Dear Friends and Colleagues;          October 6, 2008

It is a stressful time for all, amid an unraveling of the globalized credit and market systems, rapidly approaching U.S. Presidential elections, and pressing global health concerns. In this update, the Global Health Program of the Council on Foreign Relations would like to bring to your attention the following:

• The Nobel Prize in Medicine
• The Survival of Foreign Assistance in the Era of Collapsing Banks
• Forecast Africa
• When Will China Learn?
• Campaign America

The Nobel Prize in Medicine

Sweden’s Karolinska Institute announced this morning the 2008 recipients of the Nobel Prize in Medicine, and virology is the big winner. Harald zur Hausen is recognized for his pioneering work, linking the human papilloma virus to cervical carcinoma. In 1983, zur Hausen discovered the form of HPV now known as Type 16. Combined with Type 18, which zur Hausen also discovered, these HPVs are responsible for about 70% of the global burden of cervical carcinoma and form the basis of two HPV vaccines approved this year by the Food and Drug Administration. His work paved the way for possible eradication of cervical cancer.
It is interesting that the Nobel Committee chose to resolve a HIV controversy that has raged for 25 years by awarding two out of the three (or 4) rivals for recognition, and chose to have HIV discovery share its moment in the limelight with zur Hausen’s HPV work. Back in 1981, Françoise Barré-Sinoussi worked in the laboratory of Luc Montagnier at the Pasteur Institute in Paris. A physician brought her tissue and blood samples from young, gay men who seemed to be suffering from a previously unknown disease. Applying classic techniques for viral isolation and identification, Barré-Sinoussi extracted a new virus, which would eventually be dubbed the Human Immunodeficiency Virus or HIV.

The Pasteur Institute was hardly the only lab trying to figure out what was causing the new disease, which would eventually be called AIDS (Acquired Immunodeficiency Syndrome): Also racing to find the virus were Robert Gallo at the National Cancer Institute in Bethesda, MD., and Jay Levy at the University of California in San Francisco. Each of the laboratories were, by 1983, claiming achievements and discoveries related to AIDS, and the rivalry between Gallo and Barré-Sinoussi’s then-boss, Montagnier, grew quite heated.

For two decades the Nobel Committee has been pressured to choose sides, recognizing one of the three laboratories, and an appropriate scientist for discovery of HIV. Today’s announcement decides the rivalry in favor of the French. But, curiously, the French recognition must be shared between Barré-Sinoussi, who actually performed all of the virology work, and Montagnier, who was her boss and has become something of a national hero for the French. Those who have followed Nobel history may recall controversies concerning the recognition the Swedes gave for DNA discovery, denying the Nobel to Rosalind Franklin, who did the pivotal X-ray crystallography work that demonstrated the helical structure of deoxyribonucleic acid, in favor of awarding her boss, who, according to co-Nobelist James Watson, actually opposed her DNA efforts.

Regardless, this is a great moment for basic virology. Congratulations to all three Nobelists.

The Survival of Foreign Assistance in the Era of Collapsing Banks

Long time readers of these Global Health updates will recall that the Council’s program has long warned that the era of great generosity was soon going to come to an end. We have tried, sometimes with a sense of desperation, to bring advocates for various health and development efforts together, in hopes that by acting as one they might save U.S. foreign assistance and protect the budgets of such vital programs as the President’s Emergency Plan for AIDS Relief (PEPFAR), the President’s Malaria Initiative (PMI) and the U.S. Agency for International Development (USAID).

The Day of Reckoning is here.
The entire global financial, banking and credit systems are unraveling, in what top economists characterize as a “once-in-a-century event”. Though there have been many booms, and subsequent busts over the last 20 years, the current financial tailspin has no precedent, no quick remedy, and more than enough blame to go around. No country, company or peoples will prove immune to a financial catastrophe that many economists warn will rival the Great Depression.

To best understand how this worldwide unraveling started and gain hints at the scale of global change that will be required for recovery, we recommend the work of CFR’s Senior Fellow for International Economics, Sebastian Mallaby, and his short analysis in the Washington Post: [http://www.washingtonpost.com/wp-dyn/content/article/2008/10/05/AR2008100501253.html](http://www.washingtonpost.com/wp-dyn/content/article/2008/10/05/AR2008100501253.html)

In addition, CFR is posting an online forum for debate about the causes and possible solutions to this crisis: [http://blogs.cfr.org/forum](http://blogs.cfr.org/forum).

Bailing out the mountain of “toxic debts” that has accumulated inside U.S. banks, investment houses, insurance companies, and lending agencies may cost the U.S. government more than $1.6 trillion dollars by December – and some forecasters are talking of frightening tolls exceeding $2 trillion. To put this in perspective, this year the U.S. government will spend $612 billion on Social Security, $454 billion on Medicare,
$202 billion on Medicaid (healthcare for the very poorest citizens), and $186 billion on the Iraq and Afghan wars. Other comparisons are:

- Total 2008 GDP for the U.S. is $14.2 trillion, so the bailout will likely approach 12-15% of GDP;
- Before the bailout commenced, the U.S. government was spending more than it took in, thanks to an enormous tax cut implemented by the Bush Administration in 2001. Revenues in 2008 amount to $2.5 trillion; pre-bail out spending was at $3 trillion, for an account deficit of half a trillion dollars
- Combined 2001-2008 spending on the War on Terrorism, and wars in Afghanistan and Iraq is $790 billion.

The velocity of this catastrophe is so great that forecasts are eclipsed before they are published. In July, the Office of Management and Budget issued a stern warning to Congress, telling political leaders that their FY09 spending plans would result in a $482 billion deficit, the largest in U.S. history. (Eight years earlier the U.S. had a multibillion dollar budget surplus.) Remarkably, one can almost feel nostalgic, three months later, for the days when the deficit projection was less than half a trillion dollars.

Much of the world responded smugly to the early days of this crisis, viewing it – mistakenly – as merely a Wall Street problem. But now it is obvious that the crisis is global, and endangers credit and banking the world over.

On Saturday, European leaders met in Paris in hopes of ironing out their differences on how best to stop the downward spiral of global credit markets. In the end, the only point that seemed to unite Europe was that they wanted to blame America for the crisis. At this writing, the vaulted European Union is showing itself to be little more than a loose network of rival economic interests, as each government scrambles to find its own solutions and the European Central Bank appears paralyzed. Sarkozy promises to provide “moral capitalism” to the world, whatever that may be.

Stock markets all over the world have proven volatile for the last three months, and daily plummets of more than 5% of total market value have become common occurrences for
stock markets from Jakarta to London. Less closely observed have been the wild fluctuations in commodity pricings and currency values. Panicked stock investors have moved assets into the commodities, investing in everything from rice futures to titanium. This has, in turn, fueled inflation in food, seed, and electronics prices. Perhaps in the long run more disturbing is the rush to buy gold, as the sparkling gold metal is essentially lost liquidity for global markets. Gold doesn’t get “put to work,” as do dollars, yen or euros. Gold simply sits there, theoretically growing more valuable the greater the financial panic may be. Since September 1st, the price of gold has risen about 20%, reflecting an enormous surge in trading in the yellow metal.

Some economists argue that the best way to understand this moment in time is to characterize it as a LIQUIDITY CRISIS. Banks, and individuals, are hoarding their assets. Nobody is lending money to even low-risk would be borrowers. The State of California cannot find a bank to loan it $7 billion to cover healthcare and schoolteacher salaries. If the State of California, which is the eighth-largest economy in the world, can’t get a loan, what can be expected for Malawi, Guatemala, Laos, or Mali?

**Forecast Africa**

Nobody at the World Bank is very happy these days. Six months ago, Bank President Robert Zoellick, was warning that the food price crisis was forcing hundreds of millions of people – especially in southern Asia and sub-Saharan Africa – into desperate poverty. Now Zoellick’s hair is on fire:  

“We need a Facebook for multilateral economic diplomacy,” Zoellick said, declaring that the G-8 is nonfunctional, and global financial leaders are not communicating with one another to stave off this crisis.

In a statement to the Bank this week Zoellick warned, “The events of September could be a tipping point for many developing countries. A drop in exports, as well as capital inflow, will trigger a falloff in investments. Deceleration of growth and deteriorating financing conditions, combined with monetary tightening, will trigger business failures and possibly banking emergencies. Some countries will slip toward balance of payments crises. As is always the case, the most poor are the most defenseless.”

The World Fund and IMF Board of Governors will meet on October 13 in Washington. Never has their annual gathering been against a background of such extremely financial turmoil.
Nearly thirty years ago, Tanzania’s President, Julius Nyerere, said that when America catches the economic sniffles, Africa comes down with pneumonia. Well, now America’s financial systems are in the intensive care ward: What can possibly be Africa’s fate over the coming year?

Two immediate concerns arise for global health: Credit and Donations/Foreign Assistance.

Poor nations will have no choice but to seek loans from the IMF and World Bank, as bank credit is frozen. As happened during the financial crisis of the 1980s, nations will discover that the terms of loans extended particularly by the IMF are often egregious, as they may compel drastic cuts in public goods spending, including for hospitals, healthcare worker salaries, clinics, and medical supplies. During that period, sub-Saharan Africa’s share of the global GDP plummeted from about 15% in 1980 to just 9.7% by 2004. This decline occurred, despite billions of dollars worth of donations and loans extended to African nations over that time.

African GDP growth has finally gotten back on track, in part because of a bold attack on HIV, malaria and tuberculosis. In 2007, African economies grew by 5.7%, and were slated to hit a 6% growth rate in 2009 – before the current financial crisis unfolded.


Just two weeks ago, the donor community promised to give $16 billion towards attainment of the Millennium Development Goals. Of course donors were already in arrears on prior commitments to the tune of $21 billion, and few of the G8 commitments made for development and global health concerns over the last 5 years have been realized. Nevertheless, the global health component of Overseas Development Assistance (ODA) swelled dramatically over the last eight years. Nominal gross ODA grew from a 2001 level of $55.4 billion to $120.9 billion in 2006, for a 118% increase. The health-related portion of ODA rose a whopping 300% over that time, reaching $20.1 billion in 2006. The U.S. portion of total ODA swelled by 198% between 2001-2006. About a third of combined ODA went to Africa.

Of the portion of ODA that went to health-related efforts, a quarter was used for HIV/AIDS programs, especially for treatment of the disease. Healthcare worker basic training garnered 1% of the health-related ODA. (For more ODA details visit www.kff.org.)

In FY08, the total U.S. foreign assistance budget was about $36 billion, including development support for Iraq and Afghanistan. Though the absolute dollars represents the largest amount in U.S. history, as a percentage of total federal budgetary spending it is low. In 1962, the U.S. spent 3% of its total budget on foreign assistance, compared to 0.5% in 2008.
Often overlooked when talking about U.S. generosity is nongovernmental spending: In 2007 about $13.2 billion from private donors went overseas, mostly to cover humanitarian and health programs.

The largest increases in federal spending on ODA were the result of initiatives from President George Bush, including PEPFAR, PMI, and others. The relative success of PEPFAR moved Congress to reauthorize the program for another five years, starting in FY09, at a total of $48 billion -- $18 billion more than the White House had requested.*

But authorizations do not equal appropriations. Just because Congress budgets something at a given amount does not mean that anything close to said total will ever reach the bank accounts of those awaiting support. A few weeks before the Great Financial Meltdown commenced, Congressional staffers familiar with the appropriations process were warning global health advocates that it was highly unlikely PEPFAR would be funded at the authorized levels.

Now the Great Budget-Cut will commence, slashing everything that can legally be sliced. Unprotected programs – those that are not entitlements – will be deeply vulnerable regardless of who is elected the next President of the United States. Untouchable entitlements account for about $1.4 trillion, and national debt interest payments are $250 billion. That doesn't leave much to cut.

The Foreign Assistance budget, which includes support for the Global Fund to Fight AIDS, Tuberculosis and Malaria and the entire United Nations system, is 100% unprotected money.

One of the strongest supporters of foreign assistance over the years has been Senator Joe Biden, a liberal Democrat now running for Vice President of the U.S. As the financial crisis spun out of control on Thursday (October 2) Biden said in the campaign debate, “The one thing we might have to slow down is a commitment we made to double foreign assistance. We’ll probably have to slow that down.”

If the global health commitments, as well as ODA writ large, are to be spared the budget axe when Congress reviews spending in January, the advocates for all health and development programs must come together, and unite to make a joint case to the new White House and Capitol Hill. Bickering – “my disease is more important than your disease” – ensures that all overseas programs will suffer.
We believe it is safe to assume the same principles hold true in all donor nations.

Key to protecting support will be demonstration of efficacy. In tight budgetary times politicians are more likely to spare the axe where programs seem to be working. This means that every NGO and global health program should scramble now to compile defensible data demonstrating the efficacy of prevention, treatment, and training programs, or be prepared to see them disappear.

If global health advocates are not united in this effort, it is likely that when the budget hacking is finished in London, Washington, Paris, Rome, Tokyo, Oslo, and Berlin the last program standing will be HIV treatment, as no donor wants to be held accountable for terminating life-saving treatments, thereby killing thousands of individuals. Prevention efforts – notoriously difficult to measure – will suffer. Infrastructure and human resources support will suffer. And virtually all other health initiatives, from maternal health to child mortality, will suffer.

**When Will China Learn?**

As we reported in a prior Global Health Program update, Chinese authorities were aware that some milk producers were adding melamine to their products last December, yet took no public action until about six weeks ago. Now the melamine contamination scandal has become a humiliation for the Chinese government, an international toxicology and pediatrics nightmare, and a horror show for legitimate dairy farmers throughout China.

Forced to dump millions of liters of milk, Chinese dairy farmers are on the edge of bankruptcy. Inspectors are not only finding melamine added to milk, but also huge levels of antibiotics.

At least 54,000 children have taken ill in China, and hundreds more in neighboring countries, as a result of ingesting the kidney stone-producing chemical, melamine. More than 13,000 youngsters have been hospitalized in mainland China, alone. The compound was originally added by large milk products companies that bought milk from dairy farmers, watered it down, and put the melamine in to raise the “protein” level. This marketing tactic is reminiscent of the heparin scandal earlier this year in which manufacturers put what turned out to be dangerous chemicals in pig intestines extracts in order to stretch the product further.
Melamine contamination has also hit the export market, with food manufacturers in Europe and throughout Asia discovering the chemical in powdered milk and other ingredients imported from China. One of the biggest, Cadbury company in the UK, has discovered melamine in its chocolates. Food companies all over the world say China’s product credibility is on the line: Many are turning to other countries to purchase basic food ingredients.

China is having a hard time keeping its business sector on the straight and narrow. But the World Health Organization two weeks ago accused Beijing of “deliberate failure to report” the pediatric poisoning episodes. WHO’s top man in Beijing, Hans Troedsson, said on September 25th that the melamine incident, “was aggravated by delays in reporting at a number of sources. These delays were probably a combination of ignorance and deliberate failure to report.”

**Campaign America**

As the global economic crisis deepens, the stakes in the U.S. elections get impossibly higher. Both Presidential candidates, Barack Obama and John McCain, have learned that their comments about the economy in this extremely volatile climate can have dramatic repercussions on stock markets the world over. As the economic news has worsened, Obama’s standing in the polls has risen. Depending on which polls you look at Obama is some 50-60 electoral college votes away from victory, versus McCain’s distant 100-110 votes. (I will not endeavor to explain the Electoral College to our foreign readers. Suffice it to say that Al Gore learned in 2000 that it is possible to win the popular vote in America, but lose the Electoral College count, and watch the other guy get inaugurated in January.)

The national election is less than a month away, and it is not clear that either candidate will win a clear victory. If neither garners the required 270 Electoral College votes, America will face options not seen in recent history, such as a Congressional vote to decide the election. That would work in Obama’s favor, as both houses of Congress are in the control of Democrats.
On September 25th and 26th, respectively, SCIENCE and NATURE ran analyses of the candidates’ positions on basic science and health/science policy issues. Two points are striking:

1.) Senator McCain declined to respond to all of NATURE’S queries, while Obama offered lengthy expositions on everything from stem cells research to Bush Administration interference in scientific research and policy.

2.) McCain has consistently expressed support for science, innovation, and global health programs, but his web site and public statements are thin on details.

For most Americans this election is a nail-biter. Our foreign friends should accept that there will be little talk from us over the next weeks on any topics save the economy and elections. Please indulge us: We are over-wrought.

One small exception: We would like to alert readers to the September 25th decision by the Indonesian government to halt all scientific activity at NAMRU-2, the U.S. Naval Medical Research Unit Number 2. This is one of the most important disease surveillance centers in the world, and has had a pivotal role to play in monitoring developments with H5N1, or avian flu. We are aware that high level, sensitive talks are underway between Washington and Jakarta, and will leave it at that.

As always, the Global Health Program will keep you posted on these and other global health matters.

Sincerely,

Laurie Garrett

*(Toni Johnson of cfr.org offers a brief synopsis of controversies over appropriate balances in foreign assistance spending: http://www.cfr.org/publication/17393/global_health_spending_priorities.html?breadcrumb=%2Findex.*)