

B1. Political economy approach: a conceptual framework for the politics of public budgeting

What do we mean by the “political economy of public finance”, and why does it matter?

In simple terms, the political economy of public finance is the way in which governments raise revenue and distribute and use it for diverse social and economic priorities, which entails decisions and political decision-making. To grasp the concept of “political economy”, we shall explore some examples.

For example, a government may choose to stop its reliance on foreign aid. One way of doing this is to strengthen its fiscal policy through taxes. Which taxes and who pays those taxes has winners and losers and affects different people (rich, poor, interest groups, etc.) in different ways. When a government chooses to prioritize or strengthen a given source of revenue over another, it is making a political choice that has political implications and will entail different levels of negotiation. The same is true for expenditures and how the different sources of revenue are distributed among a wide array and competing set of priorities. For example, is a government spending more on the military or on health? Is the government prioritizing the communities most in need or not? Are some provinces receiving a larger share of the budget than others? Are expenditures promoting equality? Where money is spent and how it is spent are also political choices that will have different impacts on different groups of people and stakeholders.

For this reason, within the public finance community, public budgets are considered the true expression of a government’s priorities. A recent publication by the IBP offers a definition of public budgets that helps us to understand priorities from the point of view of political economy (50):

As a decision on how public resources are to be raised and spent, they (budgets) are the yearly embodiment and expression of the social contract that binds state and its citizens together. And as a means for (re) distributing these resources, they are a key arena of political negotiation and for ensuring accountability.

The political economy of health finance

For WHO, a political economy approach is essential to explain and understand health financing and the health financing reforms that are necessary to achieve UHC. The approach includes, of course, the **public resources** that are raised and used for achieving UHC. Module

1 of this section provides the definition of UHC promoted by WHO (13), which is repeated here in order to frame the learning objectives.

UHC means that all individuals and communities receive the health services they need without suffering financial hardship. It includes the full spectrum of essential, quality health services, from health promotion to prevention, treatment, rehabilitation, and palliative care.

For WHO, a core means for achieving UHC is health system strengthening, which, in turn, should drive reforms in health financing (51). WHO recognizes that, in order to advance towards UHC, countries will have to make important reforms to both their health financing policy and their PFM structures and processes. It also recognizes that the starting-points of different countries are different, and some may be more advanced in their reforms than others.¹ These include an interesting way in which WHO explains why health financing and the increasing role of public budgets should be understood through a political economy approach (52):

Health financing reform often involves complex interactions among many stakeholders of varied positions, power, and influence within the health sector and beyond. In many cases reform is politically contentious because it seeks to change sensitive distributions, as with entitlements and responsibilities of beneficiaries, or remuneration and working conditions of providers.

An [approach to political economy analysis](#) is suggested (53) to help policy-makers develop more effective strategies for managing political challenges that arise in reform. Here, political economy analysis is used to assess the power and position of political actors in order to develop strategies to change the political feasibility of desired reforms. An example is given by Sparkes et al. (53).

In sum, anyone seeking to conduct budget advocacy in relation to UHC should bear in mind that public budgets are more than technical tools for implementing public policy. Public budgets are embedded in a context in which different groups of people have interests and can be affected in different ways by how budgets are designed and the priorities they reflect. Budget advocates in general and health budget advocates in particular are part of this complex political ecosystem, as are their budget advocacy demands and objectives.

¹ WHO has therefore published several guides, working papers and other materials to strengthen the capacity of countries to develop a strong health financing strategy.