WHY HEALTH ADVOCATES MUST GET INVOLVED IN DEVELOPMENT ECONOMICS: THE CASE OF THE INTERNATIONAL MONETARY FUND

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International health advocates have traditionally focused on calling for *external* strategies for achieving health goals in developing countries, such as more foreign aid, foreign direct investment, loans, and debt cancellation, as opposed to *internal* approaches, such as building domestic productive capacity and accumulating capital. They have largely neglected questions of development economics, particularly the effectiveness, or lack thereof, of the currently dominant neoliberal development model promoted by the rich countries and aid agencies for poor countries. While critics have been correct to blame the International Monetary Fund for its policies curtailing public health spending in developing countries, their analysis generally neglects the underlying issue of why developing countries are seemingly unable to build their domestic tax base on which health budgets depend. International health advocates should engage with such macroeconomic questions and challenge the failures of the dominant neoliberal economic model that blocks countries from industrializing and building their own productive capacities with which to generate their own resources for financing their health budgets over time.

The international health community has a strong tradition of lobbying for more foreign resources for achieving health goals in the global South. Advocates and nongovernmental organizations (NGOs) have historically focused on support from bilateral aid donors and multilateral lending agencies, such as the International Monetary Fund (IMF) and World Bank. More recently, these health groups have raised concerns that the global economic crisis, by reducing flows of remittances and foreign aid, could lead to less public expenditure for health, and they have called for stop-gap measures to increase foreign aid and ring-fence

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existing levels of social and health expenditures. These proposals, however, are short-term concerns and fail to address long-standing issues associated with relying on external sources of support. Health advocates need to think more broadly about what policies within developing countries have stifled the growth of domestic resources, and why their health budgets have been chronically underfunded over the long term.

Rarely do international health advocates think about the domestic tax base—whether or not it is increasing over time, and why. Many persistent health system issues follow from this basic starting point: countries cannot "develop" without building their own tax base. Many lightening-rod issues that have aroused the passions of health campaigners, such as charging prohibitively expensive user fees at health clinics, or the IMF's imposed ceilings on public sector wages (see Akanksha Marphatia's article in this Journal issue, p. 165), are only symptoms of the underlying problem that overall national budgets are not big enough largely because the domestic tax base is not growing over time.

Despite the many well-known problems with the politics, bureaucracy, and inefficiencies of public health systems in developing countries and the efforts to address these, it is not so much the failure of the health systems or the health policies, or what the health ministry does or does not do, but a much bigger, underlying problem that gets back to why countries have failed to develop in the first place and, specifically, the failures of the dominant neoliberal economic development model promoted by IMF for the past 30 years.

It is easy to understand why health advocates do not generally wish to touch such questions. Many simply want to be health advocates, calling for more foreign aid for universal health goals and staying in more comfortable, apolitical zones, while keeping their distance from broader and more controversial questions of development economics. But such macroeconomic issues cannot be avoided; they are inextricably tied to health outcomes.

So it is imperative for health advocates to ask whether the tax base is getting bigger over time or not, and which economic policies actually help build the tax base. As contributors to this special series in the previous issue of the Journal pointed out (1–4), enabling countries to adopt more expansionary fiscal and monetary policies than the IMF currently permits is an important part of the answer. But it is also essential to remember who generates tax revenues: domestic companies and formal sector employees through payroll taxes. We should be asking different questions, such as: Are countries increasing the numbers of their tax-paying domestic companies and employees in the formal sector? Of utmost importance, and quite neglected by health advocates, are the key issues of industrial policies, including the policy tools and tactics used by countries to build up their domestic companies, to reverse the informalization of the labor force and increase the size of the formal sector labor pool, which increases the tax base through payroll taxes, and to establish and monitor minimum wage and labor laws that can advance the creation of the middle class.

Perhaps the most important failure of the neoliberal economic model for developing countries is its predilection for the 19th century notions of free trade and comparative advantage, as promoted by theorists such as Adam Smith and David Ricardo. Free trade is the idea that countries should not use industrial policies to protect or promote their companies, and comparative advantage is the idea that countries should not seek to diversify their economies but instead stick to just a few main exports in which they have a natural competitive advantage. This is the opposite of what all the rich countries did—protecting their infant industries for decades until they were competitive in international markets and encouraging economic diversification, industrialization, increased manufacturing in their exports, and, crucially, state support for new technological innovations through subsidies for research and development (R&D). State-funded R&D has been used by all the rich countries to advance the discovery of synergies between industries and to develop new industries. Such policies expand the numbers of domestically owned companies and numbers of employees whose taxes contribute to a larger tax base, higher levels of public expenditure, and ultimately, more adequate health budgets.

Neoliberal economics, however—which has dominated the foreign aid industry and the schools of thought in university economics departments and research institutes for much of the past 30 years—militates against such national economic diversification and industrialization, depriving developing countries of the tools they need to build their own tax bases over time. The neoliberal model leaves these countries with chronically insufficient national budgets (and health budgets), dependent on wholly inadequate handouts in the form of foreign aid. If countries are not increasing the manufacturing value-added of their exports, their level of gross fixed capital formation, or their level of public investment (as percentage of gross domestic product) over time, then they will not get far in building their economies and tax bases or in meeting their health goals.

Unfortunately, international health advocates and the broader array of social sector NGO advocates for foreign aid have been neglecting such issues. Although acting with the best of intentions, they often have an overemphasis on aid flows or debt relief, with a constant eye to "poverty reduction." But we must ask whether "poverty reduction" and "economic development" are supposed to be the same thing or not. Reality is, the rise of neoliberalism in the 1980s took "industrialization" generally, and the previous "full-employment" agenda, off the table in favor of new neoliberal policy priorities for the financial sector and global "casino economy" objectives associated with financial deregulation and liberalization.

In arguably one of the most important books in 30 years, Erik Reinert (5) explores the question of "How Rich Countries Got Rich and Why Poor Countries Stay Poor." Reinert looks over the past 500 years of policies used by the industrialized cities and countries that grew rich and notes how the emphasis was always on the importance of manufacturing and industrialization in development

strategy, from the time Henry VII came to power in England in 1485 to the East Asian "miracle" of the past 50 years. He documents several basic features of economic policy that were long understood by these successful industrializers but have been overlooked today—basic things such as:

- The fact that some economic activities provide diminishing returns over time, whereas others provide increasing returns (because of its faith in long-term "factor price equalization," neoliberalism denies the importance of any distinctions to different types of economic activities).
- The roles of temporary monopolies in technology and uneven access to information, or the important role of imperfect information in enabling certain companies to initially prosper from their technological innovations (neoliberalism, in contrast, assumes all market participants have equal and free access to all information).
- The importance of economic diversification and the crucial ways in which new synergies emerged in the cities, where different economic activities intermingled and new industries were created that provided increasing returns over time (such as economies of scale), unlike out in the agricultural countryside, where poor farmers often grow the same things, lack diversity, and suffer from diminishing returns over time (again, this contrasts with the neoliberal comparative advantage theory of focusing on producing just a few things).
- The recognition that technological innovation, and emulation (copying or improving on existing technologies, such as import substitution policies), were the key to even faster growth, creation of further new synergies between industries, and, overall, the crucial role that state-supported industrial policies, and particularly publicly financed R&D for domestic industries and companies, had played in development.

Whereas all of these tools, policies, tactics, and best practices of the successful industrializers used to be officially outlawed and prohibited in the colonies under colonialism, these freedoms are again being denied to developing countries today through IMF and World Bank loans and other donor aid conditionalities, World Trade Organization (WTO) agreements, and, increasingly, the proliferation of bilateral free trade agreements (FTAs) and bilateral investment treaties (BITs). The fundamental importance of technological innovation to successful and prosperous industrialization and wealth creation explains why the rich countries are so obsessed with sealing the leaks of their prized technologies to developing country industries, with their zealous efforts at Trade-Related Aspects of Intellectual Property Rights (TRIPS) and World Intellectual Property Organization (WIPO) negotiations, and are working desperately to block the spread of needed technologies for domestic industries in developing countries. Developed countries' practice of keeping these policies and tactics for themselves has a

long and rich historical tradition and is strikingly consistent with policy and practice toward the (now former) colonies.

It is incumbent upon health advocates to weigh in on such policy matters and ensure that today's developing countries are allowed and given support in using the tools, policies, and tactics that today's rich countries relied on, if we want them to prosper and develop, to build their own tax bases over time, and, ultimately, to be able to finance their national health budgets themselves. Doing so will require advocates to step into the debates about development economics, challenge dominant assumptions about the neoliberal economic development model, understand why and how it has failed to help countries develop, and engage in the political pressure that will be required to change such policies and create change at the bilateral and multilateral lending agencies, at the trade ministries engaged in talks at the WTO and WIPO, and in the multiple FTAs and BITs being negotiated today.

While health advocates are right to criticize that "the IMF blocks health spending," it is more comprehensive to say that "the IMF blocks the development of domestic industrialization; and without building domestic industries, jobs, and economic diversification over time, you can't build a tax base for future increased expenditure; and without a growing tax base for future increased public expenditure, you can't adequately finance a health budget."

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