

A Different Way of Assessing the Impact of Aids on the Economy

In the wake of the Barcelona Conference on Aids, this is perhaps a good time to reflect on the possible economic impact of Aids. We take a different approach to the issue.

(Please note: This report does not deal with the undeniably huge social and humanitarian impact of Aids. It is limited to the economic impact. The human tragedy has been well documented elsewhere, not least at meetings such as the Barcelona Conference).

Standard Assessment

The standard way of looking at the economic impact of Aids is to project where SA would be if it had no Aids (the “no-Aids” scenario); then to make a second projection of where the country is likely to be with Aids, based on available information (the “with-Aids” scenario); and finally to ascribe the difference between the two scenarios to the impact of Aids.

For example, the London Financial Times of 13 June 2002 reports on page 3 that “HIV ... will wipe 0,4% off SA’s economic growth each year over the next fifteen years”. This figure was reached by comparing a “no-Aids” scenario to a “with-Aids” scenario.

No doubt, it paints a bleak picture of future prospects. But is it correct?

Comparing Current Reality to Expected Reality

In our opinion there is a different and more useful way of assessing the impact of Aids on our society. Instead of comparing the “with-Aids” scenario to a hypothetical “no-Aids” scenario, we compare a future with-Aids scenario to the current reality in SA. The result presents a completely different perspective.

After all, we would not assess our economic prospects by comparing a “with-inflation” scenario to a “no-inflation” scenario. Such an exercise might be useful in understanding the impact of

inflation, but it would not tell us much about the changes we could expect in our environment.

Business and investors would rather know what is likely to happen than what might have happened if something which is already happening did not happen.

How Aids will Change the Current Reality

The most up-to-date report on the economic impact of Aids is that of the Bureau for Economic Research (BER) at Stellenbosch, issued in September 2001. It contains the latest and arguably the best data, in part because the researchers could rely on earlier work done by others.

We compare the data in that report with data on the current performance of the SA economy. The variance will tell us how our environment is likely to be influenced by Aids.

The report deals with the impact of Aids from 2002 to about 2015. We compare that with the current reality:

	<u>No Aids</u>	<u>With Aids</u>	<u>Current</u>
<i>Economic growth p.a.</i>	3,7%	3,2%	2,8%
<i>Domestic savings / GDP</i>	18,5%	16,5%	15%
<i>Budget deficit</i>	- 0,8%	- 1,0%	- 2,1%
<i>Increase in per capita income p.a.</i>	2,1%	3,0%	0,75%
<i>Population growth p.a.</i>	1,5%	0,2%	1,4%
<i>Growth in labour force p.a.</i>	1,7%	0,1%	1,7%
<i>Unemployment level</i>	42%	37%	43%
<i>Source: BER, September 2001, p. 6.</i>			

The general picture here is that many critical variables will actually improve from current levels, *in spite of* the Aids pandemic. Others will improve directly as a result of Aids, for example per capita income. The bottom line is that this picture is considerably more ambiguous than that suggested by the “with-Aids” / “no-Aids” dichotomy.

It is actually possible that the economy would improve in spite of Aids.

How is Improvement Possible?

The reality is that Aids is not the only force operating in the SA economy. A variety of other influences have an impact.

These range from the excellent work done by finance minister Trevor Manuel on the macro-economy to the slow but persistent privatisation of state assets, reductions in civil service numbers, export growth under the EU agreement and AGOA, more people being trained than ever before, higher capital expenditure by the public sector, rising productivity in the private sector, tourism's role as a new force in the economy and so on and so forth.

Like Aids, these influences have an impact – and cumulatively their impact is perhaps bigger than that of Aids. Our future is therefore NOT determined by Aids alone; it is also determined by the many other things we are doing. And if we do enough of them, the negative impact of Aids can be overcome.

Conclusion

- Aids is not the only force in the SA economy. Numerous other initiatives are also shaping our economy.
- The bottom line is that the economy may well grow faster than at present.
- The impression that Aids will make us poorer is simply not correct.
- Investors should choose companies pursuing active policies to minimise the impact of Aids on their performances.

This perspective is somewhat different from that presented above by the Financial Times.

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