

A Paper to Contribute to a Debate for the Joint Learning Initiative on Children and AIDS

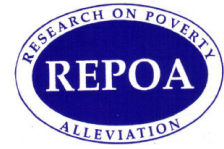
**“Can a Developing Country Support the Welfare Needs of
Children Affected by AIDS?”¹**

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Paper submitted to the Joint Learning Initiative on Children and AIDS
Learning Group 4: Social and Economic Policies

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¹ Draft: Criticisms Welcome



Introduction

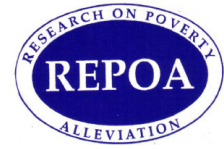
In this debate, I am the Grinch. I argue that developing countries (especially those with high-prevalence generalized AIDS epidemics) cannot support the welfare needs of children affected by AIDS. Two reasons stand out. First, developing countries with generalized AIDS epidemics that attempt to accommodate the welfare needs of children affected by AIDS risk undercutting their current and future growth potential. That will further delay their ability to begin assisting on a regular basis all of their citizens who are poor and deprived. Second, the welfare needs of children affected by AIDS are only one of several challenges that these countries face. As such, promoting the welfare needs of children affected by AIDS is no more compelling – economically or financially – than supporting children and adults who are hungry, illiterate, in ill-health, displaced, or otherwise destitute.

My argument is based on principles of efficiency and (horizontal) equity. Neither principle excludes providing some (modest) support to children affected by AIDS as part of a broader effort to assist the disadvantaged. However, in aiding these groups, the developing country should avoid creating distortions that unbalance the economy (or, more likely, sustain its existing imbalances). The Annex draws on data from Zambia to illustrate.ⁱ

The paper is organized as follows. The following section examines why efficiency and equity are critical considerations in developing countries (especially the poorest). Section three discusses why it is not constructive for a developing country to spend all the resources it can muster on children affected by AIDS (or any other single activity). Section four considers why having the donors provide all the resources is not helpful and presents data from Zambia to show why. Section five has concluding comments.

Two: Why Are Efficiency and (Horizontal) Equity Relevant?

Efficiency is fundamental to economics. To economize is to avoid waste and inefficiency. Being efficient involves making the best use of the available (but limited) supply of resources.ⁱⁱ Catering to the welfare needs of any particular group (or, equivalently, allocating large amounts of resources for one specific purpose) is inefficient. Reallocating some of those resources to other (socially valued) activities would raise national income and welfare.ⁱⁱⁱ Since the poorest countries, by definition, are (or should be) the least capable of sustaining waste and the most able to benefit in welfare terms from rising incomes and output, government activities (including policies) that promote efficiency

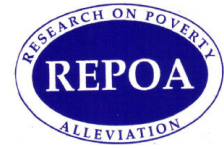


have positive spillover effects. In addition to boosting the economy's growth potential, these efforts lead the general public to perceive that economic expansion is both possible and likely to continue.^{iv} Public activities that are inefficient and government policies that generate waste and inefficiency have the opposite effect. They lower the country's capacity for economic growth and adversely affect the general population's expectations regarding continued economic growth. This imposes costs on all members of the society.

Horizontal equity involves the equal treatment of members of any society who are in similar, or roughly equivalent, circumstances. Concern for this principle raises the question that if a developing country government decides to support the welfare needs of children affected by AIDS, what responsibility does it have for the welfare needs of those who are hungry, un-educated, in poor health, displaced, and marginalized? Why is it more critical to relieve the deprivation of one group rather than some other? Who decides? What criteria are used? Why? The value of focusing on horizontal equity is that it encourages activities that, within the limits of a developing country's resources, address deprivation within the whole society irrespective of its source.

Dealing with issues of efficiency and equity are never easy because decision makers (in governments and within the international community) hold widely varying views about their relevance. Nonetheless, whatever their views, their resource allocation decisions will have consequences for efficiency and equity. Resources – human and physical capital, institutional and organizational capacities, knowledge and information, and local finance – are scarce and choices always have to be made.^v More specifically, choices about how resources are generated and allocated cannot be avoided. Government officials that pretend (and behave otherwise) are deluding themselves, and doing a public disservice. Having the international community provide additional resources (commodities, finance, technical assistance), changes only the nature of the choices, not that choices are needed.^{vi}

The development experience of the last five decades highlights this point. One need only compare the growth and development trajectories of countries in Asia and Africa. In the former, rapid economic growth and social development have lifted several hundred million people out of poverty. In the latter, the lack of economic growth and social development has driven as many as two hundred million people deeper into poverty. Much of the difference in performance between countries in the two regions has hinged on the choices (reflected in the public policies) that the various governments have made in raising and allocating resources.^{vii}



Three: Why Not Focus All Available Resources on Children Affected By AIDS?

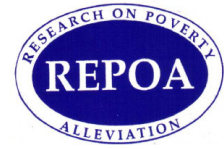
But, what if developing country governments (and the donors assisting them) agree that while efficiency and equity considerations are important, the welfare needs of children affected by AIDS have to be met? Why should any one object? Again two reasons stand out. First, no developing country with a high-prevalence generalized AIDS epidemic could raise the resources required. The example from Zambia (Annex) shows that in 2005, a minimum of \$3 billion dollars (equivalent to 43 percent of GDP) would be required to ensure that the 3 million children affected by AIDS were supported at a level matching the international poverty standard of \$2 per day. Since the entire government budget was 26 percent of GDP, the resource requirement is infeasible.

Second, by deciding to support children affected by AIDS, the government would have to let slide other pressing social and economic issues. Problems such as illiteracy, food insecurity, inadequate infrastructure, generalized ill-health, unemployment, and rural poverty, would not go away. Indeed, they are likely to become more severe and may even create conditions that would eventually block the government's efforts to assist children affected by AIDS. At the very least, the rate of economic growth would decline, poverty would intensify, and the prospects of social disruption would rise.

Even if no one objected to the developing country government's decision to support the welfare needs of children affected by AIDS, the initiative would not succeed. The basic problem is that it would distort the economy. Children affected by AIDS would be having their welfare needs catered for but, due to the general scarcity of resources, other socially relevant activities would be neglected. There is now voluminous evidence from recent development history showing that short of war, persistent economic distortions are perhaps the most effective income-reducing and wealth-destroying mechanisms yet devised. Children will not benefit if the activities designed to support them undermines the economy.

Four: What if the Donors Provide the Additional Resources?

Suppose the international community (the Gates Foundation, PEPFAR, DFID, NORAD, and others) provide all the financial resources to support the welfare needs of children affected by AIDS? Why shouldn't developing countries with high prevalence generalized AIDS epidemics accept this support? There are two main difficulties. First, as the Annex shows, the resource requirements are orders of magnitude larger than anything the international community has ever attempted to provide



to a single country. In Zambia's case, the resource requirement for 2005, \$3 billion, is 60 percent larger than total government expenditure, and more than six times greater than all cash grants from the international community. Resource flows of this magnitude, however well-intentioned, would cause the economy to unravel. Second, even if the international community were to provide the necessary finance, the other resources required to support the welfare needs of children affected by AIDS – human and physical capital, institutional and organizational capacities, knowledge and information and, for the donors, transparent governance structures – cannot be scaled up commensurately.^{viii}

An additional lesson that the very poor countries (especially those in Africa where much of the support for children affected by AIDS would be directed) can learn from the Asian development experience is that just because the international community may be willing to provide resources, the particular country need not accept them. Knowing when to refuse foreign aid is often (far) more important in a country's efforts to sustain economic growth and development than agreeing to accept it.

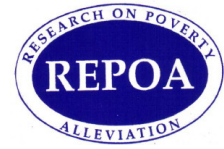
To illustrate, the analysis in the Annex provides indications of the likely outcomes for Zambia if it accepted the resources required to support the welfare needs of children affected by AIDS. As already noted, this amounts to \$3 billion for 2005 and a roughly equivalent amount (adjusted for international inflation and population growth) for the indefinite future (i.e., while there are children affected by AIDS). At least five economic effects are likely.

One: Inflation would accelerate. With the economy presently incapable of efficiently absorbing existing flows of foreign assistance and the government budget in deficit, any additional expenditure would add to the money supply, boosting the rate of inflation.^{ix}

Two: The balance of payments would deteriorate. The large inflows of resources would produce a significant further appreciation of the real exchange rate. That would accentuate Dutch Disease, the effects of which (low economic growth, increasing international debt, accelerating imports, sluggish exports) Zambians have long experienced.

Three: The additional expenditures would crowd out private sector activity. Wage inflation accompanying the increase in demand for the limited supply of skilled professionals (teachers, nurses, managers, administrators, child-care specialists) required to support the welfare needs of children affected by AIDS would raise unit labor costs beyond the levels at which the private sector could remain competitive.

Four: The economy would become significantly more aid dependent than at present and remain that



way for the indefinite future.

Five: The rate of urbanization would accelerate. The combination of an over-valued real exchange rate and higher inflation would further undermine agricultural and rural activities forcing more people to migrate to the cities. Rural blight and food insecurity would be likely to increase.

There would be other effects. The main point, however, is that meeting the welfare needs of children affected by AIDS, *even when fully financed by the international community*, would destabilize the economy.

Five: Concluding Observations

Being efficient is no more and no less a reminder that countries that seek to lift their citizens out of poverty as rapidly as possible need to promote policies and programs that induce the public and private sectors to use all their available resources in ways that yield the highest (risk-adjusted) returns. Horizontal equity requires that all citizens (children, youths, and adults) in similar circumstances be treated similarly.

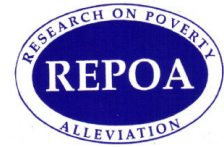
Isn't it naïve of me to highlight the importance of efficiency and equity when the welfare needs of children affected by AIDS are being so strongly emphasized? Why don't I accept that political realities driven by interest group pressures regularly sweep aside issues of efficiency and equity? My position is that, even if politics and interest groups gain the ascendancy, they cannot trump the fact that resources are limited and choices have to be made.^x

My argument is that with so few resources and few opportunities to obtain more (except through sustained rapid economic growth), developing countries should not take extra-ordinary steps to meet the welfare needs of children affected by AIDS. These countries would be better served, in the short and long term, by policies that highlight the efficient allocation and management of the limited resources to which they have access.

Personally, I believe it is grossly unfortunate that developing countries cannot support the welfare needs of children who are affected by AIDS.^{xi} I also believe that it is just as unfortunate that those countries cannot meet the welfare needs of all their deprived and marginalized citizens.^{xii} Wishing it were otherwise, however, does not resolve the matter. The welfare needs of children affected by AIDS and others who are deprived and disadvantaged will ultimately be met through local efforts that raise economic performance and enhance social organization. External partners – donors, advocates, supporters – can assist, but only if they get behind the constructive steps being taken by



locals in these directions. Adding more aid when existing aid flows and local resources are being used inefficiently and inequitably is a formula for continued deprivation, not only for children affected by AIDS but every one else in the society who is poor and displaced.



Annex: Supporting the Welfare Needs of Children Affected by AIDS – The Example of Zambia

A practical example will highlight some issues that emerge in supporting the welfare needs of children affected by AIDS. Zambia is a useful case study. It has a high-prevalence generalized AIDS epidemic. It is receiving extraordinary levels of assistance from PEPFAR, the Global Fund, World Bank, UNAIDS, numerous NGOs, and several bilateral assistance agencies.

For illustrative purposes, I use data for 2005. They are widely available from several sources – the International Monetary Fund (IMF), World Bank, UNAIDS, government of Zambia (GRZ), and the World Health Organization (WHO). This allows me to focus on the logic of the argument and not whether particular data should be a few percent higher or lower.

In 2005, Zambia's population was 11.5 million and growing at the rate of 2.2 percent per annum. The HIV prevalence among adults 15-49 years was 17 percent, an estimated 98,000 people died of AIDS, the number of children and adults (0 to 49 years) living with HIV was around 1.1 million, and the number of AIDS orphans was estimated to be 710,000.^{xiii} Forty-six percent of the population was aged 0 to 15 years.^{xiv} The total value of goods and services produced (i.e., the country's Gross Domestic Product, or GDP) was Kwacha 32,141 billion, equivalent to US \$6.93 billion at the average K/\$ exchange rate for 2005 of 4640.^{xv} Average per capita income was around \$600 or roughly \$900 when adjusted for international purchasing power (PPP). Due to the skewed distribution of national income,^{xvi} 64 percent (87 percent) of Zambia's population had expenditure below the PPP-adjusted benchmark of \$1 (\$2) per day. During 2005, GDP grew by 4.3 percent, adding an amount of \$285 million to GDP.

From the main text, the matter being discussed is whether developing countries can support the welfare needs of children affected by AIDS.^{xvii} The JLICA note states that in a high-prevalence generalized AIDS epidemic, as in Zambia, the majority of children is affected by AIDS. How big is this majority? At 46 percent of the total population, there are 5.3 million children in Zambia. For illustration purposes, I assume that there are 3 million children affected by AIDS, a number slightly fewer than 60 percent of all children.

The JLICA note also informs us that the needs of children affected by AIDS "include primary health



care, education and social welfare.” What level of expenditure would support those needs? A Google search of cost estimates reveals data from several hundred dollars to a few thousand per child per year. A useful benchmark (again for illustration purposes) is the purchasing-power adjusted international poverty line of \$2 per day. This is equivalent to \$2.65 per day in 2005 prices, or \$1060 per year.^{xviii} The benchmark of the equivalent of \$1 per day would halve the cost of supporting the welfare needs of each child. Yet, that level is the internationally acknowledged limit for “absolute poverty.” As such, it is inconsistent with the goal of *supporting* the children’s welfare needs. The discussion below proceeds on the basis that in Zambia the requirement will be \$1000 per child per year.

Using 2005 data, it would cost \$3 billion to support the welfare needs of children affected by AIDS. Furthermore, roughly the same amount (adjusted for inflation) will have to be spent each year for the indefinite future while the epidemic persists and children continue to be affected by AIDS.

How does this amount relate to Zambia’s GDP, government revenue, government expenditure, aid flows, debt levels, imports and exports? How can it be funded? What are the likely dynamic consequences of injecting this amount every year into the Zambian economy?

The following data (for 2005 except where noted) help answer these questions.

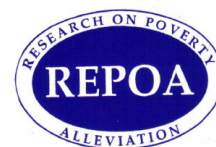
	K billion	Percent of GDP
Gross Domestic Product	32141	100.0
Government Revenue	7671	23.9
Grants received by Government	1934	6.0
Government Expenditure	8528	26.5
Government Current Expenditure	6160	19.2
Government Budget Deficit	- 857	- 2.7
Total merchandise exports (\$ million)	2095	30.2
Total merchandise imports (\$ million)	-2068	- 29.8
Current Account Def. on BoP (\$ million)	- 415	- 6.0
Private consumption expenditure	22595	70.3



Public consumption expenditure	4500	14.0
Gross fixed capital formation	7232	22.5
Change in stocks	322	1.0
Exports of goods and services	10960	34.1
Imports of goods and services	-11860	-36.9
Gross domestic investment- public	2378	7.4
Gross domestic investment - private	5175	16.1
Gross national savings - public	2378	7.4
Gross national savings - private	3246	10.1
Gross foreign savings (including grants)	1934	6.0

Other Indicators:

GDP in US \$ million (at average exchange rate)	6930
Average exchange rate (K/\$) in 2005	4640
Net Bank Credit to Government 2005 (K billion)	2910
Growth in the money supply 2005 (percent)	8.6
Increase in consumer prices 2005 (percent)	18.4
External debt all creditors end-2004 (\$ million)	7080
Gross official foreign exchange reserves (\$ million)	312
Total population 2005 (million)	11.5
Average per capita income (US\$) 2005	600
Average copper price (US cents per pound)	152
Under-5 mortality 2005 (deaths per thousand children)	182
Child malnutrition 2000-2005 - percent stunted	23
Child malnutrition 2000-2005 - percent underweight	47
Percent of children completing primary school	78
Growth of paid employment 1998-2004 (percent)	-10.9
Total increase in money supply 1998-2004 (percent)	426.5
Total increase in consumer prices 1998-2004 (percent)	239.6

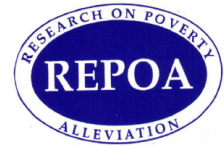


Av. budget deficit before grants 1998-2004 (% GDP)	-12.7
Av. budget deficit after grants 1998-2004 (% GDP)	-6.0
Average copper price 1998-2004 (US cents/lb)	80
Population growth rate 1990-2005 (percent per annum)	2.2
Total food production 1990/2-2003/5 (% increase)	23.8
Cereal yield per hectare 1990/2-2003/5 (% increase)	26.1
Food production per capita 1990/2-2003/5 (% change)	-4.6

Size of Requirement: In 2005, the amount required to support the welfare needs of children affected by AIDS, \$3 billion, was equivalent to 43 of GDP, 51 percent of total (public and private) consumption expenditure, 163 percent of total government expenditure, 145 percent of total imports of goods and services, and 620 percent of international grants provided to the government. This is a large amount, both absolutely and relatively. It will remain large relative to the overall economy for the foreseeable future.

Source of Funding: With the GRZ having run a budget deficit continuously since 1974^{xix} and during that time accumulated local and foreign debt that could not be regularly serviced,^{xx} the resources required to meet the welfare needs of children affected by AIDS will have to come entirely from the international community. The GRZ does not have the financial capacity (whether measured as fiscal space or creditworthiness) to sustain the additional expenditure. Given current government policies, that situation is likely to continue into the future as well.^{xxi}

Dynamic Implications of the Required Expenditure: Two issues are involved. The first is the short-term economic impacts of the additional expenditure. The second is the dynamic effects of attempting to maintain that resource injection for the indefinite future. On both counts, Zambia lacks the capacity to sustain the effort. In 2005, the economy was seriously over-stretched. Years of budget deficits, and weak (and often inappropriate) financial, monetary, and exchange rate management produced chronically high rates of inflation (i.e., rates well beyond comparable international norms), undercut the economy's capacity for rapid economic growth,^{xxii} generated acute aid dependence, and created major imbalances in the structure of trade and the balance of payments. Economic performance by a variety of measures has been poor. For example, paid (i.e.,



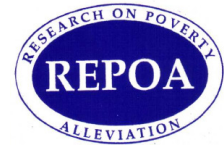
formal sector) employment has declined over most of the last decade, and the general population has limited education, poor health, and is food insecure.^{xxiii} Children affected by AIDS are only one of several challenges that Zambia faces.

Notwithstanding post-2005 increases in copper prices and the subsequent expansion of mine output, the country's economic prospects remain far from buoyant. The dramatically improved outlook for mining exports (with copper prices currently in excess of \$3 per pound), has not boosted the rate of economic growth significantly nor has the improved financial outlook encouraged the government to reduce its budget and balance of payments deficits.^{xxiv}

The implication is that Zambia cannot afford to support the welfare needs of children affected by AIDS *even if the effort is fully funded by the international community*. Cutting the number of children eligible for support to 1.5 million or halving the amount of the assistance does not resolve the matter. Even limiting the assistance to the 710,000 AIDS orphans would not change that conclusion. The economy's limited resource base and the structural imbalances in the government budget and balance of payments do not provide the scope for any additional outlays whatever their source.

This outcome is not a legacy of colonialism. Zambia gained independence in 1964 as the third richest country in Africa with minimal levels of external debt, large budget and balance of payments surpluses, and a per capita income that was 40 percent higher than that of South Korea.^{xxv} Neither is it a product of globalization (or the internationalization of trade and exchange). The policy changes announced by the GRZ at Matero Hall (1968), Mulungushi Rock (1969), and as part of the Watershed Speech (1975), set Zambia on a trajectory that was specifically designed to insulate the economy from international trade and exchange. That strategy progressively impoverished the majority of Zambians by preventing them from participating in the general expansion in world trade and economic growth that, among other things, helped lift most of Asia and Latin America out of poverty.

Many of Zambia's present difficulties can be traced to the pattern of partial and failed economic restructuring that dates from the government's unwillingness and incapacity to adjust to the realities of the energy and food crises and the collapse of copper prices in the 1970s. Little has changed



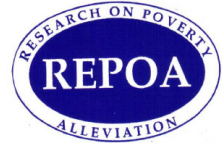
since in the government's approach to economic management.^{xxvi}

But, What If...?

How could the GRZ and the donors who want to help respond to the welfare needs of children affected by AIDS? A constructive response would need to be based on the recognition that a major challenge in Zambia is to provide short-term security (food, health-care, and shelter) for the affected children as conditions are simultaneously created to provide those children with the opportunity to believe in (and hope for) an expansive future. For these conditions to materialize, the GRZ would need to re-structure its policies and activities so as to achieve rapid sustained economic growth.^{xxvii} That would require initiatives to take full advantage of the country's assets (agriculture, mining, tourism, water resources) and draw as many members of the country's labor force as possible into productive employment. Success in this would require the government to shift from its current focus on the welfare of the roughly 400,000, primarily urban-based, paid workers and promote policies that explicitly support the activities and occupations of poorer members of society – farmers, the informally employed and small-scale entrepreneurs.

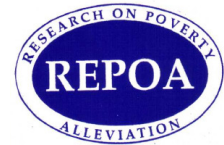
What would this change in emphasis do for children affected by AIDS? It would *not* provide resources to fully support their welfare needs. It would, however, help boost the agriculture sector and rural and peri-urban economies, making Zambia less subject to food insecurity. It would also begin to generate employment growth, especially among those with few skills. That would expand the range of economic opportunities and encourage higher private spending on activities that enhance welfare – housing, health, and education. The change would also enable Zambia to rationalize its relationship with the international community so that the countries economic and social policies could begin to fully reflect local priorities and not necessarily those that periodically emerge from Washington, Brussels, Paris and London.^{xxviii}

If carried through, the suggested restructuring would provide the government with the potential to expand its support for children affected by AIDS and all others in Zambia who are hungry, illiterate, and otherwise deprived.



Conclusion

Three points emerge from the preceding analysis. First, given its present and prospective economic performance, Zambia lacks the capacity to support the welfare needs of children affected by AIDS. The estimated cost is well beyond anything the Zambian economy could currently afford, or sustain.^{xxix} Second, the country cannot begin to create that capacity until economic management improves and high rates of economic growth are generated and sustained. Third, if *constructively* supported by the international community, the government could begin supplying *some* of the welfare needs of children affected by AIDS along with the welfare needs of other groups who are poor and deprived. This would require a substantive restructuring of the government policies and priorities (as reflected in the budget) including major reductions in non-welfare related expenditures.



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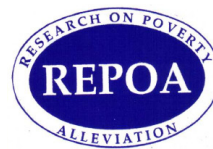
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Endnotes

ⁱ I am familiar with Zambia and it is a high-prevalence generalized AIDS epidemic country. However, the same conclusions would emerge using countries like Malawi with an adult HIV prevalence of 14 percent, a GDP of \$2.1 billion and 6.1 children aged 0 to 15, Ethiopia (4 percent; \$11.2 billion; 31.7 million), Mozambique (16 percent; \$6.6 billion; 8.7 million); South Africa (19 percent; \$240 billion; 15.3 million); Botswana (24 percent; \$10.3 billion; 677 thousand); Kenya (6 percent; \$18.7 billion; 14.7 million); Swaziland (33 percent; \$2.7 billion; 450 thousand), or even Sub-Saharan Africa as a whole (6 percent; \$662 billion; 323 million). Data are from World Bank *World Development Indicators 2007*, Tables 2.1, 2.18, and 4.2.

ⁱⁱ In technical terms, efficiency involves achieving a given level of output/welfare at minimum (resource) cost; alternatively, it involves achieving the most output/welfare with given resources or set of inputs (Reiter 1998).

ⁱⁱⁱ Because resources are scarce (and valuable), trade-offs always exist. This reflects the opportunity cost principle, i.e., that using resources for one purpose precludes using them in some other (valued) activity. The theories of optimal public finance and optimal growth, for which there is a rich literature, highlights the key conditions related to the marginal benefits and costs of raising revenue and allocating resources both for a particular period (such as a budget year) and over time (Chakravarty 1998; Hahn 1998; Musgrave 1998; Romer 2001, Chs. 2,3; Stern 1998). Countries meeting these conditions optimize their rate of growth given their available resources and anticipated shifts in technology.

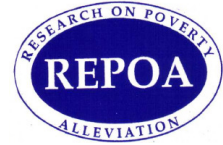
^{iv} This is a well-established proposition. Keynes (1936, p. vii), for example, noted that [in a monetary economy] "...changing views about the future are capable of influencing the quantity of employment [income] and not merely its direction." Accordingly, a vital public good-generating feature of public policy is to create the current conditions that induce individuals and firms to behave as though they continue to expect incomes to rise and the economic future to be expansive.

^v Not deciding is not an option. Not deciding and deciding not to decide are choices, frequently poor ones. As Lindholm (1959) noted, it results in having the system "grind out" a solution whatever that may be.

^{vi} Recent articles by ActionAid and the Center for Global Development (http://www.actionaidusa.org/imf_africa.php and http://www.cgdev.org/doc/IMF/IMF_Report.pdf) criticize the International Monetary Fund for what is seen as the Fund's uncompromising approach to attempts by developing country governments to increase the resources they allocate to "social spending." The IMF has posted a response on its website (www.imf.org). The more general issue, however, is that making the IMF (or any other international organization) the villain does nothing to change the reality that the resources available to developing countries are limited. Over the decision horizons relevant to the IMF and the governments of developing countries, there are too few resources to support all the social expenditures that local and external advocacy groups believe should be made. As an illustration, World Bank data show that in 2005, total population in Sub-Saharan Africa was 731 million and aggregate GDP was \$662 billion. Removing Nigeria and South Africa (with a combined population of 176 million and GDP of \$340 billion), leaves the remainder with an average annual per capita income of \$580. This is marginally above \$550 per annum, equivalent to the inflation-adjusted cut-off point for absolute poverty (of \$365 per year in 1990 prices). With such low income, denouncing the IMF for its impact on resource allocation misses the point. The more basic issue is what are local governments and their international supporters doing to promote economic growth so that resources will become available to help raise social spending?

^{vii} To help place differential growth performance in perspective, it is worth recalling that in the mid-1960s many African countries had per capita incomes that were significantly higher than those, for example, in Singapore, Malaysia, South Korea, Indonesia, and China. It is also worth recalling that while most African countries had food surpluses, population and agricultural specialists such as Paul Ehrlich (1968) and William and Paul Paddock (1967) were arguing about the need for triage in Asia where (by their estimates) around 500 million people were likely to die of starvation.

^{viii} A common view among development specialists over the last decade (see, for example, Sachs' *End of Poverty* and the United Nations Millennium Project's *Investing in Development*) is that scaling up is relatively



easy or that, when difficulties arise, a matter of political will, or improved governance, or some other feature. In practice, however, scaling up has proven to be perhaps the most complex and perplexing development challenge for the poorest countries. Indeed, one of the reasons why African countries continue to have such low per capita incomes has been their general incapacity to scale up a host of activities that have first been tested/proved at the local level (McPherson 2003). If scaling were so easy, much of SSA would be (at least) middle income by now.

^{ix} Based on the historical data in the Annex, the elasticity (i.e., responsiveness) of prices to money supply is roughly 0.56. The scale of the foreign inflows (even allowing for a large import content which reduces the net foreign inflow) would substantially increase the growth rate of the money supply well above the 8.6 percent recorded in 2005. As a consequence, inflation would accelerate.

^x A useful service the World Bank could provide for developing countries is to dust off and widely publicize the implications of one of its better pieces of research. The studies summarized in the volume *Redistribution with Growth* (Chenery *et al.* 1974) argued that, in the absence of the forced redistribution of income and wealth, the next best option was to raise the rate of economic growth through support for policies and activities that generate income (and wealth) for the broadest range of citizens possible. The recent emphasis on pro-poor growth has some of the flavor of the approach although it has been over-shadowed by the institutionalization of “MDG-oriented poverty reduction strategies” (as the UN Millennium Project refers to them).

^{xi} It would require a heart of stone not to be moved by the suffering and courage of individuals such as Nkosi Johnson (Wooten 2004) or whole communities (Epstein 2007, esp. Chs. 8, 13). The issue being discussed here is the broad macro question of whether developing countries should meet all children’s welfare needs not those of particular children.

^{xii} Nicholas Kristof’s recent characterization of the deepest tragedy wrought by poverty is that it forces individuals to make impossible (Hobson’s) choices (Kristof 2007) – which child to educate, which child to put under a bed net at night, which family member to give medical attention, and so on.

^{xiii} Data come from UNAIDS 2005; USA.gov 2007; Dzekedzeke and Fylkesnes 2006.

^{xiv} World Bank *World Development Indicators 2007*, Table 2.1

^{xv} The data are from the International Monetary Fund (IMF 2006). The *World Development Indicators* (World Bank 2007, Table 4.2) report a higher GDP – \$7.3 billion, with an implied average exchange rate of K4420 to the US dollar.

^{xvi} The Gini coefficient for 2004 was .51. The highest 20 percent of individuals received 55 percent of income while the lowest quintile had 3.6 percent of income (World Bank 2007, Table 2.7).

^{xvii} These are children “...who are living with HIV or AIDS, those in a family with a member who is living with HIV or AIDS, and also children affected by the strains that AIDS places on communities and services.”

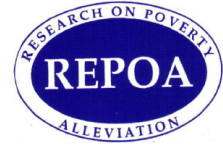
^{xviii} This was derived by adjusting the standard of \$2.15 per day in 1993 prices to 2005 prices. The price data were taken from the United States Department of Labor, Bureau of Labor Statistics website (accessed August 16, 2007).

^{xix} Most of these deficits have been large. For example, from 1998 to 2004 the budget deficit before grants averaged 12.7 percent of GDP per annum.

^{xx} Since the early 1990s, Zambia has had billions of dollars of its external debt rescheduled, written off, written down, or restructured. Its internal debt has been financed by providing NIB (non-redeemable non-interest bearing) notes to the Bank of Zambia and/or refinanced through the issue of additional debt. Moreover, due to inflation which over the period 1990 to 2000 averaged 57 percent per annum (World Bank 2007, Table 4.14) the real value of the government’s domestic debt has been eroded. This, too, has eased the government’s debt financing burden by pushing a significant share of the cost to all holders of financial assets.

^{xxi} There is nothing in the government policy statements (IMF 2006, January; 2006, March) suggesting that it plans to fundamentally restructure its expenditure and revenue policies. For example, the budget and balance of payments deficits are projected to continue.

^{xxii} The last five years have been the first period in which average per capita income in Zambia has increased since the early 1970s. The pressure on income has shown up in consumption expenditure. Over the period 1990 to 2000, private consumption per capita declined by 5.9 percent per annum; from 2000 to 2005, it increased by 1.4 percent per annum (World Bank 2007, Table 4.9).



^{xxiii} Progress towards the Millennium Development Goals tells some of the story. With respect to poverty and hunger, the share in consumption of the lowest quintile 1992-2005 was 3.6 percent; the share of under-5 children who were underweight was 25 percent in 1990-1995 and 23 percent in 2000-05; 78 percent of children in the relevant age cohort completed primary school in 2005; in that year, 119,000 males and 109,000 females of primary school age were not attending school; the ratio of females to males in primary and secondary school in 2005 was .92; under-5 mortality was 180 per thousand live births in 1990 and 182 in 2005; in 2000, maternal mortality per 100,000 live births was 750; 51 percent of births was attended by skilled staff in 1990-95 and only 43 percent in 2000-05; in 2005, there were 600 cases of TB per 100,000 people; and in 1990, 50 percent of the population had access to improved water and 44 percent to sanitation with corresponding data for 2004 being 58 and 55 percent (World Bank 2007, Tables 1.2, 1.3, 2.10).

^{xxiv} IMF 2006, January, Tables 3,4, pp.34-35

^{xxv} South Korea's GDP in 2005 was approximately \$788 billion (World Bank 2007, Table 4.2). The \$3 billion required to support children affected by AIDS in Zambia was less than 0.4 percent of that total.

^{xxvi} In 2006, buoyed by the completion of the HIPC debt relief and the rise in copper prices, GRZ policymakers took the opportunity to allow the exchange rate to appreciate from roughly K4700 to the dollar to around K3000 to the dollar. This has had an adverse impact on non-traditional exports, tourism, and other exchange rate-dependent activities. The recent IMF report (IMF January 2006, Tables 8, 10) projects that the current account deficit of the balance of payments will remain around 10 percent of GDP even after allowing for increased returns from metal exports.

^{xxvii} A program for reforming Zambia's economy is outlined in Hill and McPherson (2004, Chapters 15 and 17).

^{xxviii} McPherson in Hill and McPherson (2004, Ch. 14) proposed an "aid exit" strategy for Zambia as a means of helping the country end its acute aid dependence.

^{xxix} Applying the same calculation to SSA as a whole yields the same conclusion. With GDP in 2005 of \$662 billion and 332 million children aged 0 to 15 years, the cost of supporting the welfare needs of (say) 30 percent of those children at the international standard of \$2 per day would be roughly \$100 billion per year. Since total government recurrent expenditure in SSA in 2005 was \$120 billion (18 percent of GDP), this requirement, like the equivalent calculation for Zambia, is infeasible.