiered prices and pay for performance. Third, greater transparency is needed in physician's fees and results, especially in the private sector, so competition can drive improvements. Fourth, a greater emphasis should be placed on disease education and prevention, where free markets are less likely to be efficient. Finally, it is never too much to remember that a lack of personal responsibility has been one of the most pervasive and enduring reasons for the mess we are in right now, and as such, the government is right in bringing it to the fore in our health and pension systems.

I end with a silver lining. The American economy is still the most dynamic and diversified in the world. Indeed, data from the National Association of Realtors suggest that after dropping 30%–40% from its peak, property markets in the US might be starting to turn around.[30] I have no doubt that, in time, America will recover from its current predicaments. Sadly, it is unlikely to do so in 2009.

The new American president seems to grasp the situation well; let us hope he turns back to the sensible and pragmatic economic policies he described in his second book and not to some of the populist messages we heard during the campaign.

Good luck, President Obama. The whole world is counting on you!

Yours sincerely,

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