SARPN Southern African Regional Poverty Network

Features of the key prevailing Macroeconomic Policy Frameworks

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Stabilisation and Growth

Starting from the 1980s when structural adjustment programmes (SAPs) were in fashion and at their peak, the main thrust of macroeconomic policy frameworks as advocated by the international financial institutions (IFIs) mainly the International Monetary Fund (IMF) and the World Bank was stabilisation and promotion of export-led growth. Policies within the SAPs were aimed at reducing and controlling government expenditures in order to alleviate the perpetual fiscal deficits in the national budgets. Over the years, the focus has slightly become broader. In addition to stabilisation and growth, there is an attempt to link that growth to poverty reduction within the context of economic liberalisation.

Some of the Current Frameworks

In the last sixteen years a number of policy instruments designed to meet different goals and objectives at the national level have been introduced mainly by the creditor or donor community in many poor countries. In 1996 the IMF and the World Bank introduced the heavily indebted poor countries' (HIPC) initiative as an instrument to reduce the debt burdens of poor countries to manageable levels. The HIPC Initiative was further enhanced in 1999 to provide faster, broader and deeper debt relief to a number of countries that had completed policy adjustment by the Fund and the Bank. Then came the poverty reduction strategy papers (PRSPs) in 1999/2000 which essentially were conditionalities for accessing debt relief from the Fund and the Bank for poverty reduction purposes in both the HIPC and non-HIPC countries. There are also broader frameworks at the regional level such as the New Partnership for Africa's Development (NEPAD) - which is meant to put Africa on a path of sustainable development through promotion of growth. It also aims at integrating African economies into the global economy through the promotion of trade.

In all these frameworks, what is very clear is that poor countries are strongly advised by the IFIs and donors in general to observe strict monetary and fiscal policies while at the same time embracing trade liberalisation, privatisation, investment deregulation, capital account and financial liberalisation, agricultural liberalisation and increased labour market flexibility. In what is seen as a deliberate push to roll back the role of the State in the economy, the policy of privatisation has been used to transfer formerly State owned enterprises (SOEs) to the private sector. Thus in this new era of economic dispensation the State has been assigned the role of a facilitator and provider of an enabling environment in order for the private sector to become an effective leader in the process of generating growth.

Core Features of the Frameworks

A number of macroeconomic frameworks in low income countries (LICs) are preoccupied with the goal of achieving low inflation targets and the avoidance of major fiscal and external imbalances. Their typical features are enshrined in the following broad objectives:

- Promotion of and acceleration of growth;
- Reduction of the rate of inflation to single digits;
- Safeguarding the economies against domestic and external shocks; and
- Maintenance of external current account deficits and external debt positions at sustainable levels as defined by the IFIs debt sustainability frameworks.

Features of the key prevailing macroeconomic policy frameworks

Structural adjustment programmes

IFIs

National budgets

Poverty reduction

Economic liberalisation

It should be noted that even in countries that may not necessarily have Fund programmes running; the tendency by national governments has been to design their domestic macroeconomic policies more or less along the lines of the IMF policies though the targets and benchmarks may differ. For instance, countries in their domestic policies will usually articulate low inflation targets, reduced interest rates and low domestic debts. This can only mean one thing: Fund or no Fund, countries need macroeconomic policy frameworks to guide their paths of development. However, what is critical is to ensure that the frameworks are suitable and relevant to a country's needs.

Arguments for Macroeconomic Stability

It is generally stated that expansionary fiscal policy can lead to inflation, crowding out (i.e., the private sector is overshadowed by the public sector), uncertainty and instability in prices, all of which are bad for growth. Expansionary fiscal policy especially when financed by printing money can lead to high and volatile inflation. In addition to other costs, this undermines the efficiency of the price system as firms and households take incorrect decisions, confusing movements in the price level with changes in relative prices, thus reducing overall productivity in the nation.

It is for this same reason that Governments are encouraged to maintain sustainable domestic and external debt positions because empirically it has been noted that a build up of enormous amounts of debt denominated in major currencies — most of all the US dollar — poses the largest single source of instability in the poor countries. In line with this, the macroeconomic frameworks argue that public debts are sustainable to the extent that governments can continue to service them without the need for unrealistically (from a social and political point of view) large corrections to their future revenue or primary (non-interest) expenditures.

MDGs

UNDP

IFIs

LICs

More Resources Needed for Capacity Building

While the dangers of high inflation are acknowledged, this *Policy Brief* strongly argues that low inflation levels should not be achieved through a reduction in essential expenditures such as those in education, health, water and sanitation, capital and infrastructure development — all of which are vital for the attainment of the millennium development goals (MDGs). The obsession of IFIs with restrictive fiscal and monetary policies does not in itself guarantee automatic economic growth or development.

To the contrary, fiscal policies as argued by Terry McKinley of the United Nations Development Programme (UNDP) in New York should be focused on scaling up public investment and monetary policies reshaped to target, not just inflation rates, but also real economic variables, such as increases in incomes and jobs and big reductions in poverty.

This is also consistent with Jeffrey Sachs' views in the Millennium Project, that to meet the MDGs calls for large injections of official development assistance (ODA) into many developing countries, especially in Africa. This has to involve making poverty reduction strategies (PRSs) objectives much more ambitious and forward looking. Such an injection of funds should rapidly scale up public investment on physical and social infrastructure. A sizeable share should be targeted to enlarging absorptive capacity i.e., each country's ability to effectively disburse these monies for development purposes.

Given the current inadequate numbers of teachers, doctors, nurses and essential personnel as well as poor infrastructure in many countries in the region, countries should be encouraged using part of the aid to address these perennial problems. This is the only way country capacities for absorption of aid can be built and sustained over time.

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