

## **A An alternative paradigm for development**

The current dominant model of development, based on market liberalisation and commercial globalisation, has conspicuously failed to deliver Health for All.<sup>1</sup> The rate of health improvement in low- and middle-income countries (LMICs) has slowed dramatically over the past thirty years, while we have been brought to the brink of imminent environmental disaster as a result of climate change. This chapter briefly assesses the performance of the current model against the three critical yardsticks of poverty, health and climate change; proposes basic principles for an alternative model of development; and provides an outline of one such alternative.

The ideas presented here are not definitive. They would require substantial modification for application according to the particular economic, social, geographical, political and cultural circumstances of any individual country. More importantly, this chapter is intended to demonstrate the possibility of visualising a model of development which can deliver more effectively on health and other social objectives, by thinking outside and beyond the parameters of mainstream economics and of historical precedents.

### **The current model of development**

In very general terms, the key components of the currently dominant model of development in LMICs include small or zero budget deficits, tight monetary policies to keep inflation low, competitive exchange rates, the privatisation of state-owned enterprises and public services, the removal of measures to protect LMIC agriculture and industry, deregulation of markets and prices, and a limited role for the state.

This pro-market economic model, often termed neoliberalism, has only come to the fore in the last thirty years. Initially, after World War II, there

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was a strong consensus on the proactive management of the economy to ensure economic development and full employment, together with social security and universal access to health services and education. The counter-view, championed by Friedrich Hayek, presented the state-ensured collective guarantee of basic social needs as an anathema and equated unregulated markets with freedom. But this was widely seen as the untenable view of an extremist fringe.

However, Hayek's ideas began gradually to penetrate the political establishment, eroding older patrician sensibilities, and academic economics. Vital to this success were a tacit agreement among the proponents of neoliberalism to set aside differences on other issues and promote the central message that free markets provide the best outcomes – in a few key words, – liberalisation, deregulation and privatisation.

When poor economic performance followed the 1973 oil price crisis the neoliberals got their chance. They secured first the Republican nomination in the United States and leadership of the Conservative Party in the United Kingdom (UK) and then election victories in both countries. This led to the era of 'Reaganomics' – the high-water mark of neoliberalism. The US and UK governments included leading proponents of neoliberalism in senior positions, and were able to promote the model globally through the International Monetary Fund (IMF) and the World Bank. Through the course of the 1980s, with the support of the Fund and Bank, neoliberalism became the dominant economic paradigm globally – not least in most LMICs, which had previously followed more interventionist economic models.<sup>2</sup>

During this period, LMICs faced a multitude of major economic shocks, including massive increases in energy prices and interest rates, collapsing prices for commodity exports and the virtual drying up of most forms of external financing. In these circumstances, most LMICs, particularly in sub-Saharan Africa (SSA) and Latin America, had little choice but to accept the policy conditions dictated by the Fund and Bank, which came to be embodied as structural adjustment programmes (SAPs), on which most forms of financing were conditional.

Since the early 1990s, the model has been tempered by greater attention to social issues after the devastating human consequences of SAPs became apparent. Since 1999, adjustment programmes have also been replaced in low-income countries by Poverty Reduction Strategy Papers (PRSPs), which are supposed to be developed through a country-driven process with a high level of engagement by civil society.

In practice, however, PRSPs have been very variable in terms of country ownership and genuine engagement with civil society and have generally resulted in policies little different from SAPs. Attention to social issues has

been largely confined to relatively limited ‘safety net’ programmes and only partial protection of health and education expenditure budgets within an essentially unchanged underlying economic model. The discretion available to national governments has been seriously constrained by macroeconomic parameters set by the IMF, including ceilings on government expenditure. In addition, the values embodied in SAPs have been internalised by low-income-country (LIC) governments and elites, leaving less and less room for alternative approaches.

The policy discretion available to countries has also been constrained by the fact that trade liberalisation policies and the governance of private property rights are now subject to international agreements brokered by the World Trade Organization (WTO) and bilateral trade and investment agreements with rich countries on which LMICs have become increasingly dependent.

While neoliberal policies were promoted to renew economic growth after the slowdown of the 1970s, they have generally failed to deliver on this promise. Economic performance has been disappointing in Latin America, and disastrous in sub-Saharan Africa and those ‘transition economies’ which have changed their policies towards the neoliberal approach. Those in greatest need have benefited little. The star performers economically, and important drivers of global economic growth, have been East Asian countries, especially China, which have mostly pursued different economic models.

### **The key challenges of the twenty-first century**

Humanity faces three profound challenges:

- eradicating poverty;
- fulfilling the right of all people to good health;
- bringing climate change under control.

All three challenges incorporate problems that are rooted in the global political economy. The coexistence of profound social problems resulting from poverty and an equally extreme environmental crisis associated with excessive *aggregate* consumption can only be explained by a grossly unequal distribution of global resources. This raises fundamental questions about the appropriateness and viability of the model that has dominated economic policy at the global level, based on liberalisation and commercial globalisation.

#### ***Poverty***

The World Bank estimates that 970 million people were living below the ‘\$1-a-day’ poverty line in 2004, and 2,550 million (40 per cent of the world

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TABLE A1A **Changes in global poverty, 1981–2004** (million people)

Poverty line (\$/day)	World				excluding China			
	1981 (m)	2004 (m)	Change (m) (%)		1981 (m)	2004 (m)	Change (m) (%)	
1	1,470	970	−500	−34.0	836	841	5	0.1
2	2,450	2,550	100	4.1	1,576	2,096	520	33.0
2.80	2,640	3,240	600	22.7	1,691	2,649	958	56.6
3.90	2,920	3,810	890	30.5	1,962	3,051	1,090	55.6

TABLE A1B **Changes in global poverty, 1981–2004** (% of population)

Poverty line (\$/day)	World			excluding China		
	1981	2004	Change	1981	2004	Change
1	32.6	15.2	−17.4	23.8	16.6	−7.3
2	54.4	40.0	−14.4	44.9	41.3	−3.6
2.80	58.6	50.9	−7.8	48.2	52.2	4.0
3.90	64.9	59.8	−5.0	55.9	60.1	4.2

Source: Figures for \$1 and \$2 lines are from Chen and Ravallion 2007; those for \$2.80 and \$3.90 are from the World Bank's Povcalnet online database.<sup>3</sup>

population) below the '\$2-a-day' line (Chen and Ravallion 2007). In addition to serious methodological problems with the Bank's calculations, these lines are essentially arbitrary, and do not reflect what might reasonably be considered a morally acceptable living standard.

Peter Edward (2006) has proposed an 'Ethical Poverty Line', defined as the income level below which further income losses materially shorten life expectancy. He estimates such a line at between \$2.80 and \$3.90 per person per day. By this definition, some 3.2–3.8 billion people (51–60 per cent of the world's population) live in poverty.<sup>4</sup>

Even using the Bank's calculations, there has been limited progress made in the last twenty-five to thirty years. While the number of people below the '\$1-a-day' line fell between 1981 and 2004, this reduction occurred exclusively in China. The number below the '\$2-a-day' line actually increased over the same period. The numbers below the 'Ethical

Poverty Line' increased considerably, by 22–30 per cent, resulting in a very limited fall in the proportion of the world's population in poverty by this definition. At this proportional rate of reduction, it would take 209 years to halve poverty based on the \$3.90 line, and 116 years based on the \$2.80 line. Excluding China, which has only partly conformed to the currently dominant economic model, the picture is considerably worse.

### *Health*

Increases in life expectancy at birth globally averaged 10.4 months per annum (p.a.) in the 1960s, and 4.2 months p.a. in the 1970s, but slowed dramatically after 1982, and have averaged only 1.9 months p.a. since 1987. The slowdown has occurred almost entirely in LMICs, and there have been marked declines in some sub-Saharan and transition countries. As a result, the gap between average life expectancy at birth in low-income countries and in the OECD actually *widened* (by nine months) between 1985 and 2005.

The annual rate of reduction of the under-5 mortality rate for the world as a whole has also slowed progressively from 4.3 per 1,000 live births in the 1960s and 3.0 in the 1970s, to a trough of 0.5 in 1995–2000, partly recovering (to 2.5) only in 2000–2005.

Clearly the HIV/AIDS pandemic has contributed substantially to these trends. However, this is not a wholly exogenous factor, as the impacts of the current economic model on health services, poverty and other social determinants of health have almost certainly contributed to the spread of HIV/AIDS (de Vogli and Birbeck 2005). In this sense, AIDS is at least partly a transmission mechanism from economic policies to health outcomes, rather than purely a confounding variable.

### *Climate change*

It is now generally accepted that a 60 per cent reduction in carbon emissions from their 1990 level is required by 2050 merely to limit the increase in global temperatures to 2°C (which would still result in serious consequences for poverty and health). However, emissions have actually continued to increase, by around 25 per cent, since 1990 (Marland et al. 2006), implying the need for a reduction of 68 per cent (2.6 per cent p.a.) between 2007 and 2050. If global economic growth continues at the post-1990 rate, this would increase global production and consumption by some 500 per cent; this means that carbon emissions *per (real) dollar of production* (carbon intensity) would need to fall by around 95 per cent by 2050.

The current rate of reduction in the carbon intensity of production (1.5 per cent p.a.) comes nowhere close to achieving this. If the current rate of

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IMAGE A1 **ExxonMobil gas plant in the village of Finima, Nigeria**

reduction were to continue, global carbon emissions would not fall by 68 per cent by 2050, as required, but would triple. Achieving the necessary reduction in carbon emissions would require an *immediate* quadrupling of the rate of reduction in the carbon intensity of production from 1.5 per cent p.a. to 6 per cent p.a. This represents a huge challenge for humanity.

While there is a considerable level of technological optimism among some decision-makers, it is at best extremely doubtful whether existing and anticipated technologies can deliver the emissions reductions required in the necessary time frame.

### **Why the current model has failed**

The current model of development has failed because of three fundamental flaws. First, it treats economic growth as its primary objective rather than social objectives such as the eradication of poverty and the right to health. The focus on growth arises from a simplification inherent in mainstream economics – the equation of total income with well-being. In a world of extreme inequality this is wholly unrealistic and inappropriate. The benefit to a billionaire of an additional \$10 of income is negligible. To the average person living below the ‘\$1-a-day’ line, it can be the equivalent of total consumption for six weeks. By focusing on aggregate income and economic growth, mainstream economics illogically treats the benefits to billionaire and pauper as the same.

Faster growth is often argued to be necessary to provide more resources, which can then be allocated according to social needs. However, this requires mechanisms to ensure that resources are indeed allocated according to social needs. Such mechanisms are at best weak in rich countries, generally much weaker in LMICs, and non-existent or dysfunctional at the global level. Moreover, the current approach specifically militates against such resource allocations, by arguing for low tax rates and the avoidance of explicit redistributive measures on the grounds that they impede economic growth.

The argument that explicit redistributive measures would impede economic growth is highly questionable. But even if it were true, it would be both sensible and necessary to define some cut-off point at which reallocation takes precedence over further growth. Otherwise resources would *always* be allocated so as to maximise growth rather than in accordance with social priorities.

The second flaw is the predominant reliance on increasing exports as a source of economic growth, and the requirement for global consumption to grow in order to absorb these extra exports. There are two problems with this. First, there are real environmental limits to total global consumption. Second, the extreme inequality of the global economy means that most of the additional consumption is concentrated among a small relatively wealthy minority of the world's population (whose well-being is increased only slightly as a result), rather than among the poor majority (for whom increased consumption is absolutely essential). Crudely put, the current model requires the rich to get much richer in order for the poor to get even slightly less poor – even though this has a minimal effect on the well-being of the rich, and is destroying the environment on which both rich and poor ultimately depend.

The third flaw is that the current model is based on competition between countries in global markets to secure export markets and to attract foreign investment. This is an extension of the logic of competition between companies within a national market to increase the efficiency of production. But, as in any competition, in order for there to be winners, there must also be losers. Those countries which succeed, such as many of the East Asian countries, embark on a virtuous circle of increasing competitiveness and success. But those which are unable to compete find themselves on a vicious downward spiral of economic failure, compounded by the flight of financial and human capital.

However, unlike an uncompetitive company, a country cannot cease to exist. Neither, in general, can it be taken over by a more successful country. In the absence of such exit mechanisms, the losers risk continuing indefinitely

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on a downward spiral towards economic and social collapse. The growing number of failed states in sub-Saharan Africa might thus be seen not as an unfortunate accident but as an inevitable consequence of the competitive nature of neoliberalism. Had African countries been more successful, the costs of failure would merely have been shifted to another region.

##### **Prerequisites for a pro-health model**

Many critiques of the current development model assume, implicitly or explicitly, that the alternative is a return to one of two previously successful models:

- the *East Asian model*, also based partly on export promotion, but with a much more active and interventionist role of the state; or
- the *import-substituting industrialisation model* characteristic of much of Latin America until the 1970s.

While both were notably more successful than the current model, in terms of economic growth, both share with it a fundamental flaw: they rely primarily on the rich getting richer in order to make the poor less poor, either nationally or globally. In a world of ever-tightening constraints on carbon emissions, the dependence on ever-increasing consumption raises serious questions about their environmental sustainability, or their feasibility (Woodward 2007a). An alternative suited to a carbon-constrained future is needed.

##### ***Basic principles for a new alternative***

The proposal presented here is based on four underlying principles. The first is that an alternative approach should be *specifically designed* to achieve society's objectives in terms of poverty, health, education and environmental sustainability. The first three of these are encapsulated in the economic and social rights contained in international human rights instruments, while environmental sustainability embodies the rights of future generations.

The second is that the proposed policies, programmes and projects should be designed to achieve these objectives at the local level, with national policies designed to support, promote and facilitate them and global systems designed to foster and accommodate these national policies. This 'bottom-up' orientation is a reversal of the current process in which national policies are driven largely by global economic conditions, within a top-down, one-size-fits-all framework determined primarily by global institutions.

The third principle involves maximising synergies between development, the environment, health and education, taking account of indirect as well



as direct social and economic effects. This means addressing the social and environmental determinants of health and providing health-related services as interrelated parts of a holistic framework that includes:

- poverty and economic security;
- food security and nutrition;
- social inclusion;
- peace and personal security;
- availability of time for health-promoting household activities;
- safe living environments and working conditions;
- protection from extreme weather events;
- healthy lifestyles and diets;
- access to education, health services, clean water and sanitation.

Finally, an alternative model should be built upon collaboration rather than competition and on an effective system of global governance, capable of ensuring democratic decision-making in the collective interest, with a long-term time horizon.

If these principles are accepted, what will they look like in terms of actual policies? The next section describes the kinds of policies that would be required at the local and national levels.

### **Towards a new alternative: local and national policies**

#### ***Poverty reduction measures***

Focusing directly on achieving social and environmental objectives requires an alternative model constructed around measures to support the livelihoods of poor people. These might include:

- microcredit and income-generation schemes;
- labour-intensive public works programmes to develop infrastructure geared to the needs and priorities of poor households;
- public-sector procurement policies designed to maximise opportunities for medium, small and micro-enterprises;
- agricultural extension programmes directed at small farmers;
- social safety nets;
- cash transfer programmes.

Where land ownership is concentrated, reform and redistribution could provide a major boost to poverty reduction and development in rural areas, providing income opportunities for poor households. Improved land rights may also contribute to improvement of informal settlements in urban areas.

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Some of these policies (notably microcredit, income generation and social safety nets) are already widely used. However, we propose two key changes. The first is that national economic policies be designed specifically to maximise the extent and effectiveness of such policies. The second is that such policies should be designed to *increase the supply by poor households of goods whose demand will be increased as poverty is reduced*. For example, if poor households buy more vegetables, meat and clothes as their incomes rise, policies should aim to support poor households in producing more of these goods.

This approach has three potentially important benefits. First, since an additional \$1 of income provides much greater benefit at the bottom of the income distribution than higher up (and is likely to be less environmentally damaging), focusing on poverty reduction can greatly improve the trade-off between overall well-being and the environmental costs of increased consumption. Further environmental benefits are likely from reducing the financial pressures on poor households to pursue unsustainable productive practices, particularly in agriculture.

Second, the poorest households are likely to spend more of their additional income than the better-off on basic goods and services that can be produced locally by other poor households. As a result, more of the extra spending is likely to *flow among* the poor than 'trickles down' from the better-off in current growth-oriented models.

Third, the approach of reducing the dependency of economic growth on increasing consumption among the better-off has the potential to reduce the disproportionate political influence of the rich, which is a key obstacle to progressive policy change.

### ***Energy management***

While there is growing concern about increasing carbon emissions in large and rapidly growing LMICs such as China, India and Brazil, per capita emissions remain far higher in the North, which accounts for some 73 per cent of the current levels of atmospheric carbon *concentration* through its cumulative historical emissions (Raupach et al. 2007). Moreover, a large proportion of Southern emissions are a result of supplying Northern consumption. There is thus an overwhelming case for emissions reduction to take place mainly in the North.

Nonetheless, it will be important to minimise or reverse the increase in carbon emissions associated with additional consumption in the South as a result of poverty reduction. This implies a decisive shift from fossil-fuel-based systems to renewable energy. The need for such a shift is reinforced

by the prospect of higher oil prices as existing reserves are depleted faster than viable new sources are discovered.

The logistical problems of providing fossil-fuel-based (or nuclear) technologies in rural areas mean that micro-renewable technologies in particular (wind-driven micro-turbines, micro-hydroelectric generation, solar power etc.) offer a 'win-win' opportunity for poverty reduction, health, development and the environment.

While the cost of installing micro-renewable energy systems is currently a constraint, this could be greatly eased by the application of micro-renewable technologies across all underserved rural areas in LMICs. Establishing a global facility for this purpose, funded from aid or other international resources would have enormous potential for both economies of scale and learning effects to drive down costs. This effect could be further strengthened if rich countries also switched from fossil-fuel generation to renewable energy rather than nuclear power. Equally, even on the current relatively limited scale, the shift towards biofuels based on agricultural crops such as maize has given rise to major increases in the cost of basic foods, with potentially serious consequences for food security.

By creating a very large market in rural areas in LMICs, incentives would be created for producers to develop technologies tailored to these conditions, in terms of both geographical and climatic conditions (maximising efficiency) and social and economic conditions (minimising maintenance requirements).

#### ***Public finance, public services and infrastructure***

Across much of the developing world, the public sector has been seriously undermined by a combination of policies which have shrunk the role of the state and acute financial constraints. The latter arise from some aspects of the current economic model itself (e.g. reductions in taxes on trade, the corporate sector and incomes), and from some aspects of the global economy (notably the inadequacy of efforts to deal with the debt crisis, serious shortfalls in aid and various forms of tax competition).

These problems have been compounded by continued constraints on administrative capacity for tax collection; the limited success of replacing lost revenue through value-added tax (VAT) (the preferred neoliberal alternative to taxes on incomes and profits), particularly in low-income countries (Baunsgaard and Keen 2005); and questionable macroeconomic policies imposed by the IMF that have constrained public expenditure (IEO 2007).

There is an urgent need to rehabilitate the public sector and public services. Strong, well-resourced and effective governments have been central to the development process in all rich countries and in the most successful

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LMICs. There is little reason to think that development elsewhere can succeed without this. This requires strengthening governance structures and promoting democracy and accountability, but in such a way as to take account of local social and cultural contexts. It also requires a considerable increase in administrative capacity, through institutional reform, training and education, and improving salaries and working conditions.

There is also an urgent need in many countries for better maintenance, rehabilitation and further development of physical infrastructure. From a health perspective, water and sanitation are among the highest priorities. Access to water can be assisted by tariff structures which allow free access to water for essential household use, while levying appropriate charges for commercial and luxury use (e.g. swimming pools). Improved access to clean water also reduces the time spent (usually by women or girls) collecting water, thus encouraging girls' education.

Transport infrastructure is critically important, providing multiple benefits in terms of domestic and external trade, travelling time to health facilities and schools, and so on. Communications in LMICs have been revolutionised by mobile telephony. Internet and email access, though still limited, have a similar potential, particularly in rural areas. Efforts to ensure universal coverage of mobile phone and wireless Internet networks and to minimise costs to users should be encouraged. Placing a computer with a reliable Internet connection and mobile phones for communal use in community facilities like schools could widen access considerably.

These measures will require a substantial increase in public resources in most low-income countries. Resources need to be raised in such a way as to minimise both the tax burden on poor households and the burden on generally limited administrative capacity.

Taxes on international trade, corporate profits and income from financial savings are relatively easy to collect. Taxes on financial savings and corporate profits are also much more progressive than consumption taxes such as VAT. Trade taxes could also be made more progressive by excluding essential goods purchased predominantly by poor households, and charging higher rates on luxury goods.

Other means of raising (or saving) public revenues require action at the global level, and are therefore discussed later.

### ***Transforming the corporate sector***

During the last twenty-five years, increasing emphasis has been placed on attracting foreign investment rather than stimulating local investment. However, foreign investment has three important disadvantages relative to local investment.

First, the initial inflow of foreign exchange it brings is more than offset over time by a continuing outflow of profits. Keeping cashflow positive over the long term thus requires enough new investment each year to offset the outflow of profits. Since these new inflows add to the stock of foreign-owned investment, when taken to its logical conclusion this implies a progressive transfer of the productive sector (and thus of the profits generated in the economy) into foreign ownership (Woodward 2001).

Second, foreign investment is typically much less labour-intensive than local investment. While foreign investments may appear to create substantial numbers of jobs by virtue of their sheer size, they generally create far fewer than an equivalent amount of local investment.

Third, foreign investment provides much greater opportunities for tax avoidance and evasion through mechanisms such as transfer price manipulation. This undermines the competitive position of local companies by giving foreign investors an artificial financial advantage.

For these reasons, there is a need for a shift of emphasis from foreign to local investment, particularly by small, medium and micro-enterprises. The ground rules for larger companies could be changed to

- ensure power-sharing among a wider range of stakeholders, including consumers, employees and the communities in which they operate;
- maximise their contributions to social and environmental goals.

However, the scope for such changes may be limited at the country level in the absence of international changes, given the increasingly footloose nature of production and the considerable economic and political power of larger corporations.

A case could also be made for placing restrictions on marketing and advertising (beyond the provision of factual information), which are an important driving force behind consumerism and the ‘hedonic treadmill’ of competitive overconsumption, as well as unhealthy consumption patterns.

### **The global level: poverty eradication and health for all**

In a globalised world, changes made by LMIC governments can only go so far on their own. Changes are also required at the global level. This section describes the supranational policies and actions that form part of the alternative paradigm proposed here.

#### ***Global governance and the need for reform***

The current system of global governance is seriously lacking in inclusiveness, equality of voice, transparency and accountability – basic preconditions for democracy – reflecting its roots in the colonial era.

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The economically weighted voting systems of the IMF and the World Bank give rich countries the majority of the votes (and the US alone a veto on all major policy decisions). The US and European governments choose the heads of the World Bank and the IMF respectively. Together with the vetoes accorded to the US, the UK and France in the United Nations Security Council, this has allowed the developed world effectively to dictate subsequent changes to the system, and to protect their political privileges. In the WTO, while the formal decision-making structures are more democratic, they are of limited relevance as negotiations take place almost entirely through informal processes characterised by lack of transparency and blatant abuse of power (Jawara and Kwa 2004).

The system of global governance has consistently served the commercial and geopolitical interests of the rich countries, often at the expense of the 86 per cent of the world's population who live in the developing world. This is amply demonstrated by the system's repeated failures in dealing with debt and financial crises since the 1980s; WTO agreements which overwhelmingly reflect Northern commercial agendas; and the global imposition of a neoliberal model of economic development.

The system of global economic governance established in 1944 does not meet the needs of the early twenty-first century, or serve the long-term interest of the world's population as a whole. Neither does it reflect contemporary standards of democratic governance. This represents an overwhelming case for fundamental reform.

### ***International finance: crisis prevention and resolution***

There is an urgent need to deal with remaining debt problems. The costs of debt crises to development, and their direct and indirect social impacts, have been incalculable. All countries' debts should be reduced to a level at which their servicing (repayment with interest) does not impair their ability to achieve poverty eradication and health and education for all (Mandel 2006a).

In addition, there is a strong case for removing the financial burden resulting from odious debts – debts from unethical lending to undemocratic and/or kleptocratic regimes (e.g. South Africa under apartheid, Indonesia under Suharto and the Mobutu government in Zaire), which had no legitimate right to borrow on behalf of the population. While many of the original loans have now been repaid, the new debts that were incurred to service and repay them continue to impose a major financial burden on many LMICs (Mandel 2006b).

There is also a need to establish a fair and transparent arbitration process (akin to bankruptcy processes at the national level) to deal with future debt

crises. This would replace the current system, in which the arbiter is the IMF – both a creditor in its own right and controlled by other creditors (rich-country governments), which in turn have a vested interest in the protection of a third group of creditors (commercial banks). The objective of the process – in marked contrast to the existing system – should be to resolve all future debt crises quickly, effectively and at a minimum cost in terms of social impact.

Changes are also required to ensure that financial crises of the kind which swept ‘emerging market’ economies in the late 1990s are avoided and resolved more effectively, particularly by reducing the dependency of LMICs on volatile forms of external financial capital. Options include the reintroduction of controls on capital flows, and the introduction of the Spahn tax (a currency transactions tax that is charged at a very high rate in response to extreme movements of the exchange rate) (Spahn 1996). Consideration could also be given to a global intervention fund along the lines of the Chiang Mai Initiative (discussed later) to protect currencies from speculative attack.

#### ***International finance: taxation***

A system of global taxation needs to be established to provide funding for global institutions and global public goods such as the control of infectious diseases and the development of vaccines. This would help to ensure the independence of international institutions and decision-making against the pressures arising from financial dependency on discretionary funding from rich-country governments.

Funding could also be provided for development – ideally combined with collectivisation of aid, allocated through democratic global institutions. This would help ensure that aid is allocated in accordance with needs and global priorities rather than donors’ commercial and geopolitical agendas. It would also help prevent donors from using aid to exercise undue influence. Support for the provision of micro-renewable electricity generation technologies in rural areas would be a high priority for such funding.

Global taxes might include, for example, a currency transactions tax at a very low level on currency exchanges (the Tobin tax), which could be levied through the global clearing system; air passenger or air fuel taxes, on all (or only cross-border) air transport; a levy on trade in carbon emission permits (see below); and taxes on international trade in armaments.

In addition to global taxes, measures are required to relieve global constraints on national taxation. The increasing international mobility of financial capital limits the ability of governments to tax income from financial wealth. This reduces both the amount of revenues and the progressiveness of

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the tax system. The need to attract foreign investment also puts pressure on countries to reduce corporate taxation rates and provide direct and indirect subsidies to investors, reducing public revenues still further.

These problems are compounded by the proliferation of tax havens, increasingly in major financial centres in the developed world. Such centres act as a magnet for footloose international capital, both constraining tax rates and reducing the tax base by stimulating capital flight. Total assets held through offshore accounts (excluding real estate) have been estimated at US\$11,500 billion, resulting in losses of tax revenues estimated at US\$255 billion p.a. (TJN 2005).

Further problems arise from the growth of transnational companies, which can minimise the tax they pay by moving their notional base to a country with a more favourable tax regime. Also, around one-third of world trade is between subsidiaries of the same company in different countries (intra-company trade). Because the same company is both the seller and the buyer, it can set an artificially high or low price (transfer price manipulation), as a means of transferring profits to a country with a lower tax rate – often a tax haven. This seriously reduces taxes on the profits of foreign investors, which represent a rapidly growing share of total investment in many LMICs.

Problems of capital flight and constraints on taxing income from financial wealth could be eased by capital controls, and tax competition by strengthened international coordination of tax rates on financial capital and corporate profits. The closure of tax havens and the imposition of minimum tax rates on income from financial capital and corporate profits would also allow public revenues to be increased considerably. Consideration could also be given to allocating taxes on transnational companies' profits according to their value-added in each country where they operate, removing the incentive for transfer price manipulation.

There is a strong case for an international institution with responsibility for tax issues to implement such measures – although it would be essential to ensure effective democratic control and independence from commercial interests.

### ***Enforcing carbon constraints***<sup>5</sup>

Ensuring that global carbon emissions fall fast enough to avert catastrophic climate change is essential to any development strategy. This could be achieved through a system of tradable carbon emission permits, issued by a global institution. Fossil fuel and energy companies would need to purchase permits in proportion to the emissions for which they were responsible and would pass on the cost to consumers through pricing. The total supply



of permits would be rationed, in line with global emissions targets, and reduced accordingly over time.

Concerns about the distributional effects of carbon trading systems (see Chapter C1) could be resolved by allocating permits on an equal per capita basis. In fact, this would make the system into a powerful tool for redistribution as well as for ensuring compliance with global carbon constraints. No country or individual has a 'right' to a greater share of the world's capacity to absorb carbon than any other. If anything, the per capita entitlements of richer countries should be *lower*, reflecting their far higher emissions in the past. If a proportion of the permits were allocated to governments, this could also provide a very considerable source of public revenues through the sale of these permits.

### ***International trade***

International trade rules need to be reoriented to meet social and environmental objectives rather than commercial interests.

Production and export subsidies to large-scale agriculture in LMICs and the dumping of produce in LMIC markets at below-market prices are major obstacles to development and poverty reduction and should be ended. WTO rules should also be revised to allow LMICs to use trade taxes where appropriate, both for revenue-raising purposes and in support of local development, in line with the WTO's stated (though largely ignored) principle of 'special and differential treatment'.

Equally important are measures to reverse the long-term decline in the world prices of tropical agricultural products, which has been exacerbated by the promotion of exports of these goods under neoliberalism. This could be done through a system of coordinated export taxes applied by all producing countries. For many tropical agricultural products, such as coffee, tea and cocoa, demand is not very responsive to price, so that a 1 per cent price increase reduces demand by less than 1 per cent. This means that the proceeds of a universal production tax would be more than the loss of income to producers, so that poorer producers could in principle be compensated, while still generating additional public revenues. Such compensation could usefully be directed to promoting and supporting the production of substitute crops for the domestic market.

Similarly, for countries which export fuels and minerals, both export prices and public revenues could be substantially increased through collective bargaining for extraction rights (including renegotiation of existing agreements). At present, such rights are negotiated bilaterally between individual governments and companies, and contractual terms generally

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remain secret. Combined with the acute foreign exchange pressure faced by many countries, bilateral negotiations give rise to competition for investment, with the risk of bidding down the terms of agreements, and thereby reducing royalty receipts. The negotiating position of LMICs could thus be strengthened, and the terms available to them improved by establishing a forum for collective negotiation.

### *From intellectual property to intellectual commons*

The global public good of knowledge has effectively been privatised by the WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement, and by regional and bilateral agreements between rich countries and LMICs. Proponents of this approach argue that conferring monopoly rights on those who generate new knowledge creates stronger incentives for research and product development. However, this increases the price of new products and technologies, leaving poor people and poor countries out of the market, even where the research activities of rich-country corporations have benefited from substantial public subsidies.

Because the profits generated reflect the ability and willingness of potential buyers to pay, this also skews incentives for research in a number of ways:

- from the urgent needs of the poor to the (often more cosmetic) wants of the rich;
- towards products which provide private rather than public benefits;
- towards technologies which can be embodied in a new product (rather than, for example, health-improving behaviour or nutrition);
- towards curative rather than preventive interventions;
- towards the development of 'copycat' products similar to successful patented products, rather than anything new or innovative;
- against collaboration and information-sharing among researchers.

Even if governments intervene to increase affordability or provide incentives for neglected areas of research, for example by providing funds to purchase the goods required by poor countries, they must offer prices high enough to compete with the increased incentives for research and development of products directed to the wants of the rich. This limits the scope of such intervention and diverts resources away from alternative uses.

It is in any case by no means clear that financial incentives are the most effective means of stimulating research. Many of the most important breakthroughs in medical technology – from anaesthesia, through X-rays and polio vaccine, to oral rehydration therapy – have had little to do with financial incentives.

All this suggests that patents are ineffective, inefficient and probably counterproductive, in terms of stimulating technological innovation in the public good. Alternatives to the current patent-based system of rewarding research and development are discussed in Chapter B5.

### **First steps towards the future?**

The agenda outlined above implies fundamental changes, at every level from the local to the global, and in economic, social, environmental and political dimensions. However, there are signs of a progressive shift in the right direction. There are two major forces behind this process: a renewed energy and independence among some Southern governments; and the growing role of progressive civil society on the global stage.

#### *Recent Southern initiatives*

Over the last decade, there have been a number of steps towards developing alternative international structures and national policies, as some Southern governments have become more assertive in their resistance to the current model of development and the global system that underlies it. The first sign of this process was the renaissance of regional trade agreements beginning in the early 1990s, particularly in Latin America and Southeast Asia. This process has seen the expansion of the Association of Southeast Asian Nations (ASEAN), the establishment of Mercosur by Brazil, Argentina, Uruguay and Paraguay, and the resurrection of the Central American Common Market. Existing regional trade arrangements among the LMICs have been strengthened, and there are increasing efforts at collaboration between blocs.

This may be seen as a partial realisation of Samir Amin's argument for the cultivation of regional (South–South) trade, to allow broader involvement in production, with knock-on benefits for local purchasing capacity. Amin (1985) proposes a three-tiered regime of stepped protection, with trade barriers designed to support a degree of national self-sufficiency in the context of regional trade preferences, with participation in global trade as a residual option. In effect, potential losses of efficiency, higher consumer prices and reduction in quality associated with trade barriers are seen as a price worth paying for the promotion of livelihoods, economic diversity and industrial capacity which would arise from retaining more income within developing economies and protection from the competitive pressures that undermine social provision.

However, many regional trading blocs aspire to free trade within the region and WTO rules prevent them from raising trade barriers to other

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countries. As a result, the only real effect is to lower trade barriers between members of the bloc. To approximate Amin's original vision would require a reversal of this logic and fundamental changes in the multilateral trade system, so that some barriers could be retained within the bloc, with higher barriers between Southern blocs, and still higher barriers to the rest of the world. Ensuring positive effects would also require further consideration of the implications for ecological sustainability of more distributed production; measures to ensure access to advanced technologies (e.g. for renewable energy and pollution control); and a reorientation of values, from the materialism which underpins the current model towards a culture of simple living.

A further important step away from the current model was the Chiang Mai Initiative, agreed by a number of Asian governments in 2000 in response to the IMF's failure to prevent or deal effectively with the region's financial crisis in the late 1990s. It amounts to a regional alternative to the IMF, pooling part of the international reserves of the participating countries to counter speculative attacks on their currencies. It thus provides simultaneously a more effective means of preventing such crises, a more appropriate mechanism for responding to them, and a means of limiting the imposition of inappropriate policy conditions should a crisis occur.

A stronger movement away from neoliberalism is emerging in Latin America, with the advent of several progressive leaders who are breaking away from the neoliberal orthodoxy – notably Hugo Chávez in Venezuela, Evo Morales in Bolivia, and Rafael Correa in Ecuador (Chomsky 2005).

The centrepiece of this movement is the Bolivarian Alternative for the Americas (ALBA), a regional alternative to free trade initiated by Venezuela, following successful efforts to block the US proposal for a Free Trade Area of the Americas (FTAA). ALBA has expanded from two members (Venezuela and Cuba) at its establishment in 2004 to nine, with the addition of Bolivia, Nicaragua, Ecuador, Uruguay, the Dominican Republic, St Kitts and Nevis, and Haiti.

ALBA aims to encourage members to integrate their economies, so as to complement each another rather than to compete. Its objectives are:

- promoting trade and investment between members, based on cooperation and improving people's lives, not making profits;
- cooperation among members to provide free health care and education;
- integration of members' energy sectors to meet their peoples' needs;
- ensuring land redistribution and food security;
- developing and furthering state-owned enterprises;

- developing basic industries to promote economic independence;
- promoting workers', student and social movements;
- ensuring that projects are environmentally friendly.

As well as committing its member states to participatory democracy, ALBA encourages popular participation in its own planning and functioning. In addition to presidential and ministerial councils, its operations are overseen by a third council made up of social movements. Some of the continent's largest social movements, such as the Movement of Rural Landless Workers in Brazil and the International Peasant Movement (Via Campesina), participate, and their ideas around land redistribution, free health care, free education and food security have become part of ALBA's goals.

Examples of ALBA's approach include:

- the exchange of Venezuelan oil worth \$1 billion a year for the services of 30,000 Cuban doctors and teachers, allowing Venezuela to staff 11,000 new clinics in poor neighbourhoods (Ali 2006), and new schools and adult literacy centres across the country;
- Cuban donations of medical equipment and supplies, doctors and teachers to Bolivia to help expand its public schools and hospitals;
- a Latin American School of Medicine providing free medical education to students from the region (Janicke 2008);
- five major agricultural projects producing soya, rice, poultry and dairy products, to guarantee food security in Cuba and Venezuela and the provision of free or subsidised food to millions of people in Venezuela;
- Venezuelan and Cuban imports of soya from Bolivia after the US stopped buying them in 2006;
- Venezuelan financial support to Bolivia's state-owned gas sector in exchange for agricultural products (Harris and Azzi 2006);
- the exchange of Venezuelan oil, at discounted prices, for agricultural produce from St Kitts and Nevis, Haiti and the Dominican Republic;
- Venezuelan assistance to Cuba in the construction of a massive aqueduct to improve its water supply;
- mutual assistance agreements between Venezuela and Nicaragua around social programmes, including the provision of housing and education to Nicaragua's 47,000 street children;
- an ALBA fund to improve public schools, health care, and other social services in St Kitts and Nevis, Haiti and the Dominican Republic;
- creation of a Bank of ALBA, run on a democratic basis, with more than \$1 billion in capital, making loans to member states without policy

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conditions, for infrastructure, health, education, and social and cultural development.

Venezuela, Bolivia and Ecuador are also planning to establish an OPEC-type organisation to help ensure stable and fair prices for gas.

As governments across Latin America have moved away from borrowing from the IMF and the World Bank (Neuber 2007), Venezuela has become the preferred source of loans, lending some \$4.5 billion to Argentina, Bolivia and Ecuador since 2005, without policy conditions (McIvor 2007). In 2007, Venezuela, Argentina, Bolivia, Ecuador, Paraguay and Brazil agreed that such lending should be formalised through a Bank of the South (McElhinny 2007), to begin operations in 2008.

Countries will deposit 10 per cent of their foreign currency reserves in the Bank as a start-up fund (Toussaint 2007). Once the Bank is fully operational, member countries will be able both to borrow and to use funds to protect currencies if attacked by speculators, without IMF policy constraints (Toussaint 2006). Most of the countries involved have agreed that the Bank will be run on a one country/one vote basis, unlike the IMF and the World Bank (Zibechi 2007), and to launch a Latin American currency for trade (Ugarteche 2007), to reduce the dominance of the US dollar in the region.

As well as their direct benefits to members, ALBA and the Bank of the South are of great symbolic and political value, demonstrating the feasibility of alternative economic models. Together with the Chiang Mai Initiative, and the reduction of borrowing from the IMF and the World Bank by middle-income countries, they are also putting financial pressure on the Bank and the IMF, highlighting their democratic deficits and lack of legitimacy.

### ***Civil society as a driving force for change***

Over the last decade, the role of civil society in influencing economic policies at the global level has increased considerably, strengthened by the development of global networks such as the World Social Forum and the People's Health Movement. Notable successes have included improved mechanisms for debt reduction in low-income countries, blocking the proposed Multilateral Agreement on Investment (MAI), the Doha Ministerial Declaration on Access to Essential Medicines, and blocking WTO agreements unfavourable to the developing world at WTO Ministerial meetings in Seattle and Cancún.

Notable as these successes have been, it is important to recognise their limitations. All have been, in a sense, exercises in damage limitation

– seeking to prevent decisions which would make the situation worse (e.g. MAI and WTO Ministerials), to limit the impact of previous adverse decisions (e.g. TRIPS), or, in the case of debt, to moderate the effects of an adverse side effect of the prevailing model which had already imposed devastating costs for more than a decade.

Where decisions have been blocked, this has often been temporary.

- Failures to reach agreement at WTO Ministerials have only delayed negotiations, without changing the agenda or the undemocratic nature of the negotiation process.
- Having been blocked in the OECD, the MAI proposal resurfaced in a different form, as a proposal for capital account liberalisation in the IMF, and later (when blocked there) in another variant as a proposal for negotiations on an Investment Agreement in the WTO. Even when WTO negotiations on the issue were blocked in the current round of trade negotiations, the issue was only put off until the next round.
- The potential benefits of the Doha Declaration were largely neutralised by the subsequent imposition of burdensome conditions on its provisions, and by the imposition through bilateral trade ‘agreements’ of standards of intellectual property protection that exceed even those of TRIPS.

On debt, the Heavily Indebted Poor Countries (HIPC) Initiative benefited only some countries needing debt cancellation, set sustainability thresholds too high, was conditional on continued IMF and World Bank programmes similar to structural adjustment, and had long delays built in, so that no countries completed the process in the first five years, and only nine in the following four years (Jubilee Research 2007). Campaigns on debt continue even now.

2005–6 saw an unprecedented global mobilisation of civil society on debt, aid and trade, under the banner of ‘Make Poverty History’. While some commitments were made at the Gleneagles G8 Summit, these fell far short of what was demanded, added little to previous commitments made elsewhere, for example EU aid commitments (Jubilee Research 2005), and have been only partly fulfilled.

Nonetheless, civil society has a key role to play as a driver of change. Northern development NGOs have a particular responsibility: the dominance of international decision-making processes by Northern governments means that Northern NGOs, through their influence on their governments, have arguably greater influence in global decisions than do representatives of the South. They have undoubtedly helped to raise the political profile of development issues.

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However, to be effective, such campaigns need to be rooted in a much broader social mobilisation, and a radical empowerment of people, particularly in LMICs. If they are to counterbalance the profoundly undemocratic nature of the global governance system, the primary responsibility of Northern development NGOs should be to represent the views and priorities of Southern civil society and to seek reform of international institutions to ensure that Southern countries have influence commensurate with their share of world population in international decisions which affect them.

NGOs have a major role to play in promoting more development-friendly solutions to issues such as debt, intellectual property, tax competition and tax havens, and to bring the corporate sector under effective democratic control. However, the most important priority for civil society activism is arguably the democratic reform of global economic governance. This is both a central cause of the shortcomings in the global economic system and the imposition of the current model of development, and the greatest obstacle to change. Unless and until global governance structures change – fundamentally – civil society efforts on other issues will inevitably remain limited to damage limitation, and at best partially successful.

Global governance reform is also, in some respects, a relatively easy target. The substantive economic issues are many and complex, making the mobilisation of public opinion difficult and stretching the limited advocacy resources of NGOs and CSOs. The principles of democracy, by contrast, are relatively simple, familiar to the general public and generally accepted; and the democratic deficits of the IMF, World Bank and WTO are already receiving increasing media attention.

This provides an invaluable opportunity. The fundamental inconsistency between the democratic principles Northern governments profess domestically, and their defence at the international level of grossly *undemocratic* processes dating from the colonial era, makes their position untenable if a sufficient weight of public opinion can be mobilised on the issue.

At the same time, the increasing reluctance of emerging market economies to borrow from the IMF and the World Bank, and the growth of regional alternatives such as the Chiang Mai Initiative and the Bank of the South, undermine their legitimacy, and put the Fund in particular under increasing financial pressure. These developments give the governments of some larger middle-income countries such as China and Brazil a credible ‘walk-away’ threat, which has the potential to exert considerable pressure on rich-country governments regarding IMF and World Bank governance issues.

However, if this is to lead towards genuinely democratic reform and the empowerment of low-income countries, which are the most marginalised,



it will be important to ensure solidarity among Southern governments as a whole (Woodward 2007b). This will also be important in keeping a broad civil society constituency on board.

A key obstacle to global governance reform is the need to secure changes through the very decision-making processes that need to be reformed: as long as Northern governments continue to dominate decisions on governance reform, they will continue to use their dominance to protect their privileges. It is therefore essential to take the process out of these decision-making structures into a separate process akin to the Bretton Woods Conference – but one which reflects current standards of democracy (inclusiveness, equality of voice, transparency and accountability) rather than those of the colonial era.

A major global campaign, across the whole spectrum of civil society, and in close collaboration with LMIC governments, for the establishment of such a process would be a major step towards securing the changes needed to achieve a global economic system for the health of the many rather than the wealth of the few.

### ***Changing lifestyles***

Recent years have also seen a growing trend, particularly in the North, in changing lifestyles towards more ethical and sustainable principles. This began with environmental concerns, reflected in increasing interest in recycling in the 1980s, and has been reinforced more recently by increasing energy consciousness, particularly concern about air travel and the carbon costs of long-distance air freighting of foodstuffs.

Development and other social concerns are reflected in growing demand for fair trade goods and other forms of ethical consumerism, while an increasing proportion of savings, pension funds, and so forth, espouse (generally limited) ethical investment principles. The resulting pressures have led growing numbers of companies to take a much more active stance on corporate social responsibility – although this often goes little beyond a public relations exercise.

At the same time, a small but growing number of people are deciding to get off the ‘hedonic treadmill’ of overconsumption – opting to shift their work–life balance in favour of a higher non-material quality of life rather than working ever-longer hours under ever-greater stress in order to consume more and more, without improving their well-being. As well as positive environmental effects, this is likely to have benefits for their own health. At the same time, the growing participation in environmental and development campaigns, from Jubilee 2000 to Make Poverty History, indicates an increasing trend towards political activism on global issues.

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Perhaps the most important of the trends are increasing energy consciousness and reduced consumerism. Living within global carbon constraints while making progress against poverty will require lower and less energy-intensive consumption among the better-off in the North. If this is reflected in a shift in voting patterns – away from personal material gain and towards broader social and environmental objectives – then, coupled with increasing activism, this could also help to shift political dynamics in a positive direction.

### **Conclusion**

This chapter presents a vision of how the world could be run in order to achieve poverty eradication, health for all and education for all, while also ensuring environmental sustainability and bringing climate change under control. But doing so would require genuine political will. This chapter is a starting point for discussion, not a blueprint. But it provides an indication of what might be possible if we are willing to think outside the currently dominant paradigm of economics.

However, the issue of political will is critical. We are in the current situation largely because of politics – specifically, because the global system is effectively run by rich-country governments, which are disproportionately influenced by commercial interests and which have consistently demonstrated their determination both to preserve their power and to use it primarily to advance their own interests.

Any reform of the global system commensurate with the immense challenges we face requires this to change. The proposals outlined here would necessarily imply both financial costs and a loss of control for those who currently have the greatest power – and there is little indication that they will willingly concede either in the near future.

However, if we dismiss the reforms which are so desperately needed as politically infeasible, and focus our efforts exclusively on piecemeal damage limitation within the current paradigm, this will be a self-fulfilling prophecy: a more viable alternative will *remain* politically infeasible. By not pressing for the fundamental reforms which are needed, *as well as* smaller but more immediately achievable changes, we risk legitimising the current global system, and allowing it to become yet more entrenched.

Climate change provides a potentially important political opportunity in this respect. As the impacts are increasingly felt in rich countries, through hurricanes in the US and droughts, floods and heatwaves across Europe, it will become increasingly apparent that the status quo is no longer a viable

option. Even in the North, the question is no longer *whether* the system should change, but *how* it must change.

The risk is that the response will be dictated by rich-country governments to protect their own interests at the expense of the remaining 86 per cent of the world. Avoiding this outcome, and ensuring a change which will contribute to meeting the needs of the South, is therefore a key objective.

In order to achieve the necessary changes on the scale required, we need to harness the potential strength of civil society to the greatest possible extent to generate political pressure on those who hold power. This means developing a shared vision, both across national boundaries and across constituencies such as health, development and the environment; and acting together to make that vision a reality. This chapter aims to provide a first small step towards bringing the global health constituency into such a process.

## Notes

1. This chapter is based primarily on David Woodward's forthcoming *More with less: Towards a new economics paradigm for poverty eradication in a carbon-constrained world*.
2. The story of how neoliberalism moved from the theoretical margins to the political mainstream is told in Richard Cockett, *Thinking the unthinkable: Think-tanks and the economic counter-revolution, 1931–83*, London: Fontana, 1995.
3. <http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp>.
4. Based on the World Bank's Povcalnet database, available at <http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp>.
5. *Editorial comment*: Different perspectives are held on the potential of carbon trading as a means to reduce carbon emissions. Two different positions are reflected within this edition of *Global Health Watch*. For an alternate perspective, see Chapter C1.

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