

5 Globalization and Policy Space for Health and Social Determinants of Health

*Meri Koivusalo, Ted Schrecker,
and Ronald Labonté*

INTRODUCTION

Policy space can be defined in different ways depending on context. In this chapter we focus on policy space defined as the freedom, scope, and mechanisms that governments have to choose, design, and implement public policies to fulfill their aims. Our concern is with how globalization and the processes that comprise it are influencing the availability of such space.

Globalization-related restrictions on policy space are not necessarily inimical to improvements in health equity. Agreements entered into by governments, such as human rights treaties, core standards in labor conventions, and environmental protocols can all contribute to improvements in social determinants of health (SDH). Prevention of conflicts and maintenance of peace can have a profound influence on health and SDH and, again, may require restricting a nation's ability to act unilaterally (e.g., in the case of United Nations [UN]-sanctioned peace-keeping efforts). At the same time, the policy space that is available for protecting or improving health and SDH may not be used by governments for a variety of reasons that may be unrelated to globalization per se. For example, even without external pressure governments may make choices in macroeconomic policy, trade, agriculture, or other sectors that restrict policy space for protecting and enhancing health and SDH. Policy space for health thus differs from national policy space as governments may choose, for example, to favor their industrial or agricultural priorities in trade negotiations rather than health and SDH. While the preceding points are important in understanding policy space more generally, the particular focus of this chapter is on the constraining effects of globalization on policy space for health and its social determinants.

The structure of the chapter is as follows. We first elaborate on the importance of the concept of policy space for discussions of SDH. We then identify several respects in which the current structure of international trade policy and law generates constraints on the policy space that is available for protecting health and maintaining or enhancing equity in access to SDH.

Similar constraints arising from the operation of financial markets are next identified, followed by a discussion of a further dimension of the problem: the globalization of ideas about what is feasible or desirable in the realm of national or subnational social and macroeconomic policy. We conclude with a few necessarily generic recommendations for policy directions.

POLICY SPACE IN THE GLOBAL ENVIRONMENT: TERMINOLOGY AND CONTEXT

The concept of national policy space was used, although not precisely defined, in the São Paulo Consensus document that emerged from the 2004 United Nations Conference on Trade and Development (UNCTAD), which recognized that:

The increasing interdependence of national economies in a globalizing world and the emergence of rule-based regimes for international economic relations have meant that the space for national economic policy, i.e. the scope for domestic policies, especially in the areas of trade, investment and industrial development, is now often framed by international disciplines, commitments and global market considerations (2004, p. 8).

A subsequent UNCTAD report emphasized the contraction of national policy space related for development as a consequence of the growing number of trade treaties, noting that such agreements “could rule out the very policy measures that were instrumental in the development of today’s mature economies and late industrializers” (United Nations Conference on Trade and Development, 2006, p. xii).

A frequently stated concern is that World Trade Organization (WTO) disciplines either already in place or under negotiation will restrict the ability of developing country governments to utilize a range of policies that favor domestic producers and industries with the potential for rapid growth. This point is relevant to SDH because of the possibilities that rapid growth creates for poverty reduction and social provision in low-income countries, and because historical evidence shows that such policies, including (but not limited to) highly flexible intellectual property protection regimes, were routinely used by today’s high-income countries during their process of industrializing. For this reason, Chang describes the foreclosing of such options by today’s trade policy disciplines as “kicking away the ladder” and warns of the impact of ongoing WTO negotiations that could further limit developing countries’ remaining flexibilities (Chang, 2005).

In parallel with these developments, the term *fiscal policy space* has emerged in the first instance in the context of sound macroeconomic policies as defined by the International Monetary Fund (IMF). Heller describes

fiscal space in its broadest sense as “the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of government’s financial position” (2005, p. 3). When dramatic increases occurred in HIV/AIDS financing in the early 2000s, a briefing paper for the Overseas Development Institute warned about the potential conflict between the ability to receive such funds, given fiscal spending constraints imposed by the IMF (deRenzio, 2005). This issue has since been raised by a variety of other actors who argue that IMF public expenditures ceilings have reduced public spending on health and social sectors in several countries (e.g., Ooms & Schrecker, 2005; Wood, 2006). Although these criticisms were disputed by the World Bank and IMF (Sarbib & Heller, 2005), a March 2007 report by the IMF’s Independent Evaluation Office on IMF programs in 29 countries in sub-Saharan Africa found that evaluation of “aid absorptive capacity” focused on macroeconomic variables with “almost no attention to sectors such as education, health and infrastructure” (Independent Evaluation Office, 2007, p. 10)—in other words, confirming much of the external critiques.

GLOBALIZATION, POLICY SPACE, AND SOCIAL INEQUALITY

The debate on globalization and social inequalities is embedded within a longer and broader one concerning the impact of global economic and trade policies on poverty reduction (see, e.g., Birdsall, 2006a, 2006b). In the late 1990s, for example, it was claimed that trade liberalization is beneficial for poverty reduction based on the now well-known Dollar and Kraay studies (Dollar & Kraay, 2002). These studies, however, have been critiqued in terms of methods, data, choice of countries, and time-frame (Lubker, Smith, & Weeks, 2002; Nye, Reddy, & Watkins, 2002; Milanovic, 2003); some of these critiques were touched on in this book’s introductory chapter. More generally, even the proponents of trade liberalization, who argued that poverty would be reduced, conceded that economic inequality would increase.

Birdsall (2006b, p. 18) makes the point even more emphatically, stating that “A fundamental challenge posed by the increasing reach of global markets (globalization) is that global markets are inherently disequalizing, making rising inequality within developing countries more rather than less likely.” This disequalizing effect, according to Birdsall (2006b, p. 22), exists because:

1. Global markets reward more fully those countries and individuals with more of the most productive assets (call this, for simplicity, the market works).

2. In the global economy, negative externalities raise new costs for the vulnerable and compound the risks faced by the already weak and disadvantaged (call this, for simplicity, the market fails).
3. In the global economy, existing rules tend to benefit most those countries and individuals who already have economic power. It is natural that the richer and more powerful manage to influence the design and implementation of global rules—even those rules meant to constrain them—to their own advantage.

This advantage extends beyond “hard” legal and economic influences, such as trade treaties or conditionalities associated with loans or aid, to “softer” influences: what is assumed as possible in the context of globalization and the imperative of maintaining national competitiveness. Thus, as the 2005 report of the United Nations Department of Economic and Social Affairs concluded, the current international trade and financial system is exerting at least some constriction on policy space, in part because “decisions or actions required to advance social policies and social equality are usually perceived as unnecessary costs . . . in conflict with the preservation of a country’s international competitiveness,” a perception the report further noted as “mistaken” (p. 105).

THE ROLE OF TRADE POLICIES, TRADE AGREEMENTS, AND TRADE NEGOTIATIONS

National governments’ trade policies define the context in which trade negotiations take place and what rules different governments may seek to establish in trade agreements. Trade agreements, in turn, form a part of what has been called the “legalization” or “constitutionalization” of global governance in the economic sphere (Goldstein, Kahler, Keohane, & Slaughter, 2001; Coicaud & Heiskanen, 2001; Gill & Bakker, 2006, p. 36) and describe the trade, investment and intellectual property rights agreements that set these rules as institutional elements of a “new constitutionalism” that “seeks,” in the terminology used by the World Bank, to “lock in” the rights and freedoms of capital (or large property owners), and to extend and to secure those rights from political threats, such as nationalization of efforts to socialize control over property. They further point out that this new constitutionalism involves interrelated legal and political measures to minimize investor uncertainty across different jurisdictions and, more fundamentally, to expand the scope of operation of corporations and investors to new markets. The reference to trade agreements as part of the global governance’s new “constitutionalization” gains further support from the existence of the dispute-settlement process used to enforce trade rules under the WTO.¹

Although the only truly global trade treaty body, the WTO is only one part of a larger international trade regime. Bilateral and regional agreements,

often between industrialized and developing countries, are increasing in number and importance, particularly as they generally go beyond requirements within WTO agreements. This is notably the case with respect to intellectual property rights (Fink & Reichenmiller, 2005; Roffe & Spennemann, 2006; Krikorian & Szymkowiak, 2007; and see Chapter 11, this volume). By late 2004, approximately 230 regional trade agreements (RTAs) were in place, with trade between RTA partners making up nearly 40 per cent of total global trade in 2004 (World Bank, 2004, p. 27; see generally pp. 27–56). By the end of 2002 more than 2,200 bilateral investment agreements were also in place (Choudry, 2005). In a study of agreements between the United States and developing countries, Shadlen (2005b) contrasts the industrial policy flexibility that developing countries still retain as members of the WTO with much more restrictive provisions in such areas as investment and intellectual property found in such bilateral and regional agreements.

Several trade agreements contain text affirming a government's right to regulate for the purpose of achieving set aims. Such assurances, however, need to be set in the context of other WTO requirements that such regulations be otherwise consistent with the agreements, which limits the ways in which these aims can be met. Some agreements, such as the General Agreement on Trade in Services (GATS), give substantial initial leeway in how far and which sectors governments might wish to cover. Others, such as the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), provide some latitude for exceptions and flexibilities through mechanisms such as compulsory licensing. But in contrast to lowering tariffs, enhancing services trade and protecting intellectual property rights do extend much further into national policy space. The very purpose of trade agreements is to regulate government actions so as to liberalize trade and ensure protection of intellectual property rights. Thus, by necessity, government commitments made within the scope of trade agreements do restrict how they can regulate and subsidize markets, or limit market access of foreign goods or service providers.

Tariff reductions, a basic requirement of trade liberalization, can also have implications for national policy space (or more accurately, the capacity to use policy space). Tariffs remain an important source of public revenue for many low- and middle-income countries, as they once were for high-income countries in the early stages of their industrialization. Alternative revenue streams (e.g., via income or consumption taxes) have proved difficult to create and administer, with best available research finding that many middle-income countries, and especially low-income countries, have been unable to replace most or even all of the tariffs revenues lost from trade liberalization (Baunsgaard & Keen, 2005; see also Aizenman & Jinjarak, 2006). This revenue loss reduces the potential resources available for public spending on health, education, other forms of social protection, and SDH more generally.

Trade negotiations processes themselves can be important in maintaining or reducing national policy space, in three main aspects. First, when

negotiations take place as “single undertakings,”² health or social services that are not economically important enough to attract the attention of negotiators may become scheduled more extensively for liberalization than would have otherwise been intended. Second, negotiation practices involving so-called mini-Ministerials or other negotiating sessions restricted to participation by more powerful WTO member nations can affect trade treaty outcomes with negative health or development prospects for poorer countries (see, e.g., Jawara & Kwa, 2003).

Third, the use of specific negotiation mechanisms may lead countries to include sectors inadvertently or to make more and deeper commitments than had been anticipated or than they might otherwise have made based on a fuller understanding of the regulatory implications. Such mechanisms include negotiations carried out on the basis of existing legislation, and commitments that are horizontal (applying to all sectors) or made in blocks covering more than one sector. One example is the European Union (EU)-Mexico Free Trade Agreement, which covers government procurement (contracting and purchasing) and investment, neither of which are presently covered by WTO agreements. This agreement also commits the EU and Mexico to not enact legislation that would be more trade restrictive than what is presently in force in their services sectors, referred to as a “stand-still” horizontal commitment (European Union–Mexico Free Trade Agreement, 2001). Yet a country’s existing services legislation may be more open to foreign providers than what governments might want to bind within a trade agreement, which restrains their future ability to reinstate public provision or expand regulation should such actions harm the commercial interests of foreign providers.

Trade negotiations that simultaneously cover several sectors can lead easily to more extensive commitments than were intended. This contributes to what one of us (M.K.) has termed “outside own priority setting” (OOPS) commitments, where the scope and extent of commitments are not realized by those to whom they will at the time when they are made. Strong and explicit trade policy guidance on health and social development could reduce future OOPS commitments that arise from insufficient prioritization of health issues in trade negotiations. While particular attention needs to be drawn to the negotiation capacities of smaller and poorer countries (South Centre, 2004), the OOPS mistakes take place across countries (see later in this chapter).

TRADE TREATY CONSTRAINTS ON HEALTH-RELATED REGULATION AND STANDARD-SETTING

The impact of trade agreements on national and global health-and-safety-standard-setting mechanisms remains contested. Standards purportedly set in order to protect health and safety are sometimes viewed

as disguised protectionist measures against imports from low-income countries; they may involve not only intranational conflicts between industrial or commercial and public health interests but also commercial tensions between high-income countries. Such was the case against legislation banning products containing asbestos brought by Canada against the EU (World Trade Organization, 2000, 2001). Canada claimed that the EU Member states' asbestos ban was against trade rules, since these countries permitted the use of glass fiber insulation, which is a "like" product to asbestos and so covered by the nondiscrimination principle of all WTO agreements. The EU lost the initial case in the dispute settlement, but the WTO's Appellate Body (which must authorize dispute panel decisions), after receiving many complaints about the dispute panel's decision, allowed the EU to maintain its asbestos ban (World Trade Organization, 2001).

GATS Article XX does allow measures to protect public health (and was invoked by the EU in the asbestos case), but is limited by a "chapeau": a leading sentence or preambular text that sets the context and basis for interpreting and using a particular stipulation. The use of this chapeau was further elaborated in Article XX (b) in the Agreement on Sanitary and Phytosanitary Measures (SPS) in 1994, which sets the context in which measures to protect public health can take place. The SPS requires a country using this right to show that its regulations are based on a full scientific risk assessment and do not result in discrimination against members where identical or similar conditions prevail. These requirements formed the basis of the WTO dispute, persisting for over a decade, concerning hormone-treated meat products (World Trade Organization, 1998, 2008). The EU bans the use of certain hormones in cattle rearing within its borders and so in nondiscriminatory fashion, applied this ban to imported meat. The United States and other countries, however, argued successfully that the EU had not carried out sufficient risk assessment studies (as required by the SPS) to warrant their more stringent standards than those applying in the United States, considered a "like" country (World Trade Organization, 1998).

Governments can have clear aims to restrict and limit marketing and consumption of particular goods known to be harmful to health, such as tobacco and alcohol. Public policies in relation to alcohol and tobacco products have already been the subject of several trade disputes concerning national policies to tax or limit availability (World Trade Organization, 1999, 2005a, 2006) with direct constraints on national policy space. The Chilean case, for example, dealt with how taxation limits on the basis of alcohol content gave more beneficial tax treatment to the local product (Pisco) with lower alcohol content in comparison to imported alcohol products (World Trade Organization, 1999). While restriction of availability and taxation are known to be effective strategies to reduce consumption of health-damaging products, such policy measures are also more vulnerable

to challenge in the context of trade policies in comparison to more individualized and less market restrictive forms of intervention (see, e.g., Yach & Bettcher, 2000; Babor et al., 2003; Shaffer, Brenner, & Houston, 2005).

WTO agreements are also shifting decision-making power on standards away from national governments. Particular attention has been drawn to the International Organization for Standardization (ISO), a nongovernmental body with strong industry involvement but weak government participation, especially by developing countries (see, e.g., Mattli & Buthe, 2003; Yeates & Murphy, 2007; Nadvi, 2008). The expanding role of ISO standards in the field of environment, services and occupational health and safety has implications for how standards are set (Braithwaite & Drahos, 1999; International Organization for Standardization, 2006). In health, particular attention has been drawn to tobacco and the role of the tobacco industry in determining the evidence and standard setting on their products in the ISO, including the measurement of cigarette tar and nicotine yield (Bialious & Yach, 2001).

Two WTO agreements, the SPS and the Agreement on Technical Barriers to Trade (TBT), defer to the Codex Alimentarius Commission, a joint Food and Agricultural Organization of the United Nations (FAO), and World Health Organization (WHO) food standard-setting organization and a reference body for international food standards. This deference by the WTO changed the global relevance of the Codex substantially as previously it had dealt only with voluntary standards. Veggeland and Borgen (2005) point out that, while national and economic interests have always been part of the Codex decision-making process, since the establishment of the WTO, countries have argued more strongly in favor of norms compatible with their national interests as expressed in WTO negotiations. They note further that this development may actually conflict with the mandate of Codex (Veggeland & Borgen, 2005). This raises two issues related to national policy space: the increasing relevance of standards set by Codex³ and the ways in which the Codex process is itself becoming increasingly shaped by trade policy interests.

WTO agreements are concerned about the cross-border trade in goods and services and not with their production practices. This is a more widely recognized issue in global labor and occupational safety policies, but bears relevance also to health policies (for employment and labor issues, see Chapter 4, this volume). Global trade-related standard setting and regulatory work in other “nontrade” substantive areas have also surfaced in relation to multilateral environmental agreements (MEAs) and human rights treaties (Dommen, 2002; Cottier, Pauwelyn, & Burgi, 2005; World Trade Organization, 2007), concluding that, in the event of conflict involving WTO provisions, WTO provisions may not always prevail, including before a WTO panel. Being a framework agreement, the WTO and its provisions will often have to give way to, for example, MEAs or other conventions that impose obligations or grant explicit trade restriction rights applied to

specific products or for particular reasons (Pauwelyn, 2003). The successful negotiation of the United Nations Educational, Scientific, and Cultural Organization (UNESCO) Convention on the Protection and Promotion of the Diversity of Cultural Expression is one example where governments have sought to retain policy space in light of obligations under trade agreements (UNESCO, 2005).

SCOPE OF PUBLIC POLICIES AND REGULATION OF PUBLIC SERVICES

In the context of trade agreements and SDH, particular attention needs to be drawn to public services. The General Agreement on Trade in Services (GATS), for example, includes a commitment towards progressive liberalization of services. While GATS allows member countries to specify which service sectors and under what conditions they will open their borders for trade, the commitment towards progressive liberalization envisions a future in which *all* service sectors would eventually be open for global trade. There is an exclusion for public services in GATS, although it is expressed narrowly in the form of “a service supplied in the exercise of governmental authority,” defined as applying only to services supplied neither on a commercial basis nor in competition with one or more service suppliers. Since publicly funded services in most countries usually include some contracted arrangements with the private sector (including here NGOs or not-for-profit organizations), these services cannot simply be assumed to be outside of the scope of GATS commitments (Krajewski, 2003; Luff, 2003; Fidler, Correa, & Aginam, 2005).

GATS Article VI on domestic regulation also has relevance to regulatory measures and, according to Delimatsis (2008), touches the interface of services trade liberalization and domestic autonomy. The legal mandate contained in this Article seeks to guarantee that licensing and qualification requirements or technical standards do not constitute unnecessary barriers to trade in services. According to Luff (Harvey, 2003), these are likely to cover all rules relating to the opportunities for doctors or hospitals to provide their services. In practice the supply of these services is subject to rather severe requirements and authorization procedures within countries, which generally create obstacles to trade by excluding or complicating entry of foreign services or services providers who do not comply with them. These stringent requirements could be constrained by the outcome of current negotiations to strengthen GATS disciplines for domestic regulations. Other GATS provisions with respect to monopolies and exclusive service suppliers (Luff, 2003; Fidler et al., 2005) and subsidies (Gauthier, O’Brien, & Spencer, 2000; Adlung, 2006) could also affect public financing and support to service provision in poorer areas.

Negotiations in services trade have proved to be particularly complex, making it difficult for governments to know exactly the scope and nature of commitments they are making, and what restrictions they might like to apply to these commitments. Although countries can stipulate restrictions in committed sectors, it is expected that such restrictions will not be permanent and will be removed during future GATS negotiating rounds. The recent WTO dispute settlement case on online gambling provides an example of an OOPS commitment discussed earlier (World Trade Organization, 2004, 2005b). While Antigua and Barbuda successfully claimed that the United States had scheduled online gambling services as part of market access commitments in “other recreational services (except sporting),” the United States considered that it had made no such commitments since it believed that gambling and betting services fell within sporting services, which it had excluded (World Trade Organization, 2004; Ortino, 2006). Similarly, in 1994 Canada unintentionally committed trade in private health insurance since this fell under the financial services sector (to which it did commit) and not under the health services sector (in which it made no commitments) (Campbell et al., 2003).

The Antigua and Barbuda case highlights another problematic issue for policy space. The dispute panel ruled that prohibiting all online gambling (that is, treating both foreign and local providers the same) would still violate United States GATS commitments, since it constituted a “zero quota” limitation on any potential foreign provider (Pauwelyn, 2005a; World Trade Organization, 2005b; Pauwelyn, 2005b). The appellate body did state that the United States could violate this rule as a measure “necessary to protect public morals or to maintain public order” (one of the exceptions allowed under GATS). But if this interpretation prevails within WTO, it means that when governments commit a service sector in GATS in which certain activities are prohibited for both domestic and foreign providers (that is, the prohibition is nondiscriminatory) they could still lose a trade dispute simply because the prohibition reduces market access for foreign providers.

The more commercialized and globalized service provision becomes, the more GATS and its disciplines will matter. Particular focus needs to be put on how policies intended to contain costs could become problematic under GATS. It is unlikely, for example, that denying patients the freedom to choose their doctors would be accepted under full GATS commitments to trade in health services (Luff, 2003), yet most health systems in practice limit this freedom for various sound policy reasons. The complexity of regulatory needs in the health sector, as well as the necessity of knowing everything before scheduling services, implies that the most secure regulatory option is not to make services commitments in the health sector. While this would address concerns within health systems, it would not, however, cover all those in relation to SDH.

Finally, while particular sectors at present can be kept outside GATS, this is affected by the practice of revisiting commitments under GATS

with the aim of more and deeper commitments being made during each negotiation round. While commitments already made are not necessarily permanent or totally “locked in”—they can be altered or removed—this can become costly for countries since in exchange for limiting or removing commitments in one area they must expand commitments in another.

POLICY SPACE FOR HEALTH AND INTELLECTUAL PROPERTY RIGHTS

A broader literature describes the relationship between trade-related intellectual property rights (IPRs) and development via industrial policy strategies (see, e.g., Lall, 2003; Shadlen, 2005a; United Nations Conference on Trade and Development, 2007b), and in regards to patenting of genes, plants, life-forms, and regulation of bioprospecting (Shiva, 2001; Commission on Intellectual Property Rights, 2002; Jaffe & Lerner, 2004; Koo, Nottenburg, & Pardey, 2004; Jensen & Murray, 2005; Sampath, 2005; Correa, 2006; Howse, 2007). Because the TRIPS agreement is dealt with in another chapter in this volume (Chapter 11), we cover here only trade-related IPRs issues that pertain to national policy space for health, specifically those limiting the scope of options in pharmaceutical policies. A key issue in this regard is bilateral treaties that include restrictive measures going well beyond those contained in the TRIPS agreement, directly affecting national reimbursement and pricing policies in developed as well as developing countries (Drahos & Henry, 2004; Doran & Henry, 2008). One example of this expansion is reflected in the United States 301 trade-watch list of countries considered to threaten its IPR interests, which states explicitly that “even when a country’s IPRs regime is adequate, price controls and regulatory and other market access barriers can serve to discourage the development of new drugs. These barriers can arise in a variety of contexts, including reference pricing, approval delays and procedural barriers to approvals, restrictions on dispensing and prescribing, and unfair reimbursement policies” (United States Trade Representative, 2006). Norway has been added to the U.S. watch-list due to its pharmaceutical pricing policies, and the pharmaceutical industry has threatened Finland with a similar fate should it implement TRIPS consistent reference pricing policies (United States Trade Representative, 2008; Anonymous, 2008).

The strong protection of IPRs as a core element of innovation strategies also has implications for national health-policy space both in pricing and rational use of pharmaceuticals and in access to knowledge and or development of research policies. IPRs, trade agreements, and industrial policy-related pressures are not only an issue of differing priorities between poor and rich countries, but of differing, if not conflicting, priorities between particular corporate sectors and health ministries. Common interests can be found across countries in drug-pricing policies and measures that ensure

sufficient research and development in particular areas important for health but which lack sufficient commercial margins, such as research on new generations of antibiotics (Wenzel, 2004; Norrby, Nord, & Finch, 2005; see also Chapter 11, this volume).

LENDERS, INVESTORS, AND POLICY SPACE⁴

Trade treaties are not alone in imposing constraints on policy space; international lending and investing practices also exert a powerful influence. The role of the World Bank and the IMF has been a central feature of the social and economic policy context in many developing countries over the past twenty-five years. They are closely identified with structural adjustment, a term that entered the international development lexicon in 1980, when the World Bank and IMF began lending to countries needing to reorganize their economies in order to repay external creditors (Kahler, 1992). Background on this lending, and the structural adjustment conditionalities associated with it, was provided in the introductory chapter. Suffice it to say here that lender conditionalities create constraints on the policy space available to national governments; like trade agreements, that is their intent. However, several evidentiary problems complicate assessment of the severity and impact of those constraints. Conditionalities have often been implemented imperfectly, or resisted for substantial periods of time (Kahler, 1992; Killick, 2004). For analytical purposes, it is difficult to separate the effects of conditionalities from those of the economic crises that preceded structural adjustment. Any assessment of their effects presupposes one or more counterfactuals—assumptions about what would have been the case if no intervention by the World Bank and the IMF had been undertaken, or if some other set of interventions had been chosen (Huber & Solt, 2004). In many countries lender conditionalities have contributed to the reorganizing of national economies in ways that did not reflect popular or electoral priorities, and indeed provoked widespread popular resistance (Walton & Seddon, 1994). In at least a few cases, the constraints associated with lender conditionalities were also intended by national governments, which pursued agreements with the IMF so that they could create an aura of inevitability about policy changes that they might otherwise not have been able to implement (Vreeland, 2003).

The new Poverty Reduction Strategy Papers (PRSPs) have broadened participatory aspects, but still share many similarities with structural adjustment policies and conditionalities related to these. PRSPs must be approved by the World Bank and IMF as a condition for receiving debt relief under the Heavily Indebted Poor Countries Initiative (now the Multilateral Debt Relief Initiative), and increasingly determine eligibility for other forms of development assistance as well (see also Chapter 7, this volume). Griesgraber and Ugarteche (2006) point out that while many middle-income countries in

Asia and Latin America are now largely beyond the potential reach of IMF conditionality because of their large foreign exchange reserves⁵ and early repayment of their debts to the fund, low-income countries “remain bound to the IMF” through the PRSP process and the new conditionalities associated with the Multilateral Debt Relief Initiative (MDRI) announced by the G8 in 2005. Further, the influence of the IMF in practice extends beyond formal conditionalities, because private investors view IMF approval of a country’s macroeconomic policies as a seal of approval (Woods, 2006b, pp. 375–76) and, indeed, the resources at their disposal have been needed to complement those of the IMF (Gould, 2003).

“Financialization” has been among the dominant trends in the operation of many national economies, and especially the global economic system, over the past few decades (Epstein, 2005). While the total value of foreign direct investment (to build new production facilities or acquire existing assets) in 2006 was \$1.2 trillion, the *daily* value of “traditional” foreign exchange transactions on the world’s financial markets is now estimated at \$3.2 trillion, not including a variety of financial derivatives, the market for which is growing even more rapidly (Bank for International Settlements, 2007; United Nations Conference on Trade and Development, 2007a).

Short-term flows of hypermobile investment can lead to financial crises that push millions into poverty and economic insecurity, with resulting negative health outcomes.⁶ This happened, for instance, when disinvestment halved the value of the Mexican peso relative to the US dollar between December 1994 and March 1995 (US General Accounting Office, 1996). Immediate damage to Mexicans’ purchasing power was compounded by the wage reductions, workforce cutbacks, and public-sector austerity measures needed to restore investor confidence (Grinspun & Cameron, 1993; Dussel Peters, 2000; Cypher, 2001). The Asian financial crisis of 1997–1998 involved comparable depreciation of the Thai and Korean currencies, and an even more drastic depreciation of Indonesia’s (Martinez, 1998), again with effects on the economically vulnerable that were compounded by austerity measures needed to restore “investor confidence.” The damage done by financial crises in terms of lost gross domestic product (GDP) (hence, government revenue) and employment can be substantial; Griffith-Jones and Gottschalk (2006) estimate the cost of the Asian financial crisis to the affected economies at US\$917 billion over the period 1997–2002, and a comparison of financial crises in ten countries by van der Hoeven and Lübker (2005) showed that employment tends to recover much more slowly than GDP in the aftermath of financial crises. A further effect is that the value of external debt obligations denominated in dollars or other hard currency climbs with any devaluation, creating additional economic constraints on domestic public-sector budgets (Koelble & Lipuma, 2006).

The power dynamic underlying financial crises created by large flows of short-term capital was described by Michel Camdessus, then managing

director of the International Monetary Fund, 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).

This blunt observation about the power of markets is notable for its author as much as for its content, which is now almost universally acknowledged.

Griffith-Jones and Stallings (1995) have described the constraint on policy space created by financial markets as “implicit conditionality,” as contrasted with the explicit conditionality attached to lending from multilateral financial institutions. Like other constraints on policy space, implicit conditionality often operates by way of the mechanism of anticipated reaction: even governments committed to improving access to basic health-related needs are reluctant to risk the effects of displeasing the financial markets, just as they may be reluctant to implement policies that might be viewed negatively by sources of foreign direct investment. Investor concern about policies that might be adopted by the Workers' Party in Brazil (in advance of the 2002 elections) or the African National Congress in South Africa (after democratization) reduced the value of the country's currency by roughly 40 per cent in each case, arguably leading the governments in question at least temporarily to accept high unemployment and limited social expenditure rather than risk further depreciation of their currencies (Evans, 2005; Koelble & Lipuma, 2006). In South Africa, the result was “dismal development and excellent macroeconomic outcomes” (Streak, 2004) with the former including negative employment growth in every year between 1996 and 2000 and an official unemployment rate of over 30 percent; unofficial unemployment rates, using a broader measure, were and are considerably higher (Kingdon & Knight, 2005).

Writing about Latin America, economist John Williamson argues that “levying heavier taxes on the rich so as to increase social spending that benefits disproportionately the poor” is conceptually attractive, 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, p. 13). This is an illustration of the constraint created for public policy by capital flight: the process in which the wealthy shift their assets abroad in order to avoid “social control” (such as taxation) or risks of devaluation (Ndikumana & Boyce, 1998, p. 199; see also Beja, 2006, p. 265). The resource flows in question are

substantial. Ndikumana and Boyce (2003) estimated the value of capital flight from sub-Saharan Africa—a region that includes many of the world's poorest countries—between 1970 and 1996 at \$186.8 billion (in 1996 dollars), noting that during the period “roughly 80 cents on every dollar that flowed into the region from foreign loans flowed back out as capital flight *in the same year*” (Ndikumana & Boyce, 2003, p. 122; emphasis added). They have also concluded that the accumulated value of capital flight from 25 African countries between 1970 and 1996, plus imputed interest earnings, was considerably *higher* than the entire value of the combined external debt of those 25 countries in 1996 (Boyce & Ndikumana, 2001). Using a similar methodology, Beja (2006) estimates the accumulated value of capital flight from Indonesia, Malaysia, the Philippines, and Thailand over the period 1970–2000 at US \$1 trillion. And at the end of 2001, while Argentina was undergoing an economic collapse that saw the value of the peso lose more than 60 per cent of its value against the U.S. dollar and GDP decline by 11 per cent 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).

Understanding the constraints that contemporary financial markets create on national policy space requires recognition that those markets do not operate in isolation. Rather, they reinforce pressures to compete for FDI and outsourced production by way of policy convergence toward what Cerny has called a competition state: “The main focus of the competition state is the promotion of economic activities, whether at home or abroad, which will make firms and sectors located within the territory of the state competitive in international markets” (Cerny, 2000, p. 136). Often, as a consequence, the formal operations of democracy coexist with more or less severe limits on the content of public policy. Sassen describes the constraints in terms of “a sort of global, cross-border economic electorate,” whose power over governments derives not from formal political participation but rather from the ownership of mobile assets (Sassen, 1996, p. 40). The extent to which this constraint operates will vary depending on a country's or a region's position in the world economic system, and it is by no means absolute—as suggested, for instance, by the Malaysian government's successful resistance to IMF prescriptions in the immediate aftermath of the Asian financial crisis. Its decision instead to impose capital controls is credited by many observers with both reducing the impacts of the crisis and speeding up the Malaysian economy's subsequent recovery. However, the constraint should not be underestimated. One of the most accomplished investigators of how global financial markets actually work (Mosley, 2003) has warned, for instance, 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).

GLOBALIZATION OF IDEAS

Ideas matter in public policy and globalization is also about the worldwide diffusion of assumptions about what is feasible and possible in economic policy—in particular, neoliberal or market-oriented policy perspectives (Deacon, Stubbs, & Hulse, 1997; Scholte, 2000; Gill & Bakker, 2006). Przeworski et al. noted in the foreword to their report on the sustainability of democracy that the embrace of rapid economic liberalization, “particularly but not only in Eastern Europe,” represents the implementation of a neoliberal ideology “developed within the walls of the North American academia and shaped by international financial institutions. . . . For the first time in history capitalism is being adopted as an application of a doctrine, rather than evolving as a historical process of trial and error” (1995, p. viii).

The World Bank and the IMF have played important roles in this process; they exercise influence not only in their role as lenders, but also in the realm of ideas as well-funded definers of conventional wisdom, knowledge producers (Mehta, 2001; Wade, 2002; Broad, 2006), and nodes in transnational networks of professionals who share assumptions (mostly those of neoclassical economics), training experiences (notably in the economics departments of US and British universities), and career paths (Lee & Goodman, 2002; Woods, 2006a, pp. 53–56). The Organization for Economic Cooperation and Development (OECD) has also been identified as a key actor in globalization of health system reforms (Moran & Wood, 1996). Outside the health sector, the World Bank’s influence was evident for instance in advocacy of pension privatization in Latin America, following the lead of Chile under Pinochet. Although the Bank sometimes made loans contingent on pension “reform,” its major effect was rather as a “teacher of norms” and as a promoter of economic liberalization more generally (Mesa-Lago & Müller, 2002, pp. 709–12; Brooks, 2004, pp. 54–65). World Bank documents tend to become important sources amongst policy actors and consultancy companies in aid policies, and hence highly influential in the policy choices made by many aid-dependent countries, even decades after these documents and their basic assumptions first appear. Many of these assumptions also find renewed voice; thus, the emphasis on priority of market-based mechanisms remained prominent in the World Bank 2000 *Social Protection Sector Strategy*. This document invoked the need for “[a] new conceptualization of social protection that is better aligned with current worldwide realities” in support of the position that, “[i]n an ideal world with perfectly symmetrical information and complete, well-functioning markets, all risk management arrangements can and should be market-based (except for the incapacitated)” (Holzmann & Jörgensen, 2001, p. 16). The Social Protection Sector Strategy, in particular, is also an example of

how globalization-driven distributions of economic power and property rights also *create* the “worldwide realities” that globalization is claimed to invoke.

CONCLUSION: CREATING AND PROTECTING POLICY SPACE

At the national and subnational level, substantial space exists for policies that support health and SDH, despite the context created by globalization. The extent of that policy space depends on a country’s position in the world economy, as reflected (for instance) in its bargaining power in trade negotiations and in its relation to the global financial marketplace. Policy choices are framed by assumptions about what is economically sound, effective, feasible or possible. Whether this space is used for health is further dependent on national policy, choices, and politics in relation to health and other priorities. However, both formal and informal constraints associated with globalization are limiting the range of policy measures governments can use to reduce social inequalities, many of which themselves arise from globalization (see also Chapter 2, this volume).

Governments need to understand better the potential health-policy implications of commitments that increase the mobility of capital or limit the ability of governments to exert “social control” over investors. Required, as well, are global level actions that focus on international financial institutions and multilateral, regional, and bilateral trade negotiations, specifically drawing attention to the importance of the decisions made in these fora on the capacities of countries to address distributional issues within their borders important for social cohesion.

International trade agreements are designed to limit national policy space. Health-policy makers need to understand what implications—in particular regulatory and cost implications—trade agreements have for national policy space for health. They will also need to be able to articulate their own priorities in relation to trade and economic policy negotiations at the national level to ensure either that their priorities are not compromised by trade agreements or, where compromises are made, that these are accompanied by sufficient compensatory mechanisms.

Because trade negotiation practices may lead to inadvertent OOPS commitments, explicit and clear guidance on national trade policy priorities could help to maintain policy space for health during negotiations. There is also a case to be made for removing all policies affecting health systems from the scope of commercial multilateral, regional, and bilateral trade agreements. Other options could include specific regional or global cooperation arrangements or agreements based upon health, rather than

trade, policy priorities and needs, and under WHO or, where appropriate, other competent agencies' aegis. However, while such measures could address some concerns with health systems, they would not address issues of relevance to SDH.

Addressing the ways in which financial markets limit the ability of national governments to pursue equity-oriented health and social policies presents formidable challenges, yet is likely to be essential as a counterforce to the interests of the "cross-border economic electorate" described by Sassen (1996). Broad policy directions that would carry forward this ambitious project by way of "redistribution, regulation and rights" are outlined in Chapter 13.

Finally, there is a need to confront the globalization of ideas, notably those concerning what is feasible, desirable, and possible in the context of pressures for policy convergence created by the imperative of maintaining national economic competitiveness. It is thus important to draw attention not only to the implications of globalization for development and the limits to the range of economic and industrial policies at governments' disposals; but also the ways in which globalization is changing the scope and capacities of governments to undertake regulatory and redistributive policies, notably those concerning health, health systems, and social security.

NOTES

1. Not all that is traded is affected by multilateral agreements under WTO, or even regional or bilateral agreements. The migration of health professionals from low- to high-income countries, a health equity issue of increasing global importance, for example, has so far had little to do with trade agreements (see Chapter 9, this volume).
2. This describes the "all-or-nothing process" used in WTO negotiations, where consensus must be reached in all agreements under negotiation to complete one round of trade talks, and before commencing a new round. This process presumably allows countries to trade off losses in one area of trade with the prospect of gains in another.
3. The fact that Codex had set acceptable levels for five of the six hormones in the WTO beef-hormone case played a role in the dispute ruling against the EU. Determination of safety, while informed by scientific evidence, is ultimately made through voting by individual nations. The five hormones in question were voted safe by a margin of 33-39, with seven abstentions (Labonté & Sanger, 2006).
4. A more extensive discussion of the issues raised in this section is provided by Schrecker (forthcoming).
5. The accumulation of foreign exchange reserves that has reduced the vulnerability of some economies to the threat of financial crisis has not come without costs. Accumulation of foreign exchange reserves has contributed to net financial outflows from the developing world, primarily from Asian countries, of more than US\$480 billion in 2005 (United Nations Department of Economic and Social Affairs, 2006, pp. 65-88). This loss is partly explained by

the fact that governments receive very low interest rates on these reserves (e.g., when held in U.S. treasury bills) while having to borrow domestically at higher rates—thus, in effect, poor countries are lending to rich ones at a net loss, losing opportunities for domestic investment and growth in the process.

6. For a description of the relevant pathways, see Hopkins (2006).

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