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FROM THE EDITOR

MOST LOW-INCOME COUNTRIES are unlikely to achieve the Millennium Development Goals (MDGs) for health by the target date of 2015 with current policies, institutions, and aid flows (as our December issue pointed out). This is important not just because the goals of cutting child and maternal deaths and reversing the spread of killer diseases like AIDS and malaria are worthy in their own right, but also because new studies show that investing in health can give a significant boost to GDP per capita. In other words, better health is not just a by-product of rising incomes: it promotes them as well.

In this issue of *F&D*, three experts on the economics of health and development explore these studies. But they also go a step further, arguing that past estimates of economic progress have been understated and that recent economic losses caused by HIV/AIDS are likewise being understated if economists rely on GDP per capita as a yardstick. They insist that a better indicator would be "full income"—a concept that captures the value of changes in life expectancy by including them in an assessment of economic welfare, in addition to income as measured in national accounts. For Africa, they say, this new yardstick "signals catastrophe ahead." We also ask Nobel prize winning economist Kenneth Arrow, the Chair of the Committee on the Economics of Anti-Malarial Drugs of the Institute of Medicine, for the latest thinking on how new antimalarial drugs can be developed and made affordable in poor countries. And we probe the murky world of medicines, patents, and TRIPS (Trade-Related Aspects of Intellectual Property Rights)—which has taken center stage of late because of the limited availability and high costs of AIDS drugs in sub-Saharan Africa.

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Also in this issue of *F&D*, we explore a little more deeply the question: "Are U.S. Households Living Beyond Their Means?" This is a major worry, given that the global economic recovery is being led by the United States and that household consumption is so important for U.S. growth. And we cast the spotlight on the U.S. economy in "Country Focus," which shows that near-term prospects are favorable but that the bulging fiscal deficit poses long-term challenges. In "Global Finance: Past and Present," Alan Taylor looks at today's globalized economy and an earlier period of integrated capital markets. Drawing on studies from a book just published with coauthor Maurice Obstfeld, he warns that for over a hundred years, policymakers have had to contend with the "trilemma"—the impossibility of implementing simultaneously a pegged exchange rate, open capital markets, and an independent monetary policy.

Closer to home, *F&D* checks up on the new IMF watchdog—the Independent Evaluation Office—which was set up in July 2001 and has now completed three studies. We asked Princeton's Peter Kenen, a seasoned watcher of the Bretton Woods institutions and an authoritative voice on international economic policy, to review the IEO's work. We also asked two former IMF Executive Directors (who represented France and the United States) and Friends of the Earth (a nongovernmental organization).

In his first *Straight Talk* column, Raghuram Rajan, the IMF's new Economic Counsellor and Research Department Director, warns that "clever" solutions to economic problems aren't always truly useful. Rajan, of India, joins the IMF after a distinguished career as an academic and a researcher, most recently as Professor of Finance at the University of Chicago's Graduate School of Business. In 2003, he won the Fisher Black prize for the person under 40 who has contributed the most to the theory and practice of finance.

Laura Wallace
Editor-in-Chief

Finance & Development welcomes readers' comments. Letters should not exceed 250 words and may be edited for length and clarity. Please address letters to the Editor-in-Chief, *Finance & Development,* International Monetary Fund, Washington, DC, 20431, USA or e-mail to *fanddletters@imf.org.*