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Poor countries hit by US spending cuts

By Martin Khor

The government spending cuts in the United States as the President and Congress fails to reach a deal will also affect poor developing countries as the aid budget especially for food and medicines is reduced.

On 1 March, the United States government had to introduce spending cuts of US\$85 billion for this year, as President Obama and the Congress failed to reach an agreement on how to reduce the budget deficit.

The so-called "sequestration" marked a new failure in the relations between the President and the Republicans in Congress.

The term "dysfunctional" is now commonly used to describe the US government system, as the deadlock between the President and Congress, and the animosity between the Democrat and Republican parties have blocked laws, policies and agreements.

The most visible of this dysfunctionality is in the government's inability to come to grips with economic policy, especially by how much and how to reduce the budget deficit.

Republican budget deficit hawks are obsessed with slashing government spending to reduce the budget deficit. Prominent Keynesian-influenced economists like Paul Krugman and Joseph Stiglitz argue that cutting government spending in the midst of a weak economy is unnecessary and will tip the country into a new recession.

Obama himself is in favour of deficit cutting but wants it done in a balanced way – by increasing government revenue through increased taxes on the rich (or closing loopholes that allow them to avoid taxes) and by lesser spending cuts also that do not affect the poor.

The "sequestration" issue began in 2011 when a deadlock developed between Congress and Obama over the budget. Obama then proposed that a list of specific automatic spending cuts would go into effect on 1 March if no new deal was reached.

The proposed cuts were deliberately chosen to be so bad that Congress would not allow them to take effect. Or so Obama thought. He would use this as leverage to get the balance of tax increases and smaller spending cuts that he had in mind.

But in the end, the Republicans called his bluff, and now the spending cuts have come into effect – US\$1.2 trillion over ten years, starting with US\$85 billion this fiscal year.

The effects will be felt not only by Americans but also the developing countries. They include the negative fallout on global growth, and expected cuts in aid going to poor countries.

The spending cut this year is estimated by analysts to induce a contraction of 0.6 per cent of the economy.

This comes at a bad time because the rich economies overall are already on a downward path. Last week the Organisation for Economic Cooperation and Development, the group of 34 rich countries, said the gross domestic product of its members fell by an annual rate of 0.6% in the last quarter of 2012. The European Commission meanwhile predicted that the Eurozone economies would contract by 0.3% this year, which could prove to be optimistic given the recent political uncertainties in Italy.

The spending cuts in the US would add to the contractionary trend in the rich countries. The continuously weakening of the Western economies will have adverse effects on exports, tourism, workers' remittances and incomes in developing countries.

There is another and more direct dimension to the "sequestration" on the developing world. The government's spending cuts will affect the budget for aid given to poor countries and to development programmes such as provision of medicines and food, according to a report by the Inter Press Service.

The new secretary of state, John Kerry, revealed that the State Department and its aid agency USAID, would have to cut US\$2.6 billion dollars from their 2013 budget due to the sequestration.

The cuts would include US\$200 million dollars from humanitarian assistance and US\$ 400 million dollars from global health programmes.

For example, the US would reduce its contribution to the Global Fund to Fight AIDS, Tuberculosis and Malaria by US\$ 300 million dollars this year, meaning there will be less medicines donated to poor countries.

Kerry has written to Congress stating that this reduction would reduce the United States' ability to provide food assistance to 2 million people and USAID would have to cease, reduce, or not initiate assistance to millions of disaster affected people, and would "gravely impede" efforts at reducing AIDS-related and child deaths.

The IPS report also quoted Jeremy Kadden of InterAction (an alliance of NGOs aiding developing countries) as saying: "These cuts will cost lives. We've made very significant progress over the past 10 years, with real people improving their lives, and this would set that process back enormously, devastating actual people on the ground."

He estimated that the budget cuts would lead to some three million children losing access to the basic education they currently receive; two million people would suffer reductions in or stop receiving food aid, while 600,000 children would lose nutrition assistance.

And that is only the start, because the cuts in the aid budget are likely to increase in the following years.

Unlike in the United Kingdom, where the Cameron government decided not to cut its aid budget despite huge slashing of the overall government budget, there is no exemption for overseas spending in the US sequestration exercise.

The poor in America will also be affected. About 600,000 low-income women and children will stop receiving food aid. Also affected in the US\$26 billion cut in domestic programmes are health, education, drug enforcement, national parks and Hurricane Sandy relief.

Low-income families will also be affected by a cut in public housing subsidies, which could hurt about 125,000 poor families, according to the Guardian. Government-funded daycare will also be cut, affecting over 30,000 kids. And educational programs for disadvantaged children are likely to be hard hit.

The National Institutes of Health which will suffer a 5% budget cut, is cancelling hundreds of research grants.

Another US\$16 billion in mandatory spending will be cut, including in medicare, agriculture programmes and unemployment benefits.

The main cuts will however come from the military budget, down by US\$43 billion in 2013, on top of the US\$500 billion budget cut over ten years agreed to in 2011.

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