

IMF Workshop on Macroeconomic Policies and Poverty Reduction
Opening Remarks by Stanley Fischer, First Deputy Managing Director
April 12, 2001, 9:00 a.m.
Executive Board Committee Room 12-120B

Good Morning, Ladies and Gentlemen.

Welcome to this Workshop on Macroeconomic Policies and Poverty Reduction. It is a pleasure to see so many familiar faces here, from academia, the Bank, and other institutions - as well as many colleagues from the Fund.

Before flagging some of the specific issues we will be discussing over the next two days, let me try to put the Fund's interest in poverty reduction in some historical perspective.

When the Fund and Bank were created at the Bretton Woods conference in 1944, the economic challenges facing poor countries were not at the forefront of our founders' minds. The delegates were reluctant even to distinguish between different groups of member countries and an Indian proposal to include explicit reference to the needs of "economically under-developed countries" in the Fund's Articles of Agreement was rejected.

In the years that followed, the developing world began to assert itself more vigorously - politically and economically - with the break-up of colonial regimes and the spread of independence. The IMF found its membership expanding dramatically as a result, from 68 to more than 100 between 1960 and 1963 alone. But during this period, the Fund's relations with many of its poorer members were handicapped by fundamental disagreements about the sorts of economic policies that they should be pursuing. Many developing countries were much less convinced than the Fund of the merits of policies like currency convertibility, market liberalization, openness to trade, fiscal restraint, and the pursuit of low inflation.

In this, they had influential supporters. In 1959, Dag Hammarskjold, then Secretary General of the United Nations, asked: "Are we not, perhaps, rather inclined to solve the conflict

between stability and growth too exclusively in favor of stability, to the detriment of the vigor and dynamism of the world economy during the first post-war decade? The issue cannot be sidestepped”, he said, “by simple resort to global measures of fiscal and monetary control, without serious risk that the economy may lose all forward momentum?”

As the number of developing countries joining the IMF increased, so too did their borrowing from us. As it did so, familiar criticisms surfaced: that the IMF was addressing long-term problems by requiring unnecessarily draconian short-term solutions. The *Economist* warned in 1961 that tight monetary policy in Latin America threatened social unrest, and that Managing Director Per Jacobsson risked becoming “Mr Khrushchev’s secret weapon”.

Over the first half of the IMF’s existence – up until the early 1970s – Fund borrowing split 50-50 between the industrial and developing countries. But from the late 70s onwards, low-income and what we now call emerging market countries have been our only borrowers. The 1985 Interim Committee marked a further watershed in our borrowing when V P Singh, the Indian finance minister, proposed a concessional financing window for the Fund’s poorest members – an idea which came to fruition with the Structural Adjustment Facility in 1986. A year later Michel Camdessus made the expansion of this facility one of his first priorities as Managing Director and the Enhanced Structural Adjustment Facility – ESAF – was born.

As the Fund’s role in low-income and emerging market countries has expanded over recent decades, the institution, its members, and its critics have all learned much from experience:

- From Asia’s phenomenal success in promoting growth and reducing poverty;
- From Latin America’s “lost decade” and the reforms that have followed in its wake;
- From the differing experiences of countries that have abandoned central planning;
- And from the frustrating inability of many African and other low-income countries to secure sustained economic growth strong enough to make big inroads into poverty.

The lessons learned have included the following:

- That macroeconomic stability *is* essential to sustain strong growth;

- That sustained growth is essential to reduce poverty, but that the relationship between the two is complicated and dependent on the particular policies pursued;
- That market mechanisms are a powerful tool to foster development, but that they require the right legal, regulatory, and institutional environment to succeed;
- And that strategies for economic reform and development work best when national authorities – and society more generally – stand full-square behind them.

It follows that the Fund *must* take a keen interest in the impact on poverty of the macroeconomic and other policy advice it gives. Not just because of our moral responsibility to the individuals and families directly affected, but also because stabilization and reform cannot endure for long if a significant part of the population lacks a stake in its success.

This conclusion is reflected in the operation of our Poverty Reduction and Growth Facility – the successor to ESAF - through which we support the reform efforts of our poorest members, in concert with the World Bank, and other lenders and donors. Within these programs, policies are weighed in terms of their contribution to poverty reduction. And when stabilizing a troubled economy demands tough macroeconomic measures, we seek to ensure that the poorest and most vulnerable do not bear an excessive share of the burden.

Hence the importance of this workshop. There is greater consensus now than in the past on the need for macroeconomic stability. But there is much less agreement on how – and how quickly – it should be achieved. If we understand better the impact of different macroeconomic policy paths on poverty outcomes, then we can offer better advice on how to deliver growth and poverty reduction that endure.

Now let me flag some of the key issues that are taken up in the papers we will discuss.

First, we need to know more about the relationship between **growth and poverty**, and what sorts of policies ensure that growth is pro-poor. Gary Moser and Toshihiro Ichida's paper looks at the relationship between growth and non-financial measures of poverty in Africa,

while Jahangar Aziz examines at the relationship between growth and poverty at a sub-national level in India. An important element of the policy agenda is the role of financial sector development. How best can we promote financial sector development in a way that addresses the immediate needs of poor countries, as well as helping them integrate safely into world financial markets over the longer term? Kenichi Ueda and Robert Townsend's paper looks at the nexus between financial deepening, development and inequality.

Second, in collaboration with the World Bank, the Fund is leading the effort to provide **debt relief** to heavily-indebted poor countries. We need to provide practical advice on how best to use the savings from debt relief to alleviate poverty, which means thinking more about the quality and composition of public sector spending. Era Dabla-Norris, John Matovu and Paul Wade look at the impact on poverty of different uses for debt-relief savings, while Domenico Fanizza and Craig Burnside investigate the macroeconomic effects of increased public spending financed by debt relief. A related issue is the predictability of fiscal revenue from aid flows, which Javier Hamann and Ales Bulir's paper examines.

Third, we need to understand better the impact of **financial crises** on poverty. Do Fund programs improve or worsen the conditions of the poor during and after crises? Are policy responses that are optimal for the economy as a whole also optimal for the poor? And if not, what can and should we do about it? The papers by Luiz de Mello, Emanuele Baldacci and Gabriela Inchauste, and by Stephanie Eble and Petya Koeva, shed some light on these issues, using cross country analysis and data on Russia to examine the impact of crises on the poor.

Fourth and finally, there is an important debate on the appropriate stance of **fiscal policy** in a comprehensive poverty reduction strategy. Protecting the poor by increasing social spending will increase fiscal deficits. But it is not clear from case to case whether this will promote growth and poverty reduction or impede it. We need to understand these effects better, which means knowing more about the economic impact of investments in human capital. The papers by Hong-Sang Jung and Erik Thorbecke, and by Paul Masson, address these issues. Marcus Haacker looks at the economic effects of the aids crisis in Southern Africa, while

Zuzana Brixiova, Ales Bulir and Joshua Comenetz look at the economic impact of a widening educational gender gap in Eritrea.

So, all in all, there is plenty for us to get our teeth into.

Let me conclude by thanking by you all in advance for your contributions over the next two days, and also by thanking my colleagues in the Research Department for sponsoring and organizing this event. In particular I would like to thank Paul Cashin, Cathy Pattillo, Paulo Mauro and Ratna Sahay, who have worked so hard on this project from the start, not to mention Mike Mussa and Paul Masson. Thanks also to Rosalind Oliver and Sylvia Brescia for making the arrangements and ensuring that things run smoothly.

I am sure you will enjoy the next two days. And in doing so, you will be helping us serve our members by delivering the best advice we can. Thank you.

