

THE IMPACT OF HIV FUNDING ON THE NATIONAL MACRO-ECONOMIC STABILITY: WHERE IS THE MIDDLE LINE?

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The very nature by which this topic has been framed illustrates how completely we as a country and as individuals have been conscripted into believing that there is only one way of managing the national and global economy. The concept (not necessarily the fact) of macro-economic stability is central to this way of economic management. This way of economic management is called the Laissez-faire capitalism, neo-liberal economics, neo-classical economics, or market fundamentalism.

What is implicit in the topic or question is that macro-economic stability cannot be achieved with substantial or increased spending on HIV/AIDS or other social services in general. It is also implicit in the topic that without macro-economic stability, economic growth and national development cannot take place.

Market capitalism, whose current version includes macro-economic stability as a key component, is about 200 years old. Adam Smith, Scottish economist-philosopher, who conceptualized market economics, argued that market forces drive the economy to efficient outcomes as if by an invisible hand. For over 100 years modern economists have been struggling to show that this theory is profound and true. It has turned out for all to see that the conditions under which Smith drew his conclusions are highly restrictive. Recent advances in this theory (e.g. the Washington Consensus policies) have shown that, whenever information is imperfect and markets are incomplete, which is always the case in developing countries, this theory falls on its face. In recent years some economists have started to question the appropriateness of the market principles in social and health policies (Rice T, 1998).

Before the advent of market capitalism, the economy was managed by customary rights and obligations based on the class – a system called feudalism. The invention of ships led to adventures to faraway lands, which in turn led to increased commerce, creating a rich class.

Thus, capitalism was born, where in Western Europe, wealth from trade was used to start enterprises and industries. It led to the development of political ideologies that, for example, rationalized the ownership of slaves and massive displacement of people from agricultural lands, against moral norms and religious teachings. Capitalism in Western Europe led to the industrial revolution in 1870s. Industrial revolution was a great economic advancement, which led to increased wealth generation. But it also led to widespread destitution and pauperism, which led to revolts especially in France (Napoleonic revolts). In Europe these revolts made governments to establish welfare states, as safety nets for people who would not be benefiting from the wealth generated by capitalist markets under the industrial revolution. Further development of classical market economics was interrupted by the two world wars.

The 2 wars themselves provided 2 important lessons, which became the basis for countries to form, first the League of Nations, then the United Nations. The lessons were that 1) it was the inescapable responsibility of the state to ensure economic and social security for its citizens; and 2) to avoid extreme nationalism such as the Nazism in Germany, leading to another war, it was necessary to form institutionalized international cooperation.

The post-1945 economic dispensation was characterized by 1) a state-run economy as adopted and led by Soviet Union; and 2) a mixed economy adopted by Western Europe where there were roles for the market, with state intervention, where the state was not just a regulator or guarantor of law and order, and to provide basic social services, but a distinct and important economic agent.

This was supported especially in Britain by the Keynesian doctrine which ensured stable employment, social welfare and state intervention in economic growth through grants, tax concerns, loan guarantees and subsidies. Indeed Western Europe enjoyed prosperity, growth, and stability from 1950s to 1970s. Then there was oil shock of 1974, something that had not been predicted or expected. With a hind sight, some economists now say this oil crisis of 1970s was the result of the fact that the demand for consumer goods had reached its peak and the supply of these goods had to flatten to keep pace with the demand.

The pace of global material consumption eventually came down to population growth rate, which had become very low. The oil shock increased inflation and the reaction of the Governments was to shift back to the old capitalist orthodoxy. This shift was this time based on 3 cardinal principles: balancing the budget, control of money and maintaining a minimal state intervention in the economy. The twin economic policy objectives became price stability and balanced budgets. This concept was championed by Friedman who argued that the control of money supply must be tied to economic growth rate. But no economic policy is perfect; while this policy improved growth, it still caused inflation and soaring of interest rates. This policy was abandoned quietly in 1980s by Margaret Thatcher's Government (Shutt H, 1998). Desperately, alternative policies had to be sought and these included tax cuts and reduction in public expenditure.

Meanwhile, the International Monetary Fund (IMF) and the World Bank, the Bretton Woods institutions, which were established to ensure global economic stability and to eradicate poverty, were struggling with spiraling effects of the oil crisis of 1970s.

The World Bank was created to eradicate poverty in the world. The IMF was created to maintain global economic stability. The World Bank is concerned with advising what Governments should spend on, how financial institutions should be managed, how the labour market should be managed, and what trade policies should be put in place. These are called structural issues – remember structural adjustment programmes. The IMF deals with macroeconomics, which address budget deficits, monetary policy, inflation, trade deficit and borrowing from abroad. The word “macro” in economics means aggregate. “Macroeconomics” refers to aggregate levels of economic growth, unemployment and inflation.

However, some have argued (Stiglitz J, 2002) that both WB and IMF decisions and policies are not based on careful or thoughtful analysis of each country's situation. They are based on ideology, politics, specialized interests and dogma. They are based on simplistic market economic theories, which assume perfect conditions for markets exist in the world, which do not.

After the demise of the Keynesian doctrine as the result of the oil crises of 1970s, the doctrine which encouraged the creation of employment and government intervention, the IMF, WB and US Treasury hatched a new doctrine for the world economy. This was called the Washington Consensus. This doctrine gave new prominence and meaning to macro-economic stability. The doctrine was particularly meant for the developing countries. It consists of 4 elements: 1) maintain macro-economic stability 2) privatize national assets and enterprises, 3) liberalize the economy (remove trade barriers); and 4) once you achieve those, the bonus is that investments will come.

There is something called a white man's burden (Stiglitz J, 2002). That is, the white man and only the white man knows what is best for developing countries (read: for Africa). So, without asking any questions all poor countries embraced this wonderful doctrine. Moreover, this was to become a standard or "one-size fits all" policy for all poor nations. Uganda has fallen head over heels for this doctrine. You would be excused for thinking that the Washington Consensus was a Kampala doctrine, manufactured in the Ministry of Finance. But with the coming on the scene of Dr Ezra Suruma, there is some hope that some original thinking with Uganda's welfare as the first interest will be possible.

The Washington doctrine is based on the very old capitalist economic order of the industrial ages which had led to pauperism, destitution and riots. In 1980s similar doctrine was used in the USA, where growth was achieved, but the poor became poorer (Shutt, 1998). This is the kind of inequity trend we are experiencing in Uganda now. Remember, in 1992 Uganda's Gini coefficient was 0.35; in 2003 it rose to 0.43 (MOFPD, 2004).

Some people have argued (and got Nobel Prizes) that it is good and necessary to have inequity for the economy to develop. Arthur Louis got his Nobel Prize for arguing that inequity is good for development and economic growth. Simon Kuznet got his for theorizing that for development occur, it is always inevitable to first have inequality increase, then equity can be achieved gradually afterwards.

But history has proved these Nobel laureates wrong. In fact inequity is not inevitable or necessary to achieve growth as has been proven in South Korea, China, Taiwan and Japan.

The superiority of the market economy being peddled around the world by the WB and IMF and their cohorts is profoundly deceptive. The system has failed to achieve its objectives. Poverty has increased around the world and financial stability has not yet been achieved. In fact, analysts have reached the following conclusions about the current economic dispensation (Shutt, 1998): 1) True markets do not exist, since they are being supported in the developed countries by the state; 2) Contrary to the optimism created by the current economic system, there has not been any appreciable rise in prosperity or welfare; instead poverty has spread around the world - in Britain, 25% of the population are financially deprived today compared to only 10% in 1960s; in many developing countries all indicators of welfare are worse today than 40 years ago; 3) Crippling economic policies (like the one which makes macroeconomic stability an end) have made more and more people worse off; and 4) Adverse social and economic effects can only be handled by state intervention. That is why we must welcome, Dr Suruma as our saviour.

In Uganda, this policy has led to the worsening social welfare. This is documented in very sobering and unflattering detail in my paper in the *Lancet* (Okuonzi S, 2004). Infant and child mortality in Uganda is among the highest anywhere in the world. Uganda is one of only 8 countries with the highest maternal mortality rates in the world, competing with countries such as Yemen, Pakistan, Ethiopia, Nigeria, India and Nepal (WHO, 1998). 2.5 million orphans and other vulnerable children have no social support at all, and the numbers are increasing. Access to safe water and sanitation, food, nutrition and basic health care are low and fragmented (Okuonzi S, 2004).

In the name of macro-economic stability, Uganda has reduced and capped its social expenditure – against a growing general and vulnerable population. In the name of a theoretical currency over-valuation allegedly arising from donor funds meant to provide basic services for the poor, donor funds have been rejected. Highly respected economists such as Jeffrey Sachs have brushed this upside-down reasoning as nonsense, arguing that no such

precedents have occurred anywhere in the world. There is no justifiable reason to believe it is going to happen in Uganda.

The market economy, and its Washington variant, is the construct of man, arising out of specific interests. They are NOT in our best interest, as Ugandans or developing countries. There is a saying that when you cannot think and make a decision for yourself, somebody will do it for you. But he will not do it in your best interest. This market economic policy is not the only way in which development can occur. Even within market economics, Washington Consensus is not sacrosanct or God-ordained. It has a lot of loopholes, and has actually failed miserably to bring prosperity and social welfare in Uganda.

There are other ways than market fundamentalism of achieving successful development such as has happened in Botswana, South Korea and China. There are also other non-market strategies of achieving social welfare. Countries which have stuck to their guns to maintain their good social welfare rather than yield to the Washington doctrine include Cuba, Sri Lanka, Costa Rica, Kerala (India) and China.

In Uganda, to provide basic care including anti retro-virals (ARVs) will cost at least US\$40 per head per year (MOH, 2004). What is currently provided by the Government is about US\$5, while about US\$10 is provided by poor and struggling peasants. For the HIV/AIDS situation to become under full control will require US\$90 million over and above the current annual expenditure of about US\$ 125 million (UAC, 2004). A recent cost-benefit analysis has shown that spending USD 125 million annually on HIV/AIDS will bring a return of USD 900 million in social benefits - a return on investment by 7 times.

The challenge Uganda should be addressing is how to fund the deficit in social welfare budget. The dogmatic defence of worn-out ideas surrounding macroeconomics should be abandoned. We should rationally assess the poor social welfare in the country and strategize how much the Government can intervene to reduce this burden. Countries with Uganda's level of economy such as Ghana, Kerala, and Sri Lanka, have far better social welfare. And yet they are also achieving economic growth.

Our strategy should be to maximize social benefits to the people, within the economy as it is – but not to promise some vague benefit for the future awaiting household incomes to increase. There is evidence to show that we can improve our people’s welfare far better than it is today, and still register economic growth. But for that to happen we must look beyond macro economic stability as the only means to an end. It should not become an end in itself. Once we are decided on the welfare of our people as our common goal, the right balance between stability, growth and welfare can be struck.

Thank you.

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