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A Pro-active Approach to Macroeconomic Management in Africa

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Pro-active policies, especially those that promote and sustain economic growth and development, have not been common across Africa. African governments frequently find that they are "caught short" on key economic policy issues. Economic management for many governments has been a continual struggle to "catch up." Little of a constructive nature can be achieved under these circumstances. Therefore, it is no surprise that economic management across Africa over the last three decades has been largely ineffective.

A major reason is that African governments have become seriously over-extended. This is both a cause and consequence of failing to adopt a strategic approach to policy formation and economic management. Lacking a strategic focus, government economic priorities remain vague, constraints are not effectively addressed, and monitoring and follow-up are weak. The outcome has been a general lack of coherence in government policy leading to indecision over policy choices with frequent policy reversals. Paraphrasing Lindholm, there has been much muddling without any effective "muddling through."

Yet, even if government agendas in Africa were not over-extended, a second problem has been that senior policy makers frequently do not have the information that would allow them to "get out in front of" key economic problems. Lacking information, policy makers are not appropriately forewarned of pending difficulties. This compounds the problem of "catching up" noted above.

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A third factor undermining the adoption of a pro-active approach to policy is the degree to which African governments depend on foreign aid. Due to chronic (and often acute) aid dependence, African governments do not establish their own priorities and consistently pursue them. Their policy response that accompanies donor-supported reforms is largely pre-determined by the pressures and priorities emerging from the capitals of their international overseers and benefactors.

Developing a pro-active approach to policy involves a fundamental shift of emphasis at the senior-most levels of African governments. Key elements required to effect this shift are improved data, a strategic overview of macro-economic policy, and improvements in the government's capacity to respond to changes in the macro economy.

Work in several African countries shows that the place to start is the data. Without adequate, timely data, economic policy cannot be pro-active. Indeed, without data that keep policy makers informed of current conditions, economic policy making in any meaningful sense is impossible. At best, the government can react to events as they unfold and then only with varying lags. Getting on top of the data typically requires a special effort to bring the data needed to monitor and manage the economy up-to-date. A mechanism for keeping the data current is also needed. One approach used effectively in a number of countries has been to establish a joint ministry of finance/central bank data monitoring committee. This committee is assigned responsibility for reviewing the key macroeconomic data at intervals short enough (usually three time per week) to provide senior policy makers with the information they need to anticipate and react to short-term macroeconomic developments.

A second requirement is for African governments to review their policy agendas with the objective of drastically simplifying them. Priority should be given only to the most urgent and readily achievable policy goals. Many changes are desirable and will eventually have to be made. Nonetheless, the principal feature of a strategic approach to policy is to identify and undertake policy changes that are fundamental to the tasks of restarting and sustaining growth and development.

One area where change has been urgently needed across Africa is government employment. Civil services need to be radically restructured and their cost substantially reduced. No African government has yet succeeded in these tasks. Politicians have typically found it convenient to delay action, and civil servants have proven to be incapable of reforming the institutions and activities through which they (in principle at least) serve the public. Even when governments decide to cut the number of civil servants, the redundancy packages involved have been prohibitively expensive. The outcome is that years after the need for fundamental changes in this area have been acknowledged, civil services remain over-staffed, inefficient, and incapable of providing the foundation for the "development state" that will move African countries beyond deficits and debt and onto sustainable growth paths.

By taking steps to simplify its agenda, African governments will improve their capacity to respond to macroeconomic change. Two issues need emphasis. First, at each decision point, the government should focus on the "next best steps" required to achieve rapid growth and development. Second, any decisions taken should not unnecessarily foreclose future options.

Determining the "next best steps" is the essence of adaptive decision making. It requires a pragmatic assessment of the basic economic and social objectives that should be pursued, an understanding of the economy's main constraints, and knowledge of the options available for meeting the objectives within the context of the constraints. One area where African policy makers have floundered has been in determining the appropriate reaction to financial globalization. The typical response, evident in the way budgets continue to be framed, is to react to the pressures of globalization *after* domestic policy has been determined. In the standard approach, governments begin with domestic expenditure requirements and match these against projected domestic revenues. Given the debt overhang in most African countries, this exercise inevitably produces a "resource gap." The government then proceeds to fill this gap by cobbling together a range of multilateral and bilateral support from the country's "development partners" and hoping that any outstanding short-term credits will be rolled over. This whole process is highly uncertain and can be readily undermined by shifts in external circumstances such as changes in commodity prices, disruption in third country markets, and so on.

From a policy perspective, this conventional approach to budgeting is back to front. It ignores the fact that external finance rather than domestic expenditure is the binding constraint. Thus, the *domestic* budget exercise should begin with the constraints imposed by *external* resources. This would have the beneficial effect of focusing the attention of African governments on the policies needed to ensure that external resources supplement rather than supplant local efforts.

An important principle in deciding on the "next best steps" is to avoid making choices that foreclose options that may prove constructive in the future. Political pressures frequently lead decision-makers to favor government involvement rather than the creation of incentives that encourage the expansion of the private sector. Having made that choice, the government then discovers that further intervention is required because of "lack of private sector response." The fault does not rest with the private sector, as most politicians seem too willing to argue. The fault is that by remaining involved the government has directly (and often strategically) discouraged the private sector. The general lesson is that governments cannot encourage the development of the private sector by remaining engaged.

The experience in Zambia highlights these points. Beginning in September 1992 the government made a concerted effort to bring the key macroeconomic data up-to-date. The initial effort was

based on the input of an *ad hoc* committee formed by staff from the Bank of Zambia and ministry of finance. With the decision to implement the "cash budget" in 1993, the minister of finance formally appointed a Data Monitoring Committee. Its members were instructed to devote whatever effort was needed to bring up-to-date all the relevant monetary, fiscal, debt, and trade data and keep them that way. Initially, the committee met on a daily basis. Having become current with the key data, it continued to meet three times a week. The result has been that the Zambian authorities (including the governor and the minister of finance) have been regularly briefed on the performance of the economy. Since then, any inadequate responses by policy makers have occurred for reasons other than the availability of data.

Zambia's experience with civil service reform parallels that of other African countries. A major program to restructure and reduce the civil service was announced in November 1993. Plans were drawn up to create a "lean and efficient" civil service. Some progress was made but implementation unraveled when the government would not make the large personnel cuts that would raise the efficiency of the civil service.

A final example has been the government's protracted (and hesitant) withdrawal from agricultural marketing, particularly for fertilizer. Beginning in 1992, numerous commitments were made to fully liberalize agricultural production and marketing. There have been several attempts at implementation. The government, however, has managed to re-intervene in a number of ways. The most common pretext has been the "lack of private sector response." Yet, with the government hovering in the background it is not surprising that the private sector has been so hesitant.

Overview: To be effective, economic managers have to be prepared to take a pro-active approach to economic policy making. Relevant data need to be brought up to date and kept that way. The development agenda needs to be drastically scaled-back and simplified, and policy makers need to ensure that current policy decisions do not foreclose future options that may prove useful in the future. Finally, in order to avoid adverse expectations about the government's commitment to reform, policy reversals should be avoided.

This policy brief is based on EAGER Discussion Paper Number 52, *Restarting and Sustaining Growth and Development in Africa: The Macroeconomic Dimension*, 2001, by James S. Duesenberry [jduesenberry@harvard.edu] and Malcolm F. McPherson [Malcolm_McPherson@harvard.edu], Belfer Center for Science & International Affairs, John F. Kennedy School of Government, Harvard University.

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