The power of money: global financial markets, national politics, and social determinants of health

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In press: in O. D. Williams & A. Kay (eds.), ***The Crisis of Global Health Governance: Political Economy, Ideas and Institutions*** **(Houndmills: Palgrave Macmillan).**

Acknowledgements

Portions of the argument in this chapter were previously presented at the annual meeting of the International Studies Association (Chicago, March 2008) and at the World History Network Conference on Andre Gunder Frank's Legacy of Critical Social Science (University of Pittsburgh, April 2008). Some of the research for this chapter was conducted for the Globalization Knowledge Network of the World Health Organization's Commission on Social Determinants of Health, with financial support from the International Affairs Directorate of Health Canada (Canada's national ministry of health). However, all views expressed here that are not clearly attributed to cited authors are exclusively my own and not those of Health Canada, the members of the Globalization Knowledge Network, the Commission on Social Determinants of Health, or the World Health Organization.

1. Introduction

In the second half of 2008, two events occurred that are, individually and together, highly significant for the future of global health. First, in August 2008 the World Health Organization's Commission on Social Determinants of Health (CSDH) released its final report (Commission on Social Determinants of Health, 2008; for a brief summary, see Marmot & Friel, 2008; Marmot, Friel, Bell, Houweling, & Taylor, 2008). The 19-member Commission, established in 2005, began its extraordinary report with the observation that: "Social injustice is killing people on a grand scale." The concepts of health equity and socioeconomic gradients in health were central to the Commission's unequivocally normative analysis. Health equity was defined with reference to the absence of systematic differences in health that are avoidable by reasonable action … and the Commission considered *most* such differences to be avoidable and therefore inequitable (Commission on Social Determinants of Health, 2007, p. 1). Socioeconomic gradients in health are disparities in health outcomes related to various indicators of social (dis)advantage; such gradients are ubiquitous, not only between countries but also within them. The Commission's perspective on such gradients is worth quoting at length:

> The poor health of the poor, the social gradient in health within countries, and the marked health inequities between countries are caused by the unequal distribution of power, income, goods, and services, globally and nationally, the consequent unfairness in the immediate, visible circumstances of people's lives – their access to health care, schools, and education, their conditions of work and leisure, their homes, communities, towns, or cities – and their chances of leading a flourishing life. This unequal distribution of health-damaging experiences is not in any sense a 'natural' phenomenon but is the result of a toxic combination of poor social policies and programmes, unfair economic arrangements, and bad politics (Commission on Social Determinants of Health, 2008, p. 1)

Importantly, the report further recognized that "[i]mplementation of the Commission's recommendations is critically dependent upon changes in the functioning of the global economy" (p. 76, and see generally chapters 3, 11 and 15).

Second, in September 2008 a financial crisis precipitated by the collapse of the US sub-prime mortgage market, which began in 2007, spread rapidly around the world. Stock markets plunged, high-income economies and those of many developing countries were plunged into recession, and governments pledged literally trillions of dollars in direct subsidies and credit guarantees to rescue collapsing financial institutions, including some of the largest in the world. One immediate outcome was to bring home to people in high-income countries what many elsewhere in the world had known from bitter experience for at least a generation: their lives could be transformed and their livelihoods wiped out by events in financial markets over which they had absolutely no control, and whose workings they did not understand.

In an October 2008 speech at the UN General Assembly (Chan, 2008), WHO Director-General Margaret Chan was forthright in linking the two *problématiques*. Noting that *The Economist*, in a generally laudatory review, had commented that the Commission "seems, at times, to be baying at the moon when it attacks global imbalances in the distribution of power and money," she asked in reply: "Let me ask you: how does this statement sound right now, with the global financial system on the verge of collapse? Is it not right for health and multiple other sectors to ask for some changes in the functioning of the global economy?"

It is too soon to assess the effects of CSDH's activities; my aims here are far more modest. "Financialization" has been identified as a dominant trend in the operation of many national economies, and especially the global economic system, over the past few decades (Epstein, 2005). Because of the consequences of the operations of today's financial markets for social determinants of health (SDH) – the conditions of life and work that make it easy for some people to lead long and healthy lives, but all but impossible for others -- I argue that those markets must be understood as forms of 'governance' in the context of global health, even

though they do not operate through institutional frameworks analogous to the World Trade Organization, and often do not require formal coordination. The crisis of 2008 suggested new vulnerabilities, potentially along with new opportunities for building domestic political alliances in support of "redistribution, regulation and rights" as constraints on the operation of the market.[1] At the same time, both the earlier experience of developing countries with the caprices of financial markets and the crisis of 2008 suggest that policy outcomes must be understood in terms of the interplay of global flows of finance with domestic political allegiances that are themselves reflective of globalization.

2. The disciplinary role of financial markets: Disinvestment and crises

A simple comparison suffices to indicate the extent of financialization worldwide. While the total value of foreign direct investment flows (to build new production facilities or acquire existing assets) in 2007 was $1.8 trillion (United Nations Conference, 2008), the *daily* value of foreign exchange transactions on the world's financial markets – a useful indication of the volume of global financial flows -- was estimated in 2007 at over $3.4 trillion (Bank for

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[1] The "three Rs" rubric was proposed in a paper by the Finnish social policy research Unit STAKES on social policy developments since the United Nations' 1995 Social Summit in Copenhagen (Deacon, Ilva, Koivusalo, Ollila, & Stubbs, 2005). It was adopted as a generic organizing principle for policy responses to globalization by one of the nine Knowledge Networks that supported the work of the Commission on Social Determinants of Health (Labonté et al., 2007).

International Settlements, 2008, p. 88). What is noteworthy about this comparison is not only the vastly greater volume of portfolio investment, but also the speed with which financial assets can now be moved around the globe because of the interaction of advances in information processing and telecommunications technology. The global financial marketplace, however, did not 'just happen' as a serendipitous spinoff of the information revolution. It must be understood as arising as well from factors including decisions by some of the world's most powerful governments to deregulate (Helleiner, 1994; Girón & Correa, 1999), partly in order to gain a competitive advantage for their own financial services industries, and sustained insistence by the International Monetary Fund (IMF) that low- and middle-income countries reduce or remove controls on capital flows (Stiglitz, 2004).

As a result, investors have often been able to impose "implicit conditionalities" (Griffith-Jones & Stallings, 1995) on developing countries, the effects of which are similar to those of the more familiar, and more extensively researched, explicit conditionalities attached to loans from the IMF and the World Bank (see e.g. Cheru, 1999; Milward, 2000; Babb, 2005). As Sassen has pointed out, owners of mobile assets traded in financial markets "can now exercise the accountability functions associated with citizenship: they can vote governments' economic policies in or out, they can force governments to take certain measures and not others" (Sassen, 2003, p. 70; see generally Sassen, 1996).

The most dramatic sanction backing up such implicit conditionalities is the prospect of financial crises triggered by rapid short-term capital outflows. Notable examples of such crises occurred in Mexico in 1994-5, several south Asian countries in 1997-98, and Argentina in 2001-02 – in each case driving down the value of national currencies relative to the US dollar by 50 percent or more within a few months, and plunging millions of households into poverty and

economic insecurity. In the Mexican case, immediate erosion of Mexicans' purchasing power, apart from the wealthy and a minority of employees paid in US dollars (DePalma, 1995) , was compounded by wage reductions, restructuring of employment relations and public sector austerity measures needed to restore investor confidence (Dussel Peters, 2000; Cypher, 2001; Soederberg, 2004, p. 48-54). In the Asian financial crisis of 1997-98, Thailand's and Korea's currencies similarly lost about half their value, with even greater depreciation and more serious economic impacts in Indonesia (Martinez, 1998; Kittiprapas, Sanderatne, & Abeysekeera, 2006) Again, economic decline was disproportionately felt by the economically vulnerable, notably in the form of sharp declines in wages (World Bank, 2000, chapter 2) – an outcome all but guaranteed by the greater mobility of capital, relative to labour, in the contemporary world economy.[2] In Indonesia and Thailand, these effects were "exacerbated by the initial insistence of the IMF that governments return a fiscal surplus of 1 percent of GDP" (Hopkins, 2006, p. 354; see also Bullard, Bello, & Malhotra, 1998; Desai, 2003, p. 212-241). In Korea, IMF loans were associated with what has been called an effective takeover of the country's economy, involving drastic market-oriented restructuring that led to a short-term decline in growth, a quadrupling of unemployment and, arguably, a longer-term shift in income and bargaining power from labour to capital (Crotty & Lee, 2005a; Crotty & Lee, 2005b).

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[2] The World Bank's observation that the crisis "demonstrated the flexibility of labor markets in developing countries" because wages rather than employment declined (World Bank, 2000, p. xi) is somehow less than reassuring, especially since "the average [Indonesian] household [was] found to have increased total household labour hours by 25 hours per week in response to the crisis" ((McKenzie, 2004, p. 720).

Brazil provides an especially instructive case because of demonstrable effects on domestic social and economic policy. Investor concern about the stability of all developing country currencies in the wake of the south Asian crisis and subsequent Russian events early in 1998 led to a selloff of Brazilian assets that forced a currency devaluation even though connections between Brazil's economy, and the economic lives of most Brazilians, with events in south Asia or Russia were minimal (Gruben & Kiser, 1999; Goldfajn & Baig, 2000; Desai, 2003, p. 136-155). Subsequently, concern about the policies that might be adopted by the Workers' Party (PT), which appeared likely to win the 2002 election, led major US financial institutions to warn clients against investing in Brazil, with some recommending rapid disinvestment (Santiso, 1999). A Deputy Governor of the Central Bank of Brazil between 2000 and 2003 describes a remarkable correlation between the PT's lead in opinion polls and the risk premium demanded on Brazilian government bonds (Goldfajn, 2003). In order to assuage the concerns of foreign investors, in September 2002 all the presidential candidates agreed on the terms of an IMF lending package most of which would be disbursed after the election.

The noted development scholar Peter Evans describes the consequences as follows: "Having experienced a 40 percent fall in the value of Brazil's currency in the course of a few months," the last stage of a longer-term decline that drove the Real from a value of R1.32/US$1 in January 1999 to R3.46/US$1 in July 2002, that is to say shortly before the IMF announcement, the PT "chose to suffer low growth, high unemployment and flat levels of social expenditure rather than risk retribution from the global financial actors who constitute 'the markets'" (Evans, 2005, p. 196, citation omitted; see also Morais & Saad-Filho, 2005; Amann & Baer, 2006, p. 221-223; Paiva, 2006; Koelble & Lipuma, 2006, p. 623-625). Indeed, the Brazilian government not only kept interest rates high and inflation low but also ran an even

larger primary budget surplus (that is, a surplus before debt service obligations are taken into account) than demanded by the IMF.

As in the south Asian case, the role of the IMF in Brazil suggests that understanding the influence of financial markets and institutions on SDH is likely to be hampered by too-rigid taxonomic distinctions between explicit and implicit conditionalities; these are best viewed as complementary elements, sometimes sequential and at other times contemporaneous, of a substantively coherent apparatus of governance that reflects the interests and priorities of the owners of financial assets. Further, in the cases discussed as in other instances of rapid disinvestment, investors were behaving rationally given the 'macroeconomic fundamentals' of the countries in question, and the IMF was incorporating into its policy prescriptions the dogma of textbook macroeconomics and public finance. The resulting power shift, identified by Sassen, was succinctly described by Michel Camdessus, then managing director of the IMF, in the aftermath of the collapse of the Mexican peso in 1994-95:

> "Countries that successfully attract large capital inflows must also bear in mind that their continued access to international capital is far from automatic, and the conditions attached to that access are not guaranteed. The decisive factor here is market perceptions: whether the country's policies are deemed basically sound and its economic future, promising. The corollary is that shifts in the market's perception of these underlying fundamentals can be quite swift, brutal, and destabilizing" (Camdessus, 1995).

Camdessus' observation is notable for its author as much as for its content, which is now widely acknowledged.

Not all countries are equally exposed to such sanctions. When assessing the risks of investing in high-income economies, investors care mainly about inflation and the size of the

government deficit or surplus. For the so-called emerging market countries, which are regarded as less creditworthy, they pay attention as well to a much larger range of indicators (Mosley, 2003). One of the most accomplished investigators of how financial markets actually work therefore warns that "those societies most in need of egalitarian redistribution may have, in terms of external financial market pressures, the most difficulty achieving it" (Mosley, 2006, p. 90). As shown in section 4 of the chapter, foreign portfolio investors are not the only source of such pressures.

3. Financial crises and social determinants of health

First, however, it may be useful to explain what all of this has to do with health. Paluzzi and Farmer have succinctly summarized a point made at length in the CSDH final report, and by many other researchers (e.g. Yong Kim, Millen, Irwin, & Gershman, eds. 2000; Farmer, 2003), with their observation that "many of the most devastating problems that plague the daily lives of billions of people are problems that emerge from a single, fundamental source: the consequences of poverty and inequality" (Paluzzi & Farmer, 2005, p. 12). The extent of these problems can be gauged from the fact that according to the most recent World Bank estimates, in 2005 1.4 billion people were living in extreme poverty -- defined as an income of $1.25/day or less, adjusted for purchasing power parity, in 2005. Roughly half the world's people (3.1 billion) were living below a higher poverty line of $2.50/day (Chen & Ravallion, 2008). These figures reflect modest progress in reducing poverty over a period (1981-2005) during which the value of the world's economic product quadrupled (Schrecker, Labonté, & De Vogli, 2008), and do not take into

account either the effects of rapid food price increases in 2007 or those of the financial crisis of 2008.

Financial crises are likely to undermine health in the first instance by slowing or reversing economic growth, increasing poverty and economic insecurity both directly and indirectly. Griffith-Jones & Gottschalk (2004) estimate the GDP losses from financial crises in Argentina, Brazil, Indonesia, Korea, Malaysia, Mexico, Thailand and Turkey at $1.25 trillion over the period 1995-2002. As an example of the damage done to household income by wage reductions and unemployment, an Argentine study found that after the currency collapse "78% of households surveyed experienc[ed] real income declines in 2002 and 63% suffer[ed] a real income fall of 20% or more" (McKenzie, 2004, p. 721). Poverty in Mexico increased drastically as a result of the 1994-95 crisis (Cypher, 2001, p. 32). Comparing financial crises in 10 countries, van der Hoeven & Lübker (2005) showed that employment consistently recovers more slowly than GDP in the aftermath, prolonging the damage to household incomes and well being. Impacts of financial crises may be worsened by austerity measures, which as noted earlier reduce public expenditures on health care and social protection, and by contractionary economic policies. In countries with substantial external debt burdens, a further issue arises from the fact that the value of external debt obligations denominated in dollars or other hard currency climbs with any devaluation, potentially creating further pressures for domestic austerity (Koelble & Lipuma, 2006).

Despite recent interest in SDH, relatively little research has worked through these channels of influence to document the actual health outcomes of financial crises. In November, 1998 representatives from developing countries identified financial crises as an obstacle to domestic policies aimed at increasing vaccination coverage among children (World Health

Organization, 1998). A World Bank study identified increases in anemia among Mexican children and deteriorating indicators of maternal nutrition following financial crises in Indonesia, as well as reduced rates of school enrolment that might be damaging to longer-term economic opportunities (World Bank, 2001, p. 164-165). A review of social impacts of economic crises in Thailand, Indonesia, the Philippines, Malaysia and Vietnam, drawing on data sources beyond the usual official and quasi-official statistical indicators, identified a range of impacts on SDH including increases in crime, child prostitution and violence against women, although both data availability and the severity of reported impacts varied widely across countries (McGee & Scott, 2000). A Korean national survey found substantial increases in morbidity, and decreases in health service utilization, following the 1997 currency crisis (Kim et al., 2003). A more recent summary of research on the economic crisis of 1997-98 in Indonesia, Malaysia and Thailand (Hopkins, 2006) described a reversal of past health gains and a deterioration in such indicators as undernutrition, household spending on health care, and public spending on health. The deterioration appears to have been less severe and shorter lived in Malaysia, which explicitly rejected the neoliberal prescriptions of the IMF in favour of capital controls (see also Cornia, 2006).

Importantly, relying on evidence of short-term impacts on health and such variables as nutrition and school attendance is likely to lead to substantial underestimates of the long-term effects of financial crises, which may (e.g. in the case of childhood malnutrition or long-term damage to maternal health) be irreversible both within and across generations. Importantly as well, the Brazilian example and the SDH perspective indicate that the operations of global financial markets are relevant to developing countries not only because of the damage done by financial crises, but also because of the constraints they may impose on the ability of national

and sub-national governments to implement the redistributive policies that are so desperately needed if such countries are to meet the basic health-related needs of their citizens. At the same time, the analysis requires more texture, since the actions of foreign investors are not the only drivers of the dynamic that leads to immiserization by way of financial crises or their anticipation.

4. The disciplinary role of financial markets: Capital flight

'The markets' are an abstraction. Their verdict on a country's policies is simply the resource-weighted aggregation of choices made by asset owners and managers with broadly similar interests and motivations, including not only those in London, New York and Geneva but also an increasing number of rich households in many low- and middle-income countries. As long ago as 1990, the then-emerging private banking industry was described by *The Economist* as "essentially the business of taking deposits from rich individuals living in the third world" (Anon, 1990). Although most of the world's so-called high net worth individuals (those owning more than $1 million in financial assets) still live in Europe, North America and the Asia-Pacific region, the fastest growth in both the number of such individuals and the amounts of wealth they held in 2005 and 2006 occurred in Africa, the Middle East and Latin America (Capgemini & Merrill Lynch, 2005; Capgemini & Merrill Lynch, 2006; Capgemini & Merrill Lynch, 2007). Indeed, globalization has rendered analytical distinctions between 'international' and domestic investors, in terms of their interests and opportunities for portfolio choice, increasingly tenuous. John Williamson, who codified the so-called Washington Consensus on development policy, recently underscored this point by commenting that "levying heavier taxes on the rich so as to

increase social spending that benefits disproportionately the poor" is conceptually attractive in Latin America, but "it would not be practical to push this very far, because too many of the Latin rich have the option of placing too many of their assets in Miami" (Williamson, 2004). This is a sobering observation about a region with some of the world's greatest inequalities in income and wealth, where even modest redistributive policies would do more to reduce poverty reduction than many years of robust economic growth (Paes de Barros et al., 2002; de Ferranti, Perry, Ferreira, & Walton, 2004).

Williamson was describing capital flight: "mechanisms by which residents of a country seek to evade domestic social control over their assets by transferring them abroad" (Ndikumana & Boyce, 1998, p. 199; see also Beja, 2006, p. 265). The appropriate definition of capital flight is a matter of some debate; an alternative definition refers to "*illicit* disguised expatriation of money by those resident or taxable within the country of origin" (Murphy, Christensen, Kapoor, Spencer, & Pak, 2007, p. 16). This definition reflects the fact that a primary motivation for capital flight, although far from the only one, is tax avoidance or evasion.[3] Although such illicit

[3] The significance of this motivation is arguably reflected in the value of assets held in offshore in offshore financial centres (OFCs), perhaps the iconic institution of the global financial marketplace, which was estimated at $5-7 trillion in 2007 (Ramos, 2007) although for obvious reasons precision is elusive. In 2007, the most recent year for which figures are available at this writing, $740 billion worth of US securities, or 7.6 percent of the total value of all foreign holdings of US securities, were held by 'residents' of the tiny Cayman Islands, one of the more notorious OFCs. Despite problems with the attribution of ownership, this serves as an indication of the importance of at least one OFC (Department of the Treasury, Federal Reserve Bank of New York, & Board of Governors of the Federal Reserve System, 2008, p. 10).

transactions[4] are an important component of capital flight, and explain much of the difficulty in estimation, this definition is too restrictive (*cf*. Loungani & Mauro, 2001, p. 690): it would capture the dynamic identified by Williamson only if the transfers of assets to which he refers were illegal, and ultimately distracts attention from the problem of economic policy competition among jurisdictions in order to avoid perfectly legal relocation of hypermobile assets by their owners.

The magnitude of capital flight and the problems it poses for social and economic policy are relevant to discussions of the SDH for several reasons. As Williamson's comments suggest, anticipation of capital flight may constrain redistributive policies and, in particular, limit opportunities for progressive taxation. Capital flight deprives countries of financial resources that may be desperately needed for investment in their own economic development, often a necessary -- although not a sufficient -- condition for widely shared improvements in living standards. Perhaps most pernicious is the relation between capital flight and the debt crises that began for many developing countries late in the 1970s, and often continue to plague them today despite belated and partial multilateral debt cancellation (Hurley, 2007). In 1987, in what remains one of the most thoughtful discussions of how global financial markets figure in the larger transformation of the world's economic system,[5] economic historian Thomas Naylor concluded that: "There would be no 'debt crisis' without large-scale capital flight" (Naylor, 1987, p. 370). In the same year Rodriguez (1987), writing with specific reference to several Latin American countries, elaborated on the regressive distributional effects of capital flight

[4] Carried out for instance by manipulating transfer prices of exports and imports: see e.g. Zdanowicz, Pak, & Sullivan, 1999; de Boyrie, Pak, & Zdanowicz, 2004; Pak, 2006.

[5] A more recent treatment of some of these themes is provided by Palan, 2003.

occurring simultaneously with foreign borrowing that, in effect, socializes the accumulation of offshore assets by private firms and individuals, who are the only actors with that option. As Weeks subsequently noted: "The passive acceptance of debt service by most Latin American governments requires a class analysis to be explained: the upper classes incurred the debt, while for the most part the lower classes paid it off" (Weeks, 1995, p. 126).

Debt-financed accumulation of wealth by elites, for which mechanisms to facilitate capital flight are a prerequisite, is a long-standing problem. For example at the end of 2001, while Argentina was undergoing an economic collapse that saw the peso lose more than 60 percent of its value against the US dollar and GDP decline by 11 percent in 2002, it was estimated that the value of assets held abroad by Argentine residents equaled the total value of the country's foreign debt (Centro de Estudios Legales y Sociales, 2003). Subsequently, *The Economist* (Anon, 2005) suggested that this would be true even after taking into account the effects of a settlement negotiated between the Argentine government and its creditors on terms relatively favourable to Argentina. The problem has also been identified in sub-Saharan Africa (SSA), a region that includes many of the world's poorest countries: Ndikumana & Boyce (2003) calculated that between 1970 and 1996, "roughly 80 cents on every dollar that flowed into the region from foreign loans flowed back out as capital flight *in the same year*" (p. 122, emphasis added). Capital flight thus contributed to Africa's status in the late 1990s as the region of the developing world whose residents held the highest proportion of their private wealth outside the region (Collier, Hoeffler, & Pattillo, 2001). More recent calculations (Boyce & Ndikumana, 2008) put the value of capital flight from 40 SSA countries between 1970 and 2004, including imputed interest earnings, at $607 billion – a figure that is roughly *three times* the value of those countries' external debt obligations. Using similar methods, Beja (2006) estimated the

accumulated value of flight capital from Indonesia, Malaysia, the Philippines and Thailand over the period 1970-2000 at $1 trillion; the flight in question occurred not only during periods of financial crisis, as might have been expected, but also during periods of economic growth and stability. And Loungani & Mauro (2001) estimated the value of capital flight from Russia post-1994 at $15-20 billion per year, or approximately $100-$150 per capita. This figure is nothing short of astonishing when compared with Russia's GDP/capita of $1770 in 2000, and although the hypothetical may be implausible one nevertheless wonders how much less painful and health-destructive the Russian experience of the last 15 years (Field, Kotz, & Bukhman, 2000; Shkolnikov et al., 2004) might have been if the country's newly minted multimillionaires had somehow been prevented from shifting their wealth abroad during the 1990s.

This discussion leads to several tentative conclusions. From the practical perspective of development policy, generic measures to curb capital flight, which have themselves proved elusive, may need to be complemented by specific accountability mechanisms attached to debt cancellation and development assistance if they are to be effective in meeting basic health-related needs -- assuming, for the sake of argument, that this is in fact the objective sought by donors. Otherwise, the fungibility of finance may mean that resources in question simply continue to be appropriated by elites for their own enrichment. From the analytical perspective of political economy, similarities between the opportunity structures and actions of foreign and domestic investors underscore the extent to which financial capital has become stateless, at least in the sense that the citizenship or country of residence of its owners is a poor predictor both of portfolio choices and of political allegiances. The immediate operational significance of this observation is that although it is analytically convenient to discuss capital flight as a distinct phenomenon, the policy impacts of capital flight are all but indistinguishable from those of

"disengagement" by foreign investors – a point that was succinctly acknowledged by Ernesto Zedillo in 1987, before he moved on from the Bank of Mexico to a higher-profile job (Zedillo, 1987, p. 178).

5. Globalization, domestic politics and SDH

Further complicating the picture, one cannot presume that conditionalities dictated by financial markets or multilateral institutions represent the most serious constraint on domestic policy choices. Even leaving aside the cases of governments that are frankly predatory in their quest to enrich leading political figures and their allies,[6] such choices must be understood in terms of a complex interplay between domestic class structures and allegiances (including, for instance, the alliances or shared interests of 'domestic' and international investors) and such external constraints, always mediated by domestic political institutions. Domestic class structures and possibilities for political action are in turn influenced by multiple elements of globalization, perhaps most conspicuously the worldwide reorganization of production across multiple national borders in what the World Bank has called an "open production environment" that "mercilessly

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[6] In recent experience such cases conspicuously include resource-rich African countries such as Nigeria, Angola and the Democratic Republic of the Congo (formerly Zaire). Predatory rulers are aided by financial institutions that facilitate capital flight (Ndikumana & Boyce, 1998; Jerome, 2005; Boyce & Ndikumana, 2008) and provide abundant opportunities to conceal the true ownership of assets, and by an international community that rarely questions a "borrowing privilege" that permits even the most corrupt and repressive rulers to incur debts that their subjects will be called upon to repay (Pogge, 2002).

weeds out those centers with below-par macroeconomic environments, services, and labor-market flexibility" (World Bank, 1999, p. 50). Against this background, postwar compromises between capital and labour in many high-income countries are crumbling and may be difficult to replicate elsewhere in the world, because the class tensions that such compromises historically addressed need no longer be resolved within national borders. Rather, they now play out against a background of the dramatic increase in labour supply associated with integration of much of the population of India, China and the transition economies into the global labour force (Bronfenbrenner & Luce, 2004; Woodall, 2006; Freeman, 2007) and implicit or explicit threats of disinvestment, capital flight and relocation of production to lower-cost jurisdictions.

A further dynamic, the importance of which has almost certainly been underestimated, is the effect on political allegiances of increases in economic inequality within national economies, driven by the divergent labour market prospects of the more and less 'skilled' (see e.g. Reich, 1991; Nickell & Bell, 1995; World Bank, 2007, p. 67-100). This has interrelated material and cognitive dimensions. The former are exemplified by the expansion of a 'middle class' in many low- and middle-income countries, which may or may not share economic interests with the less fortunate segments of the population that still constitute a majority. The latter are suggested by the observation of veteran Belgian politician Frank Vandenbroucke that "[t]o the extent that skill has become more important as an explanatory factor of quite visible wage inequalities, such inequalities come to have a more 'biographical' character: they seem to be more related to personal history and qualifications than to class as traditionally understood" (Vandenbroucke, 1998, p. 47).

Detailed exploration of these issues requires country-specific analyses that cannot be undertaken here. Their importance for understanding policies that affect SDH can be illustrated

by way of a stylized, necessarily superficial discussion of recent social policy initiatives and their limitations in Brazil, Chile and Mexico. To some extent, the case example is opportunistically chosen based on the availability of recent research. However, it is also useful to note that both Brazil and Mexico experienced recent financial crises, preceded by long periods of structural adjustment. Chile experienced an earlier and more violent variant of market-oriented social restructuring in the aftermath of the 1973 military coup; the importance of this 'softening-up' for Chile's subsequent trajectory is often ignored by contemporary authors. In each case, external influences contributed to the appeal of neoliberal policies to domestic constituencies as the only ones that 'worked'.[7]

Recent social policy innovation has emphasized conditional cash transfers, or CCTs: programs of small, means-tested cash transfers to the desperately poor (Mexico's Oportunidades, Brazil's Bolsa Família, and Chile Solidario) that are tied to performance on such measures as ensuring school attendance, health checkups for children, or keeping children out of child labour. Among the advantages claimed for such programs is that, unlike many more conventional social protection mechanisms, they ensure that scarce resources will benefit those most in need and give priority to children (e.g. rather than the elderly, as in the case of pensions). Latin American CCTs have led to short-term improvements in health indicators (Gertler, 2004; Lagarde, Haines, & Palmer, 2007) and modest reductions in poverty and economic inequality (Soares, Guerreiro Osório, & Costa, 2007), albeit from historically high levels (in most countries in the region) that were exacerbated by two decades of economic integration. However, some researchers warn that their longer term impact is likely to be limited in the absence of policy attention to such basic

[7] See Fourcade-Gourinchas & Babb, 2002 for a discussion of neoliberalism in Mexico and Chile that is insightful in many respects, but pays insufficient attention to such influences.

determinants of livelihood as employment opportunities (Parrado, 2005; Hall, 2006; Molyneux, 2007; Teichman, 2008), lest young people's opportunities continue to be limited "to the lower rungs of the metropolitan labour markets" (Molyneux, 2007, p. 73). Ideologically, CCTs' emphasis on targeting the 'poorest of the poor' to enhance their children's human capital (Molyneux, 2006; Hall, 2006) is thoroughly congruent with an individualistic, market-oriented policy vision that expects even the poorest to earn their way out of poverty, however unrealistic that may be given globalization's effects on labour markets. A further, related presumption is that poor households require incentives to avoid a "culture of dependency"[8] and need "supervision" if they are to behave appropriately,[9] thereby assigning primary responsibility for poverty to the poor – a core theme of neoliberal discourse in poor societies and rich alike[10] – rather than to structurally entrenched inequalities and the power relations that sustain them.

In an analysis that is exemplary in its attention to the interplay of external and domestic constraints, Teichman, (2008) situates Mexican and Chilean CCTs in a political context that includes not only the prospect of capital flight but also labour movements that have been seriously weakened by globalization (*cf.* Hershberg, 2007), and in Mexico the ongoing costs of a huge publicly financed bailout of politically well connected bankers during the 1995 financial crisis. She observes that "resisters to a new redistributive settlement may include not just the business community, but also upper and middle-income groups … along with technocratic allies

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[8] In the words of a laudatory article in *The Economist* (Anon, 2008).

[9] In the words of an unpublished Brazilian evaluation cited by Hall (2006, p. 25).

[10] *Cf.* the title of the 1996 legislation that dismantled income support under the Aid to Families for Dependent Children program in the United States: the *Personal Responsibility* and *Work Opportunity* Reconciliation Act (emphases added).

within the state" (p. 447) whose links with the World Bank and the Inter-American Development Bank were forged during the era of structural adjustment (Teichman, 2007). At best, Teichman concludes, CCTs "are able to garner a very grudging societal consensus" that falls far short of support for "sufficiently redistributive policy outcomes" (Teichman, 2008, p. 456).

A broadly similar analysis would appear applicable to Brazil, where the 2002 concession to IMF standards of macroeconomic management has been identified as crucial to the ability of the PT's presidential candidate, Luiz Inácio (Lula) da Silva, to appeal successfully to a diverse electoral coalition that included some highly privileged elements of Brazilian society (Morais & Saad-Filho, 2005). Lula's reelection in 2006, in which he was able to consolidate his appeal to some of the poorest Brazilians – a success that was not reflected in the PT's legislative standings – has been attributed in part to the benefits conferred on these marginalized constituencies by Bolsa Família (Hunter & Power, 2007). However, reflecting the precariousness of support for progressive social policies in Brazil, in December 2007 the country's Senate voted against renewing the tax on financial transactions that provided a substantial part of the funding for Bolsa Família. At the time it was envisioned that this loss might be offset at least temporarily by the solid revenue situation of the Brazilian government as a result of strong economic growth (Alvares de Azevedo e Almeida, 2008), but the economic events of 2008 called that prospect into question.

The point here, to recapitulate, is that external pressures from financial markets cannot be assumed to constitute the limiting constraint on contemporary economic social policy even under definitions of formal democracy; this question can only be answered on a case-specific basis. However, it is important to focus attention not only on contemporary class structures and

political allegiances, but also on their historical underpinnings; and there, we may find that pressure from financial markets has been very important indeed.

6. Concluding thoughts: What did September, 2008 change?

The financial crisis that burst into the open in 2008 showed that any serious discussion of social determinants of health must include reference to the operations of financial markets, and confirmed the wisdom of earlier observations that identified financial stability, in particular avoidance of financial crises, as one of a limited number of genuinely global public goods (GPGs), and one that is seriously undersupplied by existing institutions (Griffith-Jones, 2003). Innovative mechanisms to increase the supply of this public good had been proposed (see e.g. Eichengreen, 2004); some appeared relatively simple conceptually although requiring high levels of coordination and shared objectives among multiple national governments.

In some respects, the crisis resembled episodes like those discussed earlier in the chapter in its demonstration of global interconnectedness, and of the destructive effects that events originating in the financial system can have on the livelihoods of those who are far removed, in both geographical and economic terms. However, in contrast to those episodes, at least in its earlier stages the crisis did not appear to reflect rational choices by investors about the risks associated with a particular national economic environment or policy direction. Instead, it resulted from a disregard of financial risk by investors and regulators in one country (the United States) that has to be regarded as at least partly irrational, in conjunction with a longer-term

tendency to relax regulation of the domestic financial services industry[11] and to neglect enforcement even of those regulations and quasi-official standards that remained in place. The collapses at the start of the decade of firms like Enron and WorldCom, as a result of accounting practices that were unquestionably fraudulent, were an earlier result of the domestic deregulatory impulse.[12] US firms and regulatory institutions were not of course the only culprits, but it is fair to say that financial deregulation in the United States was a necessary cause of the events of 2008. Stated another way, the crisis is best understood with reference to the absence of any institutions of governance capable of preventing the United States from wrecking a substantial portion of its own financial system, with massive negative externalities that quickly spread within its own economy and around the world, revealing what the Bank of England with masterful understatement referred to as "underappreciated, but potent, interconnections between firms in the global financial system" (Bank of England, 2008, p. 9).

For many developing economies, the combination of declining demand for exports with the prospect of disinvestment and capital flight may lead to the undoing of recent, modest gains in reducing poverty and economic insecurity followed by a lost decade of development progress. As in previous periods of economic adjustment in response to externally generated adversities, negative health effects could be compounded by domestic austerity measures; it is not clear that

[11] On the relation between deregulation and the spread of securitization, which was a key contributor to the increased vulnerability of financial institutions, see Soederberg, 2004, p. 98-100; United Nations Conference, 2009, p. 8-11. For a more general commentary on the role of US deregulation, see Kapadia & Jayadev, 2008.

[12] For a useful summary of these developments and a critique of subsequent legislative responses, see Skeel, 2005.

development assistance providers will be willing and able to compensate for such measures, given pressures to prioritize economic recovery within their own borders, or to address urgent contemporaneous health-related issues such as a food production crisis that arguably results from long-term underinvestment in developing country agriculture (United Nations Conference, 2009, p. 26-27). By November 2008, on a conservative estimate high-income countries had committed at least $5 trillion in cash and credit guarantees to bail out collapsing firms and provide economic stimuli in the hope of offsetting the effects of the crisis (Gee, 2008).[13] Unless the resumption of growth is rapid and robust, it is possible that few of these costs will be recovered through tax revenues, raising the prospect of public sector budget constraints that persist long after the immediate crisis because of accumulated debt burdens. National governments in high-income countries could increase the possibility of recovering costs using a range of strategies, such as demanding preferred shares that can be converted to equity as the price of rescues. They could in theory insist on accountability of rescued firms in terms of social objectives, or at the very least demonstrable contributions to economic recovery, as well as financial viability. At this writing, it is not clear that they will attempt to do so; indeed, it is not clear that they have the necessary bargaining power given the consequences (for instance) of financial system collapse of a kind that was at least temporarily averted in September, 2008. As noted in *Le Monde Diplomatique*, the power relations that led to the financial commitments made then were essentially those of a hostage taking, with the livelihoods of millions hanging in the balance

[13] As the United States' contribution, this estimate included only the $700 billion value of the Troubled Asset Relief Program approved by Congress. This was only a small part of the total value of subsidies and credit guarantees provided by the US government, estimated for Bloomberg News later in November at $7.7 trillion (Pittman & Ivry, 2008).

(Lordon, 2008). A further question involves the extent to which governments are limited not by the bargaining power of firms seeking rescue, but rather by a legacy of received neoliberal economic policy wisdom that is implacably hostile to direct public ownership, on the grounds of its purported inefficiency and market-distorting effects.

In the international frame of reference, the crisis has lent urgency to arguments not only for reform of financial regulation (see e.g. D'Arista & Griffith-Jones, 2008), but also for broader efforts “to create a truly inclusive system of global economic governance” (United Nations Conference, 2009, p. 32). It remains to be seen how seriously such arguments will be taken, although the body of knowledge about SDH can be a compelling source of evidentiary support. Powerful nations like the United States, responding to fierce resistance from their own financial services industries, will probably be reluctant to relinquish enough control over their policies to enable meaningful international financial regulation possible, however strong the intellectual case for doing so. More fundamentally, it remains to be seen whether serious potential exists for going beyond calls for coordinated macroeconomic management, which requires few challenges to the values of the marketplace, to the more fundamental reform of reorienting the priorities of economic management itself around what the chair of CSDH has called “a vision of the world where people matter and social justice is paramount” (Marmot, 2005, p. 1099). The events of 2008 underscored the importance of that vision for a world in which all have the opportunity to lead long and healthy lives. If such a vision is to be realized, where will the necessary leadership come from?

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