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Macroeconomic policies and poverty reduction

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What do we mean by macroeconomics? A heterodox view

- The material basis of the economy and its fundamental balances:
 - The basic functions of the capitalist economy
 - Accumulation of capital
 - Consumption as a necessity to sustain capital accumulation
 - Heterodox macroeconomics is about the balances between the accumulation, growth and consumption, which are derived from the structure of production and distribution. Hence, macroeconomics is not only about growth and monetary balances (the monetarist approach) but is about how production takes place, how surplus is extracted, appropriated and utilised, and how this shapes the economy as whole.
 - Conflicts and contradictions within the process of accumulation related to imbalances between accumulation, growth and consumption, form part of the fundamental social conflicts and are drivers of macroeconomic policy. [For example, given the extractive nature of the process of accumulation in Mozambique, with a narrow and narrowing pattern of production, economic growth and higher inflation rates for food products go hand in hand. To tackle the worsening of real income distribution that arises, an “anti-riot” exchange rate policy is adopted, by spending reserves on protection the value of the national currency, in order to mitigate the inflation effect of food imports dependency].

What do we mean by macroeconomics? A heterodox view

- Hence, poverty, measured with respect to consumption, results from fundamental relationships, structures and dynamics within the economic system, within the process of accumulation of capital, and related to the balance between accumulation, growth and consumption. Poverty is not a side effect, or a result of some market failure or lack of individual capital. Poverty is a social issue rooted in the very essence of the economic process – in other words, it is, first, a macroeconomic issue.
- Therefore, heterodox macroeconomics is concerned with the links between all fundamental aspects of the economy – for example, to understand the exchange rate one may have to understand costs of living, the costs of labour in food terms, and the agrarian question.
- The financing of the process of accumulation – what role does finance play in any historically specific process of capital accumulation? The tendency to talk about money as an abstract commodity and forget about finance in the development process.

Some elements about poverty according to official data made available (2003-2009)

- Number of people under the poverty line: + 2 million
- % of the people under the poverty line: remains approximately the same (result is sensitive to methodologies)
- Hence, growth in number of poor people is approximately the same as growth of population.
- Yet...
 - Gini coefficient (0,42) is high but has not changed significantly
 - GDP per capita in 6 years increased by almost 40%
- So, what is the problem? The problem is that the growth and poverty are not related directly and mathematically by the Gini Coefficient (which measures inequality of distribution of nominal income but not of real income – which requires a deflator adequate for differentiating overall inflation from inflation of basic consumer goods and services, particularly food; and which cannot properly account for what happens at the extremes, highest and lowest income levels, because the Gini averages the differences).
- So, to answer the question we need to remember what we mean by macroeconomics from a heterodox perspective? Investigation of the process of accumulation to find the answer.

The process of accumulation in Mozambique – extractive economy

- Economy that generates but does not accumulate wealth socially (at the dimension of the economy as a whole). In capitalism, there is always a contradiction between the social nature of work and the private nature of property of means of production and private appropriation of surplus (some want to solve this contradiction by individualizing work – self-employment; others by profit sharing or fiscal redistribution; more radical solutions involve socialization of property of main means of production). Extractive economy is an extreme case of that contradiction. What does it mean?
 - Extraction as a way of accumulation and disregard for domestic markets and needs (this is not the same as extractive industries and goes far beyond it).
 - Narrow pattern of investment, production and accumulation
 - Weak linkages
 - Porosity

The process of accumulation in Mozambique – extractive economy

- Financing of the state – tax base, debt and aid
 - Tax base: improvement in fiscal administration rather than links with growth; and VAT that is limited by the social struggle related to the costs of living (for example, social pressure to exempt food stuff and fuels from VAT)
 - Debt: domestic and external – high fiscal and social costs, implications for availability and cost of domestic finance, appreciation of the exchange rate, incentive for a speculative financial system. Further, implications for patterns of public expenditure – more concerned with high financial returns in the short run than high social returns
 - Aid: public goods and calibration of policy dilemmas – compensates for incentives to capital; however, sterilization appreciates domestic currency and affects availability of investment finance in the domestic market.

The process of accumulation in Mozambique – extractive economy

- Speculative finance or finance linked with large capital
 - Speculative finance: government bonds, company bonds, real estate.
 - Finance linked with large capital – guarantees, reputation, where domestic capitalists want to invest
- The exchange rate – not a case of Dutch Disease
 - Is it appreciating or not? Studies show contradictory effects difficult to explain (either appreciation, or appreciation of the nominal rate with depreciation of the real rate). Need to understand how relative prices are captured because of the huge difference between overall inflation and inflation of food.
 - Dilemmas of appreciation/depreciation – when does it either support growth or negatively affect it, and what are the redistribution effects (for example, accumulation strategy based on huge capital imports may benefit from appreciation that makes imports cheaper; but this may actually affect negatively the opportunities for diversification and development of the domestic market).

The process of accumulation in Mozambique – extractive economy

- Why appreciation in Mozambique is not Dutch Disease? Porosity of the Mozambican economy prevents absorption (without spending) of would be large inflows of external resources – little of the value added from the minerals-energy complex is retained in the Mozambican economy and aid is spent on imports. Hence, either absorption is too low, or is fully spent on imports.
- And why Dutch Disease is not an interesting argument? Only under very special conditions can one say that Dutch Disease can actually happen. As long as large inflows of resources that are absorbed (absorption is required) are spent of economic expansion, Dutch Disease cannot happen. Hence, need to combine strategy to mobilize resources with industrial strategy to spend on broadening the basis of accumulation, production and trade and developing the domestic market.

The process of accumulation in Mozambique – extractive economy

- What are the implications of the process that leads to appreciation? The process that leads to appreciation is driven by domestic, anti-inflationary monetary policy combined with the implications of fiscal incentives and the patterns of public expenditure focused on large projects. Traditional, monetarist anti-inflationary measures combined with domestic public debt lead to appreciation of the currency. This is exacerbated by the political will to tackle food riots not by producing cheap wage goods for the domestic market but by lowering the costs of imports. Hence, instead of challenging the current pattern of accumulation and its implication for consumption and redistribution, the policy is focused on short term mitigation of imported inflation. It is not only appreciation per se, but the reasons why it happen, that have a negative effect on the ability of the economy to mobilize resources for economics transformation.

How to understand these problems? Why they persist?

- None of these questions is new. IESE's publications, for example, have been discussing all of these questions in detail for quite a few years.
- The article "the extractive economy and challenges for industrialization in Mozambique", as well as many other articles of the book series "Challenges for Mozambique" (2010, 2011 and 2012) research the connections between the aspects addressed in the presentation and try to explain their political economy coherence.
- The argument is that: the links between domestic and multinational private capitalist accumulation facilitated by the state. Evidence is large and growing for this. The most obvious pieces of evidence are: public private partnerships in the construction of infra-structures; the way the state is financed; the focus of the official debate about natural resources (shares and production quotas); the monetary policy; the land issue....
- Speculation with natural resources at all levels: the example of land along the Incomáti River – peasants rent land for sugar plantation and can no longer grow food (which becomes more expensive) and use the rents to invest in agriculture (because the land is rented for a cash crop).

What is to be done?

- Processes of formation of national capitalist classes through expropriation and reorganization of property of resources are typical through history. The question is how this can be avoided (can we historically avoid capitalism?) or be done while supporting broad based development rather than narrow based accumulation.
- This is not a technical issue, and can hardly be seriously considered a question of good or bad governance (what is “good” or “bad” anyway?), centralization or decentralization (what is decentralisation in an economy increasingly dominated by large capital?), participation or lack of it (participation in what and do to what? PARP, for example, is a distraction from reality).
- Diversification, articulation, domestic market and broadening the pattern of accumulation – these are the questions to address.
- The agrarian question – not a question of agriculture. The role of agriculture in fuelling economic transformation – from primary exports to food production for the domestic market and industrialization.
- The financing of the State – unused fiscal reserves related to fiscal incentives and illicit capital flights; opportunity to relax monetarist assumptions and challenge them.
- State expenditure and priorities – a question of which options (linked with the financing of the state)
- The construction of political support for change.

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