

The Global Financial Crisis and Health: Scaling Up Our Effort

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ABSTRACT

Economic events of the past year are beginning to create hardships for tens of thousands of Canadians. There are likely to be health effects as well, to the extent that unemployment and poverty rates rise. Conditions, however, will be much worse for those living in poorer countries. High-income countries are committing trillions of dollars in countercyclical spending and banking bail-outs. Poorer countries need to do the same, but lack the resources to do so. Yet foreign aid and fairer trade are widely expected to be among the first high-income country victims of the recession fallout as nations turn inwards and protectionist. This is neither good for global health nor necessary given the scale of untaxed (or unfairly taxed) wealth that could be harnessed for a truly global rescue package. Policy choices confront us. The Canadian public health community must hold our political leadership accountable for making those choices that will improve health globally and not further imperil the well-being of much of the world's population in efforts to secure our own future economic revival.

Key words: Economic conditions; development; international cooperation; world health

La traduction du résumé se trouve à la fin de l'article.

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The global financial crisis is cutting a swathe of economic destruction across Canada and its largest trading partner, the United States. Its short-term economic impacts are unequivocally harsh, especially for those families that find themselves without work. The negative health effects of long-term unemployment and poverty are well documented and will likely worsen as rates rise in these two key health determinants. Evidence from countries undergoing recessions in earlier decades, however, suggests that average health could continue to improve,¹ largely due to declining consumption of alcohol and tobacco,² even as it worsens for groups living closer to the poverty line.^{3,4} Key to weathering recessions without worsening health or increasing health inequities is strengthened social protection measures, such as active labour market programs, improved unemployment benefits and more generous social welfare transfers.

Most of the world's population, however, lack the resources being spent by wealthier nations to shore up their social protection programs, bail out their failing banks and jump-start their domestic economies through new public investments. Moreover, it is widely assumed that the health impacts of the crisis, through increases in poverty and decreases in growth, will be felt first and worst by the poor in low- and middle-income countries least responsible for the crisis and the ensuing recession. A February 2009 World Bank policy note estimates that over 40% of developing countries are at high risk for rising poverty.⁵ Scores of these countries lack both the fiscal space and the institutional capacity to engage in the countercyclical spending now being aggressively pursued by high-income countries. As a result, the numbers living in extreme poverty (below the adjusted \$1.25/day level of consumption) are estimated to rise between 50 million⁶ and 200 million⁷ in 2009, adding to the more than 200 million who fell below that level in 2008 by (often speculative) rises in food prices.⁸ More graphically, the number of children needlessly dying in 2009 could jump by 400,000.⁶ The World Bank, echoing the concerns of the World Health Organization and global civil society organizations world-

wide, is calling on rich nations to increase their level of support to poorer ones.^{5,6}

Fair share

The sharp reduction in imports by western countries will bear heavily on large exporting countries such as China, India and other Southeast Asian nations. This is a worry in terms of regional stability and, by dint of the size of these nations, global security. But for many of the world's poorer countries in Africa and Asia, earnings from exports to western country consumers, while important, are comparatively small. Aid transfers remain for these countries a sizeable portion of their economy and a large part of their public financing – the very vehicle of their (now) much needed countercyclical spending. However, it is increasingly expected that development assistance levels will stagnate and decline as donor countries spend more to pull their own populace out of the recession's fallout.

Even as many donor countries are re-affirming their earlier aid pledges, there is doubt that they will follow through. The G8 countries, excepting the UK and the US but including Canada, are 'off-track' or 'dangerously off-track' in meeting the timetable of their 2005 Gleneagles Summit commitments.⁹ Halfway to the target date, the G8 as a group has delivered only 14% of its Gleneagles' aid increases. Italy, while claiming it is still committed to reaching the 0.7% GNI (gross national income) aid target by 2015, is reducing its aid levels next year. Canada has never committed to a timetable to reach the 0.7% target and saw its aid for health decline in 2006 (from 2005 levels) by 10%.¹⁰

Even if aid commitments are honoured, the recession-induced decline in the GNI of donor countries will mean fewer than antic-

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ipated actual funds, at a time when much larger infusions are needed. If more than \$5 trillion dollars can be committed to support the high-consumption economies and failed banking systems of donor nations (by one estimate over \$7 trillion committed by the US alone¹¹), there must be similarly ambitious commitments to assist those paying the highest price for the rich world's deregulated excesses. By one authoritative estimate, developing countries will need \$1 trillion over the near term to sustain and improve their social protection systems and to rebuild their own banking systems.¹² The G20 countries in April 2009 pledged to dramatically increase the lending capacity of the International Monetary Fund and, to a lesser degree, the multilateral development banks; only \$50 billion of this, however, is earmarked for the world's low-income countries.¹³

Fair taxation

Greater ambition is far from unaffordable. The same global financial architecture that created toxic assets and impenetrable derivatives has allowed the expansion of low-tax/no-tax offshore financial centres, variously estimated to hold between \$5¹⁴ and \$11.5 trillion⁴ in untaxed wealth. A nominal tax on 5% growth of this wealth would raise as much as \$160 billion a year. The persistence of such centres, and the capital flight they encourage, cost developing countries between \$40 and \$50 billion in lost tax revenues annually.⁴ The April 2009 G20 meeting did announce an intent to act on this longstanding problem, citing a number of steps that, if implemented, could reduce foregone tax revenues for high-, middle- and low-income countries alike.^{13,15}

A currency transaction tax (CTT) is another financing option. Long a source of civil society advocacy and occasional inter-governmental conversation, a CTT would levy a small tax on all exchanges from one currency to another. This could raise between \$33 and \$60 billion annually at a rate low enough to have no dampening effect on normal market transactions;¹⁶ although some would argue that such a tax *should* have a dampening effect, to prevent the wild speculations that led to a spate of 'hot money' financial crises in the 1990s.⁴ A CTT could finance global aid transfers, building on the UNITAID model under which a small levy on airline tickets of member countries to the agreement (Canada is not one) goes to the purchase of essential medicines for low-income countries. If we accept that economies have become inherently global, thereby allowing a high-income country financial crisis to topple the health capacities of many low-income nations, the mitigating, countercyclical policies in such poor and affected nations should be financed through similarly global taxation schemes. Momentum for a CTT is building among the 'Leading Group on Solidarity Levies to Fund Development,' which now boasts over 50 member nations. Canada is not one of them.

Fair trade

Finally, there is the matter of trade and tariffs. A large number of low-income countries still rely on tariffs for 20-40% of their overall general revenue. They remain under pressure, either from loan conditionalities from the World Bank or IMF or from trade treaty negotiations, to lock in and progressively lower such tariffs. The economic theory is that the growth resulting from increased liberalization would allow a broader base of taxable sources to replace,

if not expand, the lost tariffs revenue. Empirically, however, this has not been the case for most low-income and many middle-income countries whose tariffs were reduced consequent to structural adjustment programs.⁴ That is one reason why the WHO Commission on Social Determinants of Health recommended that no such reductions be demanded in loan or trade treaty negotiations unless and until low- and middle-income countries have developed institutionally adequate and transparent systems of public revenue generation. Otherwise the gains for high-income countries arising from easier access into low-income country markets would almost certainly be paid for by reduced health and welfare access by the poorest citizens of those countries.

Going forward

The United Nations will hold a meeting in the near future to determine what should be done to avoid the financial crisis from rolling back what progress has been made towards the Millennium Development Goals. One key message the global health community through their respective governments should ensure is that this is the time to increase aid transfers, not decrease or merely hold to past promises; and that such transfers must be longer-term in commitment. A second key message is that all forms of tax evasion (and legal but ethically questionable tax avoidance) should be ended by changing banking rules that prevent the escape of wealth into opaque financial centres, wherever they may be. This is technically feasible, if the political will is there; as is a third key message concerning the imposition of a CTT. The mechanisms for a fair disbursement of its earnings may require considerable multilateral debate, but the collection of this tax does not have to wait until wrangling over how it will be spent is resolved. Another key message is that, in the name of policy coherence, wealthier nations' aid and Millennium Development Goal pledges should not be undone by their trade demands. Developing economies should be allowed much greater trade treaty flexibilities, particularly in tariffs reductions, at least until their domestic revenue sources allow for sustainable financing of their public health, education and social protection systems.

Finally, for those of us concerned with health equity, merely fixing a broken banking system to return to an economic model based on environmentally unsustainable levels of consumption by the wealthy for some to trickle down to the poor is ethically unacceptable.^{3,4} We can do better. We must do better.

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RÉSUMÉ

Des dizaines de milliers de Canadiens commencent à éprouver des difficultés causées par les événements économiques de la dernière année. Cette situation aura sans doute également des effets sur leur santé, dans la mesure où les taux de chômage et de pauvreté augmenteront. Les conditions seront cependant encore pires pour ceux qui vivent dans les pays plus pauvres. Les pays dont les citoyens ont un revenu plus élevé engagent des milliards de dollars en dépenses compensatoires et en renflouement bancaire. Les pays plus pauvres doivent faire de même, mais ils ne possèdent pas les ressources nécessaires. Cependant, l'aide étrangère et le commerce plus équitable devraient être les secteurs les plus durement touchés par la récession dans les pays à revenu élevé, car les nations mettent d'abord l'accent sur les solutions nationales et le protectionnisme. Cette approche est défavorable pour la santé mondiale et est largement superflue, compte tenu de l'ampleur de la richesse détaxée (ou taxée de façon inéquitable) qui pourrait être regroupée pour produire des mesures de sauvetage véritablement mondiales. La communauté canadienne de santé publique doit veiller à ce que notre leadership politique agisse de façon responsable en faisant les choix qui amélioreront la santé à l'échelle mondiale et qui n'empireront pas davantage le mieux-être de la majorité de la population de la planète, dans leurs efforts d'assurer notre propre éventuelle reprise économique.

Mots clés : conditions économiques; développement; coopération internationale; santé mondiale



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