



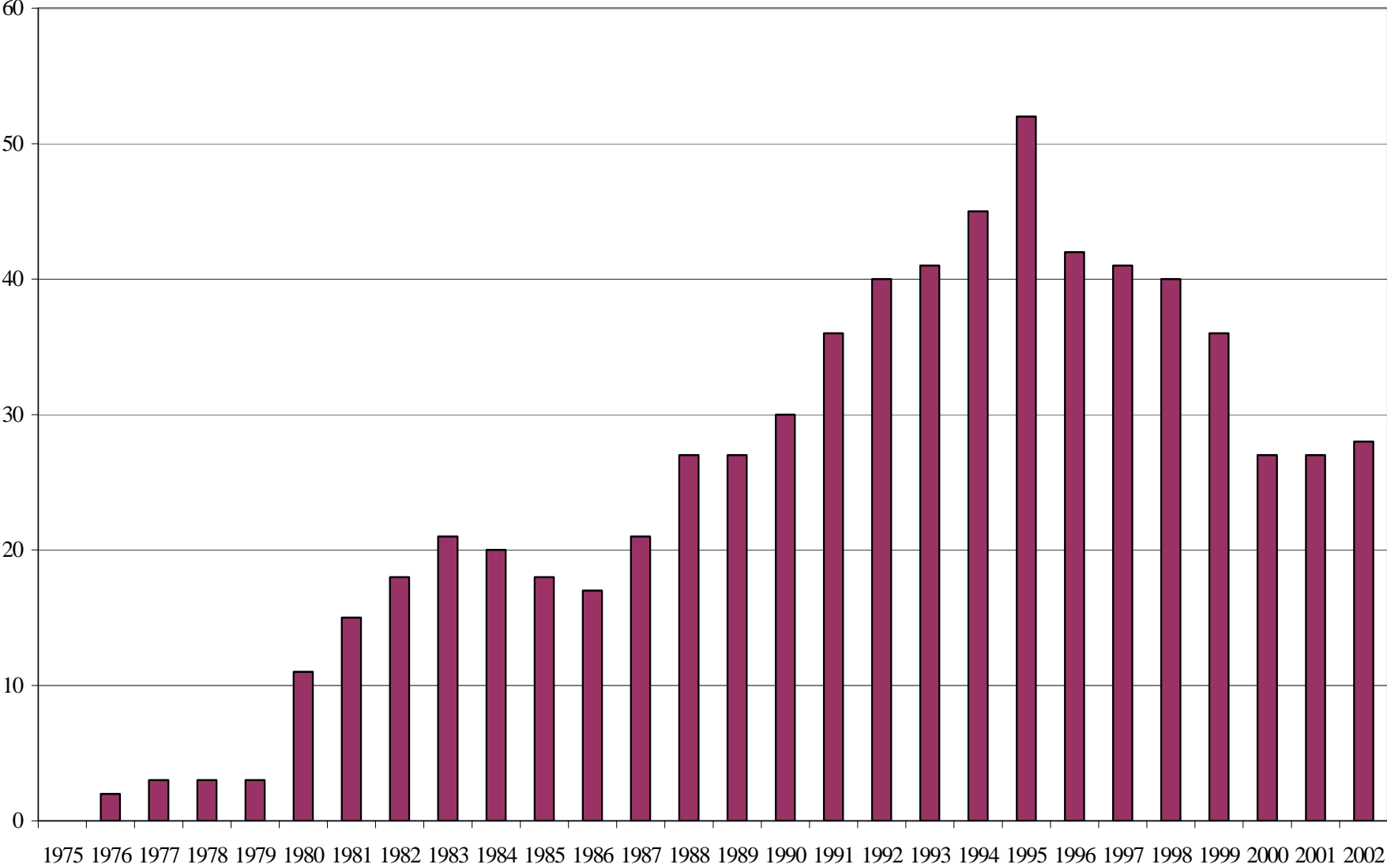
Behind the Financial Crisis: a Simplified Analysis of Causes, Consequences and Healthier Public Policies

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Number of financial crises by year, 1971 - 2002

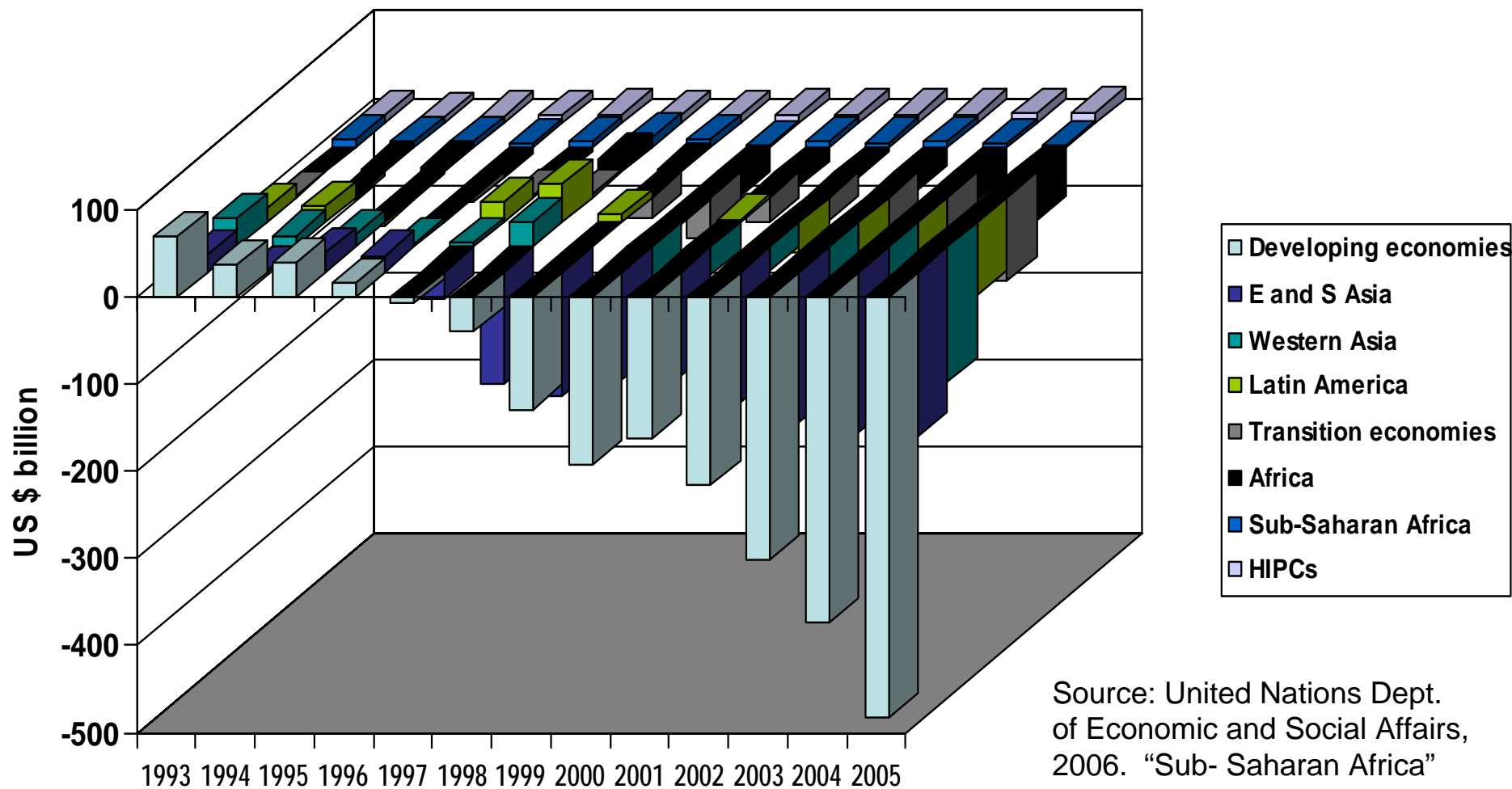




Behind the worst recession since the 30s: The simplified story

1. Declining rate of profits in 'real' economy in 1970s in high-income countries
 - Seek new markets (global trade)
 - Reduce production costs (outsourcing, labour market 'flexibilization')
2. End of fixed exchange rates, financial market deregulation, new digital technologies  new forms of financialization, speculation and 'easy' wealth creation
3. Developing countries transfer capital to high-income countries through low-interest US Treasury Bills

Figure 1. Net financial flows, by region and all developing and transition economies, 1993-2005



Source: United Nations Dept. of Economic and Social Affairs, 2006. "Sub-Saharan Africa" excludes Nigeria, South Africa



...more than 18 months into what is beginning to grow into a threat to capitalism that will rival the Great Depression of the 1930s, there does not seem to be enough of a recognition that this is a crisis *of* the system, and not just a crisis *in* the system.

Economic and Political Weekly, March 28, 2009



Short-term health/SDH consequences

In high- and some middle-income countries:

- Decrease in health for those close to poverty line or losing their jobs
- Possible increase in average health due to decreases in tobacco and alcohol abuse (if recession short), ergo:
- Decrease in population health equity
- Increase in environmental health due to decrease in manufacturing and transportation fossil-fuel emissions

Sources:

Parry J, Humphreys G. Health amid a financial crisis: a complex diagnosis. *Bull World Health Organ* 2009;87;4-5.

World Health Organization. *The financial crisis and global health: Background paper for WHO high level consultation*. Geneva: WHO, 2009.



Short-term health/SDH consequences

In low-income countries:

- Increase in those living below the abject (\$1.25/day) poverty level: 50 – 200 million by 2009/2010
 - For 390 million poorest Africans, a 20% drop in income
- Increase in global unemployment: 55 million
- Increase in child mortality: 200,000 to 400,000 excess deaths

Sources:

World Bank. The Global Economic Crisis: Assessing Vulnerability with a Poverty Lens, 2009.

Marmot M, Bell R. How will the financial crisis affect health? *BMJ* 2009;338:858-60.

International Labour Organization. *Global employment trends 2009*. Geneva: ILO, 2009.



Short-term health/SDH consequences

In low-income countries:

- Increase in child labour and in domestic (often women-directed) violence
- Decrease in remittances and in health/social protection spending
- Decrease (\$300 billion, or 25%) in financial flows to developing countries

Sources:

International Labour Organization. *Global employment trends 2009*. Geneva: ILO, 2009.

Overseas Development Institute. *Children in times of economic crisis: Past lessons, future policies*. Background Note. March 2009.



The Response

- High-income countries committed between \$5 and \$7 trillion
 - Banking bailouts
 - Public infrastructure
 - Increased social protection
- China: \$600 billion
 - Urban construction/reconstruction
 - Public infrastructure
 - Minimal on social protection
- India:
 - Investments for production/consumption
 - Little or nothing on finance regulation/social protection



The Response

- 40% of developing countries at risk for decreased growth and increased poverty/decreased health; most lack the fiscal capacity available to HICs
- \$1 trillion needed by developing countries over next 2 years to cope with negative effects of global recession
 - Less than a third (relative to GDP) of what the US is spending on itself
- But only \$50 billion of \$1 trillion in G20 enhanced IMF Special Drawing Rights at IMF and development bank lending is so far ear-marked for these low-income countries



Other SDH 'Risks'

- 'De-globalization': fall in global trade, retreat to protectionism
- As of January 2009, almost 80 'murky protectionist' measures worldwide have been enacted, most by middle- and high-income countries engaged in counter-cyclical spending

Source: Baldwin, R. and Evenett, S. (eds) *The collapse of global trade, murky protectionism and the crisis: Recommendations for the G20*, London: Centre for Economic Policy Research, 2009. Vox.EU.org. <http://www.voxeu.org/index.php?q=node/3199>.



Other SDH 'Risks': Potential for Conflict?

For those who hate globalization, the retreat of trade, capital flows and migration during the 1914-45 period should be interesting because they are a kind of natural experiment. Unfortunately they were a ghastly experiment: the reversal of globalization, though feasible, looks massively undesirable based on the one occasion when we did it.

Paul Collier *The Bottom Billion* 2007



Other SDH 'Risks'

- Potential for conflict?
 - Empirics are a little weak but a risk does exist under conditions of increased poverty, decreased growth, young adult demographic bulge, natural resource 'curse', weak governance
- Niall Ferguson: 'There will be blood'
 - Most downloaded article in Canada's *Globe and Mail* history
 - Business pages: conflicts will rise, a good time to invest in the arms industry



Other SDH 'Risks'

- Decline in development assistance
 - Gleneagles commitments seriously off track
 - Italy, France, Ireland already announced declines in assistance next year
 - As GNIs fall, so does the absolute value of development assistance even if 0.7% or related targets are met



Business As Usual?

The financial system should be fixed, and countercyclical spending should be increased, in order to increase consumption to re-energize production to recreate growth.

*World Bank *Swimming Against The Tide: How Developing Countries Are Coping With The Global Crisis* March 2009.*

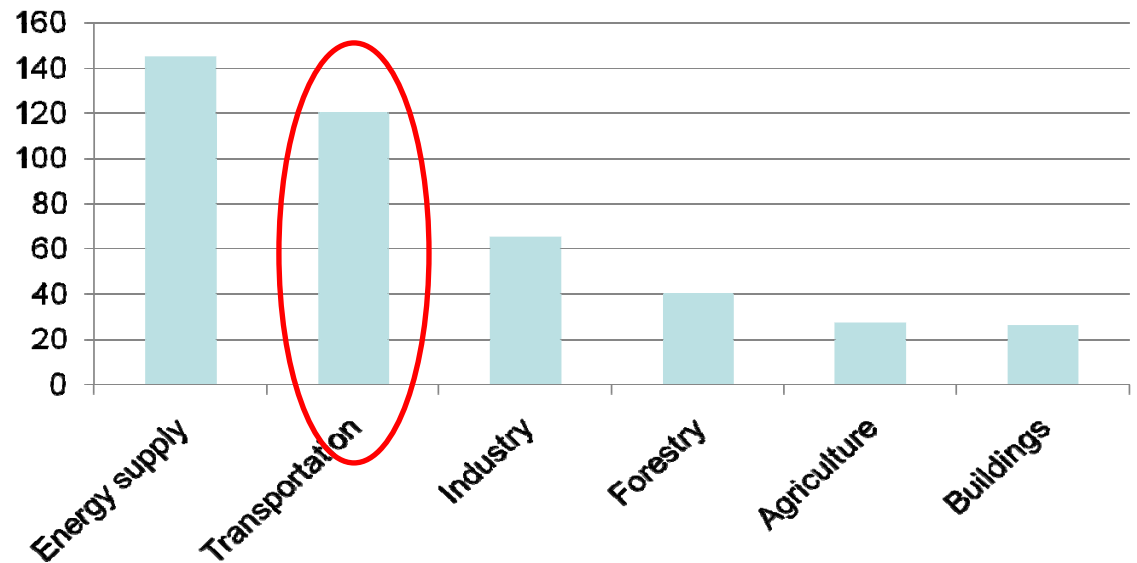
For every \$100 in global economic growth, only \$1.30 trickles down to the poorest 20%, less than half that trickled down in the 1970s.

Export led growth (business as usual) requires consumption levels primarily by higher-income groups that are already environmentally unsustainable

Modest redistribution through taxes and transfers is far more efficient and equitable in reducing poverty than growth per se

Growth is Not Working

Percent changes in GHG emissions
1990-2004 by sector





DFID, Eliminating World Poverty: Building our Common Future, March 2009.

on one hand: Climate change, state fragility, violent conflict, population growth and urbanization are all rising up the agenda. They throw into sharp relief questions about the long term viability of aspects of the market-economy model...

on the other: Maintaining growth is a priority...

Prosperity

PLEASE FIND
ALTERNATIVE
ROUTE

without
growth?

The transition to a
sustainable economy

The truth is that there is as yet no credible, socially just, ecologically sustainable scenario of continually growing incomes for a world of nine billion people.

UK Sustainable Development Commission, *Prosperity without Growth?* 2009



Resources

- www.eg4h.com
 - Up to date commentaries on 'economic governance for health'
- www.globalhealthequity.ca
 - Final report of the Globalization Knowledge Network, all its background papers
 - Other articles and free downloadable books
- Recent books:
 - Labonté, R., Schrecker, T., Packer, C., Runnels, V. (eds). *Globalization and Health: Pathways, Evidence and Policy*. London: Routledge (2009).
 - Labonté, R. and Laverack, G. *From Local to Global Empowerment: Health Promotion in Action*, London: Palgrave Macmillan. 2008.
 - Green, J. and Labonté, R. (eds). *Critical Perspectives in Public Health*. London: Routledge. 2007.