

**SCALING UP GLOBAL SOCIAL HEALTH PROTECTION:
PREREQUISITE REFORMS TO THE
INTERNATIONAL MONETARY FUND**

Gorik Ooms and Rachel Hammonds

People living in low-income countries require protection from the economic and social impacts of global economic competition, yet, historically, the International Monetary Fund's (IMF) fiscal austerity programs have weakened the potential for redistribution both within poor countries and between rich and poor countries. The current development paradigm's focus on "sustainability" is an obstacle to developing systems of global social protection and an impediment to future progress. Reforming IMF policy conditionality and democratizing the IMF's decision-making processes will be necessary for offsetting growing inequalities in health financing among poor nations.

Global capitalism and its inherent competition creates "winners" and "losers," both within a country and globally. In wealthy nations, those who lose the economic trading competition are buffered against the vagaries of competition and life by national social protection mechanisms. International Labour Office officials define these social protections as "income transfers (or benefits) in kind and in cash that a society affords to its individual members in order to: avoid or alleviate poverty; or assist them in coping with a series of life contingencies or risks; . . . or reduce or correct inequalities created through the primary (*pre-transfer*) income distribution" (1; emphasis added).

Between rich and poor nations, and within poor nations themselves, few such protective mechanisms exist (2). Bilateral and multilateral donors such as the International Monetary Fund (IMF), the United Nations Development

Programme, and the World Bank were established to promote global economic stability and reduce poverty around the world. As such, one could argue that it falls within their remit to design and implement policies to protect vulnerable members of global society from global economic shocks, through, for example, development aid programs, in-depth economic analysis, and policy recommendations. However, as we argue here, nearly the opposite has happened.

THE ROLE OF THE INTERNATIONAL MONETARY FUND IN WEAKENING GLOBAL SOCIAL PROTECTION

The U.N. Development Programme argues that “international aid is the equivalent of a redistributive fiscal transfer mechanism” (3). In other words, aid is like a global welfare system. However, this development assistance is an inadequate substitute for formal social protection for the poor, for at least two reasons. First, its financial volume and the rules attached to these finances are insufficient to compensate for the inequalities arising from the flows of raw material resources and debt from developing to developed nations, in which inequalities were generated when rich countries provided the elite in poor countries with loans that are now borne by a largely unassisted poor population (4). The flows of aid are often also, themselves, new loans and are accompanied by strict rules that often fail to produce in the recipient countries new infrastructure to create welfare systems for the poor.

Second, unlike national social protection, which is designed as a *permanent* redistributive mechanism to correct the *recurring* inequalities inherent to competition, development assistance is designed to be *temporary*: the beneficiaries, whether nations or communities, are expected to become self-sufficient within a reasonable time-frame. Development assistance is designed as if global economic competition will stop producing inequalities between nations, as soon as all nations receive a fair chance to compete. This ignores the fundamental system of trade that currently operates, in which those who are winners are capable of setting the rules of trade to their advantage, while those who lose continue to be unable to invest in future capital and resources for the next competition.

The IMF, an institution primarily constructed to regulate currencies, has focused on making poor countries more self-sufficient, mostly through the paradigm of reducing dependency on aid. The IMF’s focus on helping low-income nations become self-sufficient within a foreseeable time period has led it to give policy advice that increases the harm suffered by vulnerable residents of these low-income countries. The aim of national self-sufficiency provides a convenient alibi for wealthy nations. It affirms that responsibilities for essential human rights such as health, education, housing, and food security are and remain ultimately national responsibilities. At the same time, national self-sufficiency exonerates wealthy nations from contributing a fair share to the efforts required

to guarantee a life in dignity to all of the world's citizens, even as these nations extract resources and are indeed highly "dependent" on the developing world for oil, minerals, and labor. The paradigm of self-sufficiency or "sustainability" even provides an aura of respectability to wealthy nations' greed: after all, too much aid could create aid dependence.

HIV/AIDS ACTIVISM AS THE SEEDS OF A GLOBAL SOCIAL PROTECTION PARADIGM

The paradigm of self-sufficiency has recently been challenged. As part of the global response to the HIV/AIDS epidemic, the aim of national self-sufficiency was thrown overboard by some activists (5). Wealthy nations were pressured into contributing their fair share (6) by AIDS activists who adopted human rights arguments to push for expanded access to AIDS treatment (7), for which the cost at the time greatly exceeded the present and future financial capacity of some of the most seriously affected countries (8).

This new development aid approach is based on the idea of building sustained transnational redistributive fiscal transfers and creating new within-country protective mechanisms in poor nations. It appears to be gaining ground. In April 2009, the Government of Ethiopia signed a Joint Financial Agreement with the World Bank, the U.K. Department for International Development, Ireland's Irish Aid, and other donor and U.N. agencies, which stated that Ethiopia needs an additional US\$1.4 billion per year, as a starting redistribution of capital, to achieve the health-related Millennium Development Goals (9). While this agreement constitutes merely an acknowledgment of a funding gap and a fundamental inequality in resources, the fact that Ethiopia's present government health budget (including present "on budget" development assistance) stands at about US\$400 million per year indicates that an ambitious target has been agreed to, one that can only be reached through *sustained* transnational redistributive fiscal transfers—a form of global social health protection.

THE ROLE OF THE INTERNATIONAL MONETARY FUND IN THE NEW GLOBAL SOCIAL PROTECTION: THE CASE OF ETHIOPIA

What role does the IMF currently play in global social protection, and what does it imply for the future? Substantial historical evidence indicates that the role of the IMF has primarily been to avert such sustained transfers of wealth and even to reduce current transfers, under the premise of maintaining economic stability by focusing on the movement of capital from public to private hands—which is assumed (despite much data to the contrary) to produce a more effective system of government and statehood. Let's return to the case of Ethiopia, and suppose that wealthy nations can be pressured into filling Ethiopia's US\$1.4 billion per year health funding gap. Would the IMF allow Ethiopia's

public health expenditure to increase from US\$400 million to US\$1.8 billion? History suggests it would not. Joseph Stiglitz remembers the IMF's interpretation of "sound economics" in Ethiopia like this (10):

A poor country like Ethiopia has two sources of revenue—taxes and foreign assistance. The government's budget is balanced as long as those revenues equal expenditures. This may seem like elementary economics—but it is not IMF economics. Although Ethiopia's budget was balanced, the Fund argued that the country's budgetary position was untenable: what would happen if foreign assistance suddenly dried up? Ethiopia should act immediately, the Fund argued, to prevent the possibility of disaster. That meant cutting spending or raising taxes—a difficult action in any country, but especially in a desperately poor one.

The IMF staff are understandably afraid of volatility leading to economic shocks—which causes a lot of pain and disruption. But it is unclear that the country would be *worse* off with the aid going where it is supposed to go, followed by a disruption, than without the aid being allocated properly at all.

If aiming for national self-sufficiency is like a religion, then the IMF is one of its high priests. The IMF views development assistance as *temporary in nature*, and this is how development assistance has been approached by bilateral and multilateral donors. Furthermore, the IMF has actively pursued policies against the development of social protection within countries, by cutting social spending budgets in fields such as health and education as the primary mechanism to prevent inflation, while offering IMF funds to private bankers who systematically generated the financial crises in the affected countries. The unfortunate result of this thinking is that many poor nations are not using the opportunities offered by increases in development assistance: they accept the additional development assistance, but instead of using it to increase public health expenditure, they use it to replace domestic funding. Hence, actual public health programs do not expand, but money previously dedicated to public health is shuttled into more discrete, less recurrent expenditures that promote private business as part of the IMF's recommendations to countries; these transfers include bailouts to private banks and military contracts.

Stiglitz's testimony noted above relates to an encounter with Ethiopia's Prime Minister Meles Zenawi in 1997. In the decade since then, little has changed. In 2007, the Independent Evaluation Office of the IMF found that "IMF staff have done little to analyze additional policy and aid scenarios and to share the findings with the authorities and donors" (11). The Center for Global Development, in 2007, found that "IMF-supported fiscal programs have often been too conservative or risk-averse. In particular, the IMF has not done enough to explore more expansionary, but still feasible, options for higher public spending" (12).

Returning to the case of Ethiopia, this means that Tedros Adhanom, Ethiopia's minister of health, faces a serious dilemma. He has two budget options for 2010: he could aim for a conservative and risk-averse US\$400 million budget, or he could aim for a progressive and risky US\$1.8 billion budget, more than four times the conservative budget. Whichever he decides, he will be condemned, either for forfeiting the unique opportunity provided by the "international community" or for building a budget on uncertain donor commitments.

Ethiopia's minister of health will probably seek advice from Ethiopia's minister of finance. And Ethiopia's minister of finance will need to follow the anti-inflationary policies of the IMF to secure the IMF funding without which the country would be mired in the debt of prior decades, created by the IMF funders' support of dictatorships. The IMF targets will require Ethiopia's minister of finance to avoid a US\$1.8 billion government health expenditure budget, based on unreliable donor commitments. That might be sound advice. It might also be very convenient advice for the world's wealthiest nations, because if Ethiopia does not aim for a US\$1.8 billion government health expenditure budget, wealthy nations will not be pressured into filling the gap.

IS THE INTERNATIONAL MONETARY FUND THE PROBLEM, OR THE POWERS THAT INFLUENCE THE FUND?

Like any individual or organization, the IMF obeys its paymasters (13), namely, the community of wealthy nations (14), which have refused to accept global social protection—sustained transnational redistributive fiscal transfers from the wealthiest to the poorest nations and the construction of social protective systems within the poorest nations, which are necessary to correct the inequalities created by a global economy based on competition.

Therefore, if such protection is our goal, the IMF should be reformed. First, its "one dollar, one vote" governance should be replaced with a "one human being, one vote" governance, or at least a "one nation, one vote" governance. Voting power at the IMF is based on the amount of money a country contributes to the IMF. At present, the voting power, and thus the influence, of wealthy nations far outweighs that of developing nations (14). This fundamental shift in the IMF's system of creating policy could help engender a greater distribution of power toward those most affected by such policy.

There is also a strong precedent for a greater role of the IMF in improving global social protection. One could argue that creation of the IMF was an early expression of the awareness of the risks of global interdependence: one country's monetary instability could affect the global economy, and therefore nations accepted that they might need to bail each other out during economic recessions. If the IMF would understand that monetary stability is only a tiny part of global "peace"—"peace" being understood as freedom from want and freedom from fear

for all human beings—it could play a constructive role in creating global social protection. So far, the IMF does not play that role; it continues to obey its misguided paymasters. The current global crisis has highlighted the linkages in the world economy, and the world’s most vulnerable people need the IMF to play a role in protecting them from the social consequences of economic instability. The world’s most vulnerable people need global social protection now, which means we need to reform the IMF now.

REFERENCES

1. Cichon, M., et al. *Financing Social Protection*. International Labour Office/International Social Security Association, Geneva, 2004.
2. Collier, P. *The Bottom Billion*. Oxford University Press, New York, 2007.
3. United Nations Development Programme. *Human Development Report 2005. International Cooperation at a Crossroads: Aid, Trade and Security in an Unequal World*. New York, 2005. http://hdr.undp.org/en/media/HDR05_complete.pdf (accessed May 15, 2009).
4. United Nations. *World Economic Situation and Prospects 2009*. New York, 2009. www.un.org/esa/policy/wess/wesp2009files/wesp2009.pdf (accessed May 15, 2009).
5. Ooms, G. Shifting paradigms: How the fight for “universal access to AIDS treatment and prevention” supports achieving “comprehensive primary health care for all.” *Globalization Health* 4(11).
6. France, T., Ooms, G., and Rivers, B. The GFATM: Which countries owe, and how much? *IAPAC Monthly* 8(5):138–141, 2002.
7. European AIDS Treatment Group. Leadership and AIDS: Gregg Gonsalves. <http://v2.eatg.org/eatg/Global-HIV-News/News-archive/Leadership-and-AIDS-Gregg-Gonsalves> (accessed May 15, 2009).
8. Ooms, G., and Hammonds, R. Correcting globalisation in health: Transnational entitlements versus the ethical imperative of reducing aid-dependency. *Public Health Ethics* 1(2):154–170, 2008.
9. Government of Ethiopia and Signatory Development Partners. Joint Statement, Addis Ababa, April 15, 2009. www.internationalhealthpartnership.net/pdf/IHP%20Update%2013/Zambia/Joint%20Statement%20of%20The%20Government%20of%20Ethiopia%20and%20Signatory%20Development%20Partners.pdf (accessed May 15, 2009).
10. Stiglitz, J. Thanks for nothing. *Atlantic*, October 2001.
11. Independent Evaluation Office of the International Monetary Fund. *The IMF and Aid to Sub-Saharan Africa*. Independent Evaluation Office of the International Monetary Fund, Washington, DC, 2007. www.imf.org/External/NP/ieo/2007/ssa/eng/pdf/report.pdf (accessed May 15, 2009).
12. Goldsborough, D. *Does the IMF Constrain Health Spending in Poor Countries? Evidence and an Agenda for Action*. Center for Global Development, Washington, DC, 2007. www.cgdev.org/content/publications/detail/14103 (accessed May 15, 2009).
13. Bretton Woods Project. Submission on the DFID White Paper, May 2009. www.brettonwoodsproject.org/art.shtml?x=564551 (accessed May 15, 2009).

14. International Monetary Fund. *IMF Members' Quotas and Voting Power, and IMF Board of Governors*. Washington, DC, 2009. <http://imf.org/external/np/sec/memdir/members.htm> (accessed May 15, 2009).

Direct reprint requests to:

Dr. Gorik Ooms
Nationalestraat 155
2000 Antwerp
Belgium

e-mail: gooms@itg.be