HEALTH SYSTEM, SOCIAL INEQUALITIES AND MACROECONOMIC POLICY[1]

MACROECONOMIC STABILITY AND THE PROVISION OF PUBLIC HEALTH AS COMPLEMENTARY GOALS

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ABSTRACT

This paper analyzes the problems a government faces when attempting to provide public health in a country as its program is constrained by the larger macroeconomic policy put in place to maintain economic stability. The first part of the paper illustrates the crucial interaction between the psychosocial and socioeconomic profile of the targeted population and the shape of the health system. Inequality and poverty reduction is defended both as a social and a healthy goal. The second part explains how

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the design and funding of a health program is constrained by the tradeoffs faced by a government whose objective is to maintain macroeconomic stability while financial capital flows from abroad become more unpredictable over time. The main conclusion is that macroeconomic stability may beget a sustainable health policy as the strength of the latter is a necessary condition for the success of the former. Hence, economic stability and poverty reduction are shown to be complementary goals.

KEY WORDS

Macroeconomic policy, economic stability, health provision, social programs.

RESUMEN

Este artículo analiza los problemas a los que se enfrentan los gobiernos que pretenden mantener la provisión de la salud pública en un contexto globalizado de restricciones debido a las políticas macroeconómicas cuyo fin es la estabilidad económica. La primera parte de este texto ilustra la importante interacción que se da entre las variables psicosociales y los indicadores socioeconómicos a la hora de establecer grupos prioritarios de intervención en salud pública. La reducción de las desigualdades y de la pobreza se defiende al mismo tiempo, como retos sociales y de salud pública. La segunda parte del artículo explica como en el diseño y financiación de los programas de salud a menudo repercuten otros objetivos gubernamentales relativos al mantenimiento de la estabilidad macroeconómica y el flujo impredecible e internacional del capital financiero. La principal conclusión que se refleja del afrontamiento de estos retos supone que la estabilidad macroeconómica y las políticas de salud son interdependientes. Por tanto, la estabilidad económica y la reducción de la pobreza constituyen dos objetivos políticos complementarios.

PALABRAS CLAVE

Política macroeconómica, estabilidad económica, salud pública, programas sociales

I. INTRODUCTION

In a world that is becoming increasingly integrated over time via the forces of globalization, governments are faced with the challenge of maintaining a stable economy to attract investment, create stable employment and foster long term growth while attempting to improve the economic and social conditions of its citizens, in particular those groups that are in need of attention. But stability policy by its own nature may inhibit the government's ability to fund its social programs, including public health

programs. Thus, the policymaker may be forced to choose between the two objectives. Such is the dilemma discussed in this paper.

The paper argues that health programs must be shaped after the specific needs of the population in order to achieve some degree of efficiency. It also explains how the shape of the health policy is going to be affected by a larger set of issues. Since most governments face the threat of financial instability resulting from the rapid movement of financial capital across the planet they are forced to implement defensive macroeconomic policies. In turn, these policies may inhibit the ability of the government in designing social policy, including health programs. After explaining the theoretical and qualitative issues behind the formation of macroeconomic stabilization policies the paper concludes that a health program that meets the needs of the population in a given country is a necessary condition for the success of a macroeconomic policy. Furthermore, the latter must be flexible and eclectic in order to accommodate economic and political changes at home and abroad.

The paper is divided into two parts. In the first part it discusses the importance of the provision of health as a function of the psychological and sociological profile of the population. In the second part the paper provides an analytical framework within which it attempts to characterize the tradeoffs faced by a policymaker when trying to maintain economic stability and attend to the country's social needs and proposes a flexible and eclectic approach to policy formation. The conclusion section summarizes the main points of the paper and suggests avenues of future research.

II. PART ONE: THE PUBLIC HEALTH SYSTEM

The need to provide a multidimensional definition of health is supported by the fact that many of the epidemiological guidelines of our society are caused by pernicious habits e.g. the association between cancer and tobacco (Norman, Abraham and Conner, 2000). The incorporation of psychosocial and socioeconomic variables in health studies is coherent with the directives of the health organizations. The Social Determinants Commission of the World Health Organization (WHO) is founded in 2004 as an exponent of this policy and sensibility. Social determinants of health are defined by Barnett and Casper (2001: 465) as: "the social, economic and political resources and structures that influence health outcomes".

Health prevention and promotion strategies are shaped as a function of the changes in these determinants. A successful strategy is one that attacks the structural root of a symptom. However, this social model of medicine is confronted by a medicalized and exclusively therapeutical one, currently implemented in many countries. There is an ideology towards health underlying this reductionism whereby treatment of the symptoms seems to preempt preventive strategies.

Moreover, the integrity of public health is confronted with a sector that is dependent on state of the art technology compounding its, otherwise, increasing cost to the public (Greaves, 2000). Zeckhauser (2005) explains how the producers of medical technology have benefited from the strong support of the government-funded research activities and the biotechnology and pharmaceutical sectors.

The combination of a reductionist ideology and a production system that promotes the use of technology for the sake of maximizing profits begets a set of perverse incentives leading to the abuse of the population that interacts with such system.

Such a system ignores the contextual and socio-material aspects influencing the behavior of the population and suggests an abdication of the government from some of its responsibilities as reflected in the tendency to privatize the provision of health, a fad particularly strong during the 90s in many emerging economies.

However, the privatization of the provision of health services does not guarantee a better service but it may exacerbate the asymmetric access among social classes (Light, 2000). These models, like in the United States, exhibit relatively high administration expenses, legal costs, and a greater use of defensive medicine (Rosenau, 2001; Spillman, 2000).

Moreover, and contrary to traditional market theory, there is not enough evidence to support the contention that charges levied by health care providers decrease even as their numbers increase. Those high costs don't imply better health coverage; neither do they reduce social inequalities (Jennings and White-Means, 2000; Mintz and Schwartz, 2000).

In other words, it is possible to conceive a situation where the cost of production outstrips the change in supply so that market prices continuously increase. Market power along the production process may contribute to the trend and have a regressive effect on the lower classes.

Denying health insurance to underprivileged groups; forcing them to ask for medical attention under the stigma of "social work" and burdening the preventive service's access, are becoming increasingly unacceptable to citizens in many countries. As Karsten (1995) observes, this rejection of the current model coincides with the moral value of universal education and health endorsed by large segments of the population the world over.

Social inequalities persistence and their reflect on health

It is not by chance that health is beginning to be debated as a public issue in the same way as urban policy. During the 16th and 17th centuries the analysis of epidemics was in its embryonic stage for a revolutionary discourse in which the social inequalities and the conditions of life were considered as community problems. Medical research and public health policies were becoming a social issue (Comelles and

Martínez, 1993). From its origins, public health has integrated the development of participation, education and welfare in the urban communities (Vicens, 1995).

Today, social inequalities reflect and cause differences in health parameters like accessibility, use and satisfaction among others (Broyles, McAuley and Baird-Holmes, 1999). These differences are not only manifested during diagnosis and therapeutical treatment, but also in access to preventive services, such as dental and mental health care (Shi and Starfield, 2000).

Gender, ethnic group and territorial variables are sources of inequity in mortality, morbidity and disability rates. It is enough to note that over 12 million children die of infection, diarrhea and malnutrition every year (diseases that are easily prevented and cured) (Organization for Economic Co-operation and Development, OECD, 1995). The main problems in public health are scientifically and technically easy to solve, but their political solution in the context of power relationships is more difficult to find precisely due to the socio-economic asymmetries determining the structure of power in each country (Barona, 2000).

Sources of discrimination are often found together, as for example, gender, work and social conditions. Their interaction amplifies their effect on health (Braveman, 2006; Messing and Stellman, 2006). Higher prevalence of backaches, headaches, rheumatism, nerves, sleeping problems, varicose veins and self-medication are exhibited by women (Cuesta, 2003).

This phenomenon becomes especially evident in the work environment where temporary work conditions and high unemployment rates are the norm. Job characteristics (e.g. job strain – low control, high demands), limited psychological and social resources such as perceived hostility and discrimination, and the ensuing frustration arising from such context will be greater determinants of health than occupation inequality and compensation alone (Wilkinson, 1996).

Governmental role in reducing access inequality

Policies focused on reducing unequal access to health services are necessary because the causes behind are structural and persistent. This is part of society's options and the experience shows that these policies have a favorable effect on social change. There is also an increasing awareness that a population's health is significantly correlated to productivity and development (Ståhl, Wismar, Ollila, Lahtinen, and Leppo, 2006).

Governments can play an important role improving the set of opportunities and living standards. However, conflicts may arise during the process of policy design. An example of that would the use of sin taxes on tobacco. As Zeckhauser (2005: 442) points out: "Since cigarettes are disproportionately purchased by the poor, using price as a discouragement works against distributional goals… Moral arguments and great

pots of money appear to be motivating our nation's tobacco policies, not analytic thought". [2]

And this argument does not even consider the fact that nicotine addiction may render the price elasticity of demand for tobacco highly inelastic. Hence, the consumer will pay most of the tax. And, if the prevalence of smoking is greater among the poor then the tax is a regressive one and may undermine the effectiveness of social programs and transfers.

There is also a debate about how to provide welfare transfers; the in-kind versus the cash mechanism. The former proposes the use of food stamps, housing vouchers, free medical care and clothing allowance. While those who favor cash payments argue that the consumer will be better off because he or she will have more options (Munro, 2001).[3]

Those who favor cash transfers would also use neoclassical utility theory to show that for those individuals who have strong preferences for goods other than the ones the policymaker had in mind, their utility would increase with cash as they would allocate, optimize, most of the transfer to consume the goods they prefer (Perloff, 2007, Ch. 4). Hence, cash payments may simultaneously satisfy the individual while yielding an inferior solution to society. In this case a well-designed government program that takes into consideration the psychological and socio-economic profile of the target population is needed.[4]

From a macro approach, the literature on economic development shows that the research on the relationship between social development (included health equity) and economic growth has yielded two hypotheses: a) the social development is a product of economic growth or b) social development precedes economic growth.[5]

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2 Fisher's arguments against alcohol were in the same direction: strong moral views do not always lead to sensible policies. In Barber, William (ed.). (1997). The Works of Irving Fisher. London: Pickering and Chatto.

3 Munro in this article explains with detail how in the third world, adult males prefer to dedicate an important part of their budget to alcohol, cigarettes and entertainment instead of spending it on health care for their families, even if they have health care needs. This could be an argument in favour of provision in kind.

4 Streeten (1982): in his book First Things First published at London: Oxford U.P. defends that some basic needs may be satisfied more effectively through public services (including health services), and therefore, are not directly linked to individual income.

5 As Mazumdar (1996) proposes, the relationship between social development and economic growth varies with change of income group and change of definition variables. Both hypotheses could be supported in different contexts.

However, solutions to socioeconomic problems have increasingly assumed public dimensions (Karsten, 1995). Government investment on welfare services and social regulation (for example in the labor market), have an impact on the equity of access to health of its citizens. For example, Sweden and Japan which exhibit the best health indicators (including lower children's mortality and higher life expectancy) also have some of the best indicators of income and wealth distribution (PNUD, 1995).

Their experiences suggest that social development and economic growth are correlated. However, establishing an unambiguous direction on causality may prove to be a daunting task. As it will we discussed further down in the paper, economic and social variables mutually and simultaneously determine each other and are affected by initial conditions and exogenous shocks. Hence, the appeal of a singular hypothesis vanishes in the light of a reality that evolves in complex patterns.

Relative to the past, the present health care system in the developed countries is much better. Nowadays universal financial access to preventive and therapeutic assistance could even promote healthy behavioral patterns e.g., changes in diet, exercise, and accidents (Karsten, 1995).

But improvement to access seems to be class asymmetric. For example, higher levels of education, and income, in the population are expected to generate a higher demand in medical care. Hence, access may increase disproportionately, non-linearly, with income furthering the initial gap. Nevertheless, a higher demand for health care services is not correlated to grater levels of allocative efficiency.

In this context, the privatization strategy is camouflaged behind the modernization and optimization need (Segura, 2000). Rising health care costs have a disproportionate impact on underprivileged groups – even those with health insurance – stemming from their lower socioeconomic status (Salganicoff et al., 2002). Mitchell and Schlesinger (2006) explain that the cost of care is a significant barrier to access, resulting in unmet needs and unstable connections with providers.

As Ståhl et al., (2006: 289), suggests: "a failure to take health concerns into account in policy-making may be costly. It may result in increased suffering, decreased well-being and even loss of life. The costs ultimately fall on individuals, their families and on the health sector in terms of increased absenteeism from work in the form of sick leave and early retirement". The social cost increases once the negative externalities arising from a class of people being sick are either quantified or at least qualified in terms of welfare loss.

We heavily rely on the achievements of the public health policies for the prevention of inequalities and diseases such as lung carcinoma, road accidents and cirrhosis (Shi, 1992). By and large, countries need to establish a system based on prevention. We insist on the importance of health education and research on the psychosocial variables, contextualized in specific communities. Who we are and where we live have a clear impact on our health. Thus, we have to develop public health policies

including local actions in the areas of culture, education, work, health, consumption, environment, etc. within the integral plans aimed at the different groups that make up the community (Pathman, Ricketts and Konrad, 2006).

It has traditionally been stated that health service organization should be ruled by six principles: being accessible, adapted to the needs of the population, performing with an integrated criteria, based on the community participation, affordable and characterized by inter-sectoral collaboration (Vouri, 1988). Conserving public control and public involvement can optimize the health care system and reconcile social justice with economic growth. Health prevention and education strategies, geared to improve allocative efficiency, ought to be designed by the local and national agents who vertebrate them (Moss 2000; Huges 2001).

Health for All: the inter-sectoral strategy

The World Health Organization (WHO) and the European Community coincide with the emphasis given to the study of the community and its social inequalities as a requirement for a democratic health system. Health prevention, preserving the Welfare State and their corresponding consequences are becoming key strategies in the design of the public health model (Blackman, 2000).

Public Health policy is being reconfigured around the goal of reducing socio-economic differentials. In fact, it is the main goal of the European Health for All strategy. Coordinated action explicitly aiming at improving people's health could be achieved though two paths: a) sectoral ministries and b) sectors in terms of public and private organizations.

The emphasis is on inter-sectoral policies which address both individual risk factors and the underlying social causes (Graham, 2002: 2006). However we find emerging challenges and risks. Sectors have their own priorities, and these are not always easily compatible with the aim of advancing health and health equity. Ståhl et al., (2006), expose the examples of agricultural and food and alcoholic policies.

The struggle of reducing the socioeconomic gradient in health is affronted with different strategies. According to Graham (2002) all at them commit to tackling the macro-determinants of health inequalities through polices informed by scientific evidence. This author proposes fostering epidemiological research within social policy research (p. 2005): "setting evidence on the health consequences of cumulative exposures within research on life-course dynamics, and locating both within analysis of how state policies can amplify or moderate inequalities in socio-economic position".

New questions and tendencies

Societies have different mechanisms of redistribution, taxation and cash benefits provided through the social security system, and welfare services, with different social and health consequences. According to Graham (2002: 2012) these three instruments can be used proactively to moderate the effects of labor market restructuring and household change.

However, domestic social and economic issues alone do not determine the shape of public health policy.

"Lastly, what has received less attention is the impact of other policies on health care and its functioning. While the mandatory and responsibility of organizing health services is still at national or even local level, the framework in which it can be done is increasingly determined at levels beyond the national. For example, policies on international trade, internal markets, competition, public sectors and its services, may all have important direct consequences for the health sector and its costs" (Ståhl et al., 2006: 292).

In an ever more integrated world, one where the forces of globalization can topple the best of policies, governments are faced with the tradeoffs posed to them by their own macroeconomic policies. The tradeoffs, to be discussed below, are between policies to promote macroeconomic stability and policies to reduce unemployment and chronic poverty.

Moreover, failure to address social disparities in quality of care can lead to additional costs for the public sector: when good standard primary care services are not available near poor neighborhoods, many people will seek primary care at public sector sites such as hospital emergency rooms and specialty-oriented outpatient clinics where such services are most costly to deliver (Braveman and Tarimo, 2002; Kenney, Holahan and Nichols, 2006; Valdamanis, Kumanarayake and Lertiendumrong, 2004).

Karsten (1995: 140-141): "Present social and political trends call for vital economic growth through injecting new vitality into the market system. This essentially has three implications, namely greater equality in the distribution of income, the achievement and maintenance of satisfactory rates of economic growth, and reduction of government deficits- all of which are tied to health insurance reform".

Any policy to reduce poverty must include the provision of health services as one of the pillars of it. Hence, while the ensuing discussion addresses poverty reduction policies, it implicitly is discussing public health policy. In other words, public health policy is nested into poverty reduction policy.

Furthermore, part two will provide the analytical framework within which the tradeoffs faced by a policymaker can be conceptualized and analyzed. The government attempts to stabilize the financial sector of the open economy to promote the ideal conditions for growth in the real sector and simultaneously tries to achieve multiple

social objectives. Given that all objectives are important the policymaker faces various tradeoffs and searches for an optimal solution to be characterized below.

III. PART TWO: MACROECONOMIC POLICY

The macroeconomic tradeoffs

Commerce, movements of integration, technical diffusion and the financial market are some of the forces that promote social and economic integration. But the same forces that promote integration may also foster financial crises (Requeijo, 2002).

The stock market corrections of May 2006 and February 2007 illustrate the fragility of the global financial infrastructure. For less developed countries in particular, a sharp change in the financial sector, exogenous shocks, could have important effects on the real economy.

And while according to Schinasi (2004: 3-8) "…there is no single, widely accepted and used definition of financial stability" the author argues that "[a] financial system is in a range of stability whenever it is capable of facilitating (rather than impeding) the performance of an economy, and of dissipating financial imbalances that arise endogenously or as a result of significant adverse and unanticipated events".

According to Mishkin (1999: 6) "…[f]inancial instability occurs when shocks to the financial system interfere with information flows so that the financial system can no longer do its job of channeling funds to those with productive investment opportunities". Generally, financial stability implies monetary stability, employment levels close to the natural rate, confidence in the operation of key institutions and markets and where the relative prices of real and financial assets are stable (Foot, 2003).

The effect of exogenous shocks on the real economy could be, to some extent, averted by domestic policy. Hall and Taylor (2002) argue that "[d]omestic policy – particularly the scope for adjustment to shocks through fiscal, monetary and exchange rate polices – can also influence the impact of transmitted shocks. For example, active and pre-emptive policy responses appear to have had a material impact in reducing spillovers in some countries in previous EME crises", (p. 129).

Less developed countries, specially, are faced with the problem of designing a macroeconomic policy that simultaneously protects its financial sector from external shocks and provides for the needs of their citizens. Since, to be discussed, both policy demand economic resources they will inhibit each other's effectiveness. Hence, policymakers are forced to choose between protecting the financial sector and funding social programs. The process of policy formation will be shown to be deeply complex and country-specific.

The next section discusses how shocks are propagated across the world. The measures that governments can take to protect their economics are discussed next. This is followed by a discussion on the political problems arising from the lack of policy support. The paper, then, analyses various policy options that governments can take and discusses the various tradeoffs.

Shocks' propagation channels

The integration of trade and financial markets provides channels through which countries engage in economic activity. The same channels act as catalytic of crises when financial shocks affect some of those countries.

The level of bilateral trade among the affected countries, the degree to which they share a common creditor or creditors, the extent to which they share common trade markets and the exposure of investors to their economies, are all factors that may contribute to propagate financial shocks (Hall and Taylor 2002: 128-134; IMF 2006, Ch. 3: 30-5).

The behavior of institutional investors could promote crises as they are forced to sell some of their instruments in various markets to cover their margin calls, reduce their portfolios' risk or reduce the risk arising from their exposure to other markets when a crisis erupts in at least one market where investors are significantly exposed (De Alessi Gracio et al., 2005: 96-97).

The problem could be compounded by herd behavior and rational ignorance. When some of the largest investors, presumably better informed, begin to move out from one market the rest may follow without researching the fundamentals, exacerbating the effect of the shock in the original and connected markets. The momentum may be amplified by risk-averse managers whose remuneration is based on performance comparisons to other fund managers (Calvo and Mendoza, 2000: 81).

Chui at al. (2004: 4) state that "(s)mall rumors can trigger herd behavior among investors, and shift an economy from a good equilibrium to a bad one, with large capital outflows unrelated to economic fundamentals".

Empirical evidence from five crises showing that common leveraged creditors play a significant role while propagation via trade links seems nonexistent can be found in Kaminsky et al. (2003: 56-72). The data also shows that the degree of propagation depends on how markets were anticipating crises episodes. Canova (2005: 231) also finds that the trade channel is not important but monetary policy in developed countries is. Villar Frexedas and Vayá (2005: 15) and Van Rijckeghem and Weder (2001: 305) also show that the common lender factor is a significant propagation channel.

On the other hand, Glick and Rose (1999: 604) argue that "…trade is an important channel for contagion, above and beyond macroeconomic influences. Countries who

trade and compete with the targets of speculative attacks are themselves likely to be attacked".

Thus, as trade and, particularly, the financial markets evolve alongside the countries' economies the instruments used to trade risk across time and space will become more complex and prone to exhibit greater volatility. This may require greater efforts by policymakers to monitor and protect their economies in order to render their macroeconomic policies sustainable.

Policy credibility

For a macroeconomic policy to be sustainable it must be credible. This implies that it is not only important for the policymaker to take appropriate measures to shield the economy from exogenous shocks but it must also project an image of financial strength designed specifically to have a positive effect on the expectations of economic agents, in particular during periods of external uncertainty.

The status of the government's budget, the current account, the level of employment, investment and saving, foreign currency reserves, anti-cyclical fund accumulation, level and structure of public debt, functioning of the financial regulatory institutions, degree of enforceable capital control mechanism and political and social situation will be used by banks and non-bank financial institutions to gauge the reliability of the system at the time of a shock.

According to Hilbers et al. (2000: 53) "...data on aggregate and sectoral growth, trends in the balance of payments, the level and volatility of inflation, interest and exchange rates, the growth of credit, and changes in asset prices, especially stock and real state prices…" together with information regarding the vulnerability of the financial system and indicators of contagion and investor behavior are all relevant macroeconomic indicators to asses the country's ability to cope with capital flow reversals and currency crises. The quality of regulatory institutions, including the legal infrastructure should also be part of the analysis. And the authors add that "…[a] ssesments need to be based on a comprehensive set of indicators, taking into account the overall structure and economic situation of a country and its financial system" (pp. 53-54).

Grabel (2003: 252-3 and 2004: 28-30) argues that an exogenous shock leading to a rapid devaluation of the domestic currency may have a significant effect on the ability of domestic borrowers to repay foreign-currency denominated debt. This in turn may amplify the initial effect of the shock giving rise to a massive sell off of assets as panic ensues possibly promoting and amplifying the initial contagion effect. Hence, exposure to the risk of foreign currency fluctuations needs to be continuously assessed by the monetary authority.

The International Monetary Fund's Global Financial Stability Report introduces a series of variables to assess financial fragility: volatility measures, debt cross correlations, equity indexes, returns on bonds and global yield spreads, and other financial soundness indicators for emerging markets (IMF, Statistical appendix, 2006: 163-195).

Hence, while policymakers can follow the advice of the current literature to protect the financial system from exogenous shocks they must also deal with another source of shocks; political. If the macroeconomic policy is not able to achieve some of its social objective it may loose its domestic support. This may be expressed by political and social discontent leading to grater political risk, in turn rendering the policy unsustainable.

Political risk

According to the current literature on political risk, the social situation in a country is at least as important as the strength of its financial system.

Lensink et al. (2002) find a robust correlation between political risk and capital flight. Kashiwase and Kodres (2005: 43) include government stability, socioeconomic conditions, external conflict, internal conflict, corruption, military in politics, law and order and bureaucratic quality among the political risk rating variables used in their regression analysis. Erb et al. (1996, 1999) include political risk into the analysis of bond spreads and Bilson et al. (2002: 1) argue that "…political risk is important in explaining return variation in individual emerging markets…". Along with the IMF's Global Financial Stability Report the papers utilize the data provided by the Political Risk Services. Le and Zak (2006: 308) state that "…political instability is the most important factor associated with capital flight". The authors argue that political risk is captured by socio-political instability and regime change (p. 314).

An unstable social situation, characterized by high unemployment and chronic levels of poverty may promote political instability leading to uncertainty about the government and its economic plan (Tokman, 2003: 95-96; Holzmann and Jorgensen, 1999: 22-3; Stiglitz 2003: 27-8). Uncertainty may scare capital away, in turn affecting the real economy via changes in interest rates and currency depreciation. The ensuing distributional effect may be aggravated by the country-specific sentiment component shaped by the country's socio-political history and the conditions at the time of the shock at home and abroad.

Thus, the same macroeconomic polices designed to protect the economy against exogenous shocks may promote political risk. In other words, political risk is endogenous to macroeconomic policy; hence, the policy dilemma.

The policy dilemma

The dilemma of the policymaker can be characterized as one where he or she must choose between diverting funds to support the strength of the financial structure and to promote its image and to use some funds to achieve it social objectives, including the provision of health. Hence, the government faces a constant balancing act between increasing risk in one sector by lowering the shield versus increasing risk in the other sector by no attending to its needs. This is the fundamental tradeoff facing the policymaker.

Under these circumstances the expansionary capacity of monetary and fiscal policy will be partly sacrificed in lieu of sustaining a stable currency and providing an image of stability to economic agents. This means that even if the country grows at a solid pace the added tax revenues will, for the most part, be stored to buttress the fundamentals and to improve the expectations of all economic agents. However, the current wisdom has generated some controversy among economist.

According to Rodrik (2006), there is a social cost to pay for holding excess reserves and argues that capital controls may be used as a tool to stabilize flows without sacrificing the opportunity cost of holding foreign currency, but acknowledges that capital controls are politically less feasible. Summers (2006) claims that reserves are excessive in many countries and calls for a reform in their strategies. Hauner (2005) tries to measure the opportunity cost of holding reserves and argues that countries should diversify their holdings into assets with longer maturities. Aizenman and Lee (2005) claim that most developing countries hold excess reserves mostly as a precautionary measu.

On the other hand, García and Soto (2006) claim that the levels of reserves need to be compared to the potential cost of a crisis. From their perspective most countries are holding adequate levels of reserves. Their method controls for the quality of political institutions and concludes that it is better to hold excess liquidity than to depend on the technocrats to solve a shortage of cash.

Summers (2006) offers a complementary explanation. He argues that central bankers do not have an incentive to take excessive risks by trying to diversify their reserves into higher yield allocations because the public's recognition from earning greater returns on the bank's reserves is significantly lower than the derision they will get if they earn negative rents. Hence, the chairperson's conservative approach is rational.

Therefore, it seems unlikely that current macroeconomic policy will significantly deviate from its approach especially in many less developed economies for all the reasons stated above. This does not mean that these governments do not have options to exercise certain degree of flexibility in the implementation of such policies.

For example, a more dynamic conception of internal financial flows may induce the policymaker to temporarily divert funds to sectors of the economy where the risk factors are beginning to mount above prudential levels. Moreover, a portion of the fiscal surplus could be used as temporal collateral to expand the credit base available to small domestic ventures that are labor intensive in order to reduce unemployment in an impoverished locality without increasing risk in the banking system.

In other words, credit could be extended to higher risk groups without affecting the integrity of the banking system. This would amount to a sort of macroeconomic prudential risk management technique where the market provides signals and incentives and the public sector acts as a backstage catalytic instrument, thereby minimizing market distortions.

Moreover, to promote cohesion and to combat social exclusion should be a priority of the social policies of the developed countries (Bjørnskov, 2003; OECD, 2001). Even though we do not have a unique measure of cohesion certain social indicators like the percentage of suicides, the violence or abuse of drugs, not only point to personal crises but also to certain environmental conditions.

If in the case of addictions it can be observed that the abuse of these substances increases during times when the unemployment level is high or when the country experiences economic recessions, then a connection can be made between stress and economic factors (Dee, 2001). In other words, the demand for health services may increase during periods of economic uncertainty. Funding them may prevent the rise of political risk thereby promoting policy sustainability.

This means that the provision of health in a country does not, and should not, have to be completely sacrificed by its macroeconomic policy, even during periods of external turmoil. Governments can take a flexible and eclectic approach to policy formation. Health provision is a pillar, along with education, of a solid poverty reduction program. Therefore, a prudential risk management approach to policy will attempt to provide the flow of health and its complementary social services adequate enough to each social system to render the macroeconomic policy sustainable; the central objective of the strategy.

IV. CONCLUSIONS

The psychological and sociological profile of a population must be taken into account when designing a socially efficient public health policy. However, there seems to be a global tendency to favor the provision of medical services by the private sector.

Moreover, private providers seeking to maximize profits seem to favor the excessive use of state-of-the-art technology resulting in a regressive distribution of access to services as delivery becomes increasingly expensive. Hence, a call is being made

in many countries for a shift towards a public delivery of health that gives priority to the needs of the population above and beyond that of the provider.

But in many countries the delivery of public services is complicated by an unstable global financial system that seems to be continuously threatening their domestic macroeconomic stability. In such a context governments must simultaneously device policies to shield the domestic economy against exogenous shocks while promoting poverty reduction polices at home.

But achieving stability at home requires policies, this paper argues, that will divert resources away from social programs such as public health. This posits the policymaker with a dilemma. This study attempts to demonstrate that a sustainable macroeconomic policy must be one that delivers an adequate level of public health services, one that conforms to the psychological and sociological profile of the targeted population. Hence, the strength of the latter begets the sustainability of the former.

Furthermore, the paper calls for an eclectic, flexible and dynamic approach to policy formation. This requires a constant monitoring of the economic system in order to address social and political problems as they present themselves by reallocating resources in a dynamic fashion among the various sectors of the economy in an attempt to render the mix of policies sustainable.

Given that this paper characterizes the fundamental trade offs facing any economic system in a global environment, a natural extension to this work would be to apply it to case and comparative studies. From an interdisciplinary perspective those authors researching the effect of social policy on poverty, immigration and social capital formation this paper should provide a global context that recognizes the fundamental impact that the flow of capital has today on the welfare of all social classes in each country, in particular the lower classes.

In the final analysis, as the Alternative Nobel Prize in Economics Manfred Max Neff said, the policymaker designing the strategies to foster economic development must always include the human dimension. It is about creating a competent environment where the wealth generated could be distributed more equitable to foster not only a more balanced development but also one that will be sustainable.

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