How Citizens Participate in Macroeconomic Policy: International Experience and Implications for Poverty Reduction

DERICK W. BRINKERHOFF
Abt Associates Inc., Bethesda, MD, USA

and

ARTHUR A. GOLDSMITH *
University of Massachusetts-Boston, USA

Summary. — Many developing and transitioning countries have difficulty sticking to sound macroeconomic policy. International donors are pushing recipient countries to forge a public consensus on macroeconomic policy as a means to enhance sustainability and impacts on the poor. Finance and budget officials, central bank staff, and economic policymakers, however, often assume that citizens cannot understand or contribute to macroeconomic policy. Yet the poor often do not trust the government to make the right decisions for them. How can citizen participation help bridge this gap? Based on a review of international experience, the paper explores this question, and identifies how development administrators can employ civic participation in macroeconomic policy. The discussion highlights where citizens have the greatest options for participation, and notes the impacts participation can have on fostering policies and outcomes that target poverty reduction.

1. INTRODUCTION

A major challenge facing developing countries and ex-Soviet bloc countries is to identify and carry out macroeconomic policy reforms that foster growth and reduce poverty. Since the first generation of structural adjustment programs, the international community has urged these countries to steer clear of deficit financing, overvalued exchange rates, and other fiscal traps. Most aid recipient governments have agreed to orthodox macroeconomic programs, but they seldom have "owned" the reforms and often have reverted to unbalanced public budgets and inflationary monetary policies. As made clear at the United Nations Conference on Financing for Development, held in Monterrey, Mexico in 2002, economic liberalization and globalization have not improved livings standards for many of the world’s neediest people.

Recognizing these problems, the international community now wishes aid recipients to do more to build broad public consensus for sound macroeconomic policies. Through the mechanism of Poverty Reduction Strategy Papers, the World Bank and the International Monetary Fund (IMF) are seeking to incorporate a participatory process into macroeconomic management (see ODI, 2000; World Bank, 2000a). Civic involvement is expected to deepen commitment to macroeconomic reforms, with fewer policy reversals and more impact on poverty.

* The research on which this article is based was supported by the World Bank. The views expressed, however, are solely those of the authors, and should not be attributed to the World Bank or any of its affiliates. Thanks go to three anonymous reviewers for helpful comments. Final revision accepted: 24 November 2002.
While the donors’ grand strategy is evolving, skepticism about participation exists at the operational levels of many development agencies. In host countries, finance and budget officials, central bank staff, and economic policymakers often assume that citizens cannot understand or contribute to macroeconomic policy. Conversely, lower-income citizens rarely trust the experts to make the right macroeconomic decisions for them. To what extent can citizen participation bridge this divide? What makes sense for development administrators wanting to encourage participation in macroeconomic policymaking and management? This paper explores these questions, based on a comparative review of participatory experiences from industrial, transitioning, and developing countries.

2. MACROECONOMIC POLICY AND PARTICIPATION

Macroeconomic policy includes decisions and efforts to control aggregate volumes of credit and money (monetary policy), and to manage aggregate public revenue and expenditure (fiscal policy). Participation is “a process through which stakeholders influence and share control over development initiatives and the decisions and resources which affect them” (World Bank, 1996, p. 3).

Development strategies in the 1990s focused first on the macroeconomic fundamentals underlying broad-based economic growth, with secondary attention to human capital development and social safety nets. Critics charge that orthodox steps such as balanced budgets and correctly valued exchange rates do not reduce poverty, and that investments in human capital and social safety nets have been an insufficient palliative measure. Their view is that attending to macroeconomics first and poverty second may have made many people worse off in some countries. Increasingly, the official development community has agreed with its critics that distributional deterioration may accompany the standard macroeconomic prescriptions.

Getting stakeholders to take part in macroeconomic policymaking is claimed to bring about multiple improvements (Bevan & Lister, 2000), but not all of them are fully compatible. Among participation’s anticipated benefits are to: base macroeconomic policies on fuller and more accurate information; increase country resoluteness with fiscal and monetary decisions, so the government does not abandon them; enhance the credibility of these policies in the eyes of investors and creditors, so they will provide sustained funding for business and government activities; build public concurrence and backing for policy implementation; minimize adverse impacts on the poor by getting their input into macroeconomic decisions; increase scrutiny of misappropriation of resources by both public and private agents, which is a major source of macroeconomic instability in many countries; and produce broad-based and sustainable growth in gross national product. This is a lot to ask of participation.

While it is important to keep expectations realistic, international experience does demonstrate many positive links between participation and the creation of governance conditions favorable to sound macroeconomic policy, growth, and eventual improvements in living standards among the poor. New connections between government and citizens may lead to more accountability, transparency, and responsiveness to a wider range of societal groups. On the civil society side, important outcomes include: increased trust in government, increased willingness to work with government, increased social capital, and increased civil society capacity. Better government–citizen interaction may yield more information and shared expertise to solve macroeconomic and development problems (see, for example, Perez-Aleman, 2000).

Worldwide experience also establishes that skeptics in government often overstate the negative links between participation and macroeconomic outcomes. Participation does not automatically discourage fiscal discipline, as some policymakers assume, nor must it trigger conflict and divisiveness. Of course, participation does not inevitably produce the opposite beneficial outcomes, either. Its impacts for good or ill depend on the skill and goodwill of the participants themselves, and on the context in which they interact.

(a) Who participates?

Because macroeconomic policymaking takes place primarily at the national level, and is often an esoteric topic, individual citizens rarely take part in person. Most participation occurs collectively and indirectly though interest groups or formal organizations that claim to speak for specific constituencies. These include business associations, labor unions, and of
particular importance for poverty reduction, community organizations, charities, churches, and other nongovernmental organizations (NGOs). Such groups have proven they can fulfill monitoring and advocacy functions for their members—who often lack the time and training to analyze macroeconomic policy options, critique government’s policy choices, or offer alternatives.

There is a long-standing debate whether such interest groups are part of the problem in development, or part of the solution (see, for example, Bräutigam, 2000). One set of views, drawing on public choice theory, blames coalitions of rent-seeking interests for blocking macroeconomic reform that would improve the well-being of the poor. An alternative view (embedded in current donor strategies) takes a more benevolent perspective on interest groups. Drawing on theories of civil society, interest groups are seen as a vital part of accountable and responsive political systems. Their inclusion in policymaking produces national agreement on macroeconomic reform and poverty reduction (Goldsmith, 2002). The truth is that interest groups can play both positive and negative roles depending on the context in which they are operating.

Developing and transitional countries as a rule lack the extensive formal civil society sectors found in OECD countries. There is, however, a trend toward a broad and growing range of NGO activities throughout the developing world. The Johns Hopkins Comparative Nonprofit Sector Project finds, for example, over one million employees (not including volunteers) in the nonprofit sector in Brazil. Proportionately, Colombia and Peru have a comparable share of their labor force working for civil society groups (Salamon et al., 1999). Depending on the legal and institutional framework, most developing and ex-socialist countries are likely to have at least an emergent organizational capacity for civil society to enter the macroeconomic arena.

Broadly speaking, countries take two approaches to configuring the interface between government and specific constituency groups. To oversimplify, one approach is society-centered (labeled the pluralist model by political scientists); the other approach is state-centered (the corporatist model). Pluralism tends to be based on interest group competition, with various overlapping and crosscutting factions vying to articulate their positions and gain the approval of state decisionmakers. Corporatism tries to engineer more cooperation among major interests, who are usually represented in monopolistic and encompassing organizations. These groups may be delegated certain policy making responsibilities, though the state usually retains the right to final decisionmaking. Membership tends to be compulsory, not voluntary as in the pluralist model.

Neither approach is inherently better. Many NGOs see advantages in the nonexclusive style of participation associated with pluralism. One of the most prevalent grievances of community organizers and activists working in developing and transitional areas is that there is too much government interference, which stifles their ability to function freely and independently. For macroeconomic decisions, however, a more corporatist or state-centered mode of participation has advantages. Because such decisions are taken mainly at the center, it is helpful if civil society has centralized organizational representation—which is more typical of corporatist political systems. Finding the right partners for a macroeconomic policy dialogue is easier if the country already has one or more peak associations that represent broad sectors of society.

Obviously, having such organizations on paper is not enough. Zambia, for instance, has over 200 registered NGOs, but no single recognized apex association. NGO capacity at the national level is generally weak, and strong and functioning grassroots organizations do not yet exist (World Bank, 2000c). In Uganda, the National NGO Forum is a newly formed umbrella group of some 600 organizations. Its stated aim is to provide a common platform for all domestic, foreign, and international NGOs active in the country and to enhance dialogue between the nonprofit community and the government. But, the government has not yet recognized the forum—it exercises significant control over NGO activities through the Non-Governmental Organizations Registration Statute, which requires that all such groups operating in Uganda be registered. According to a recent Human Rights Watch (1999) report, the government sometimes uses this statute to muzzle its critics.

Obtaining government recognition, of course, does not guarantee effective representation, either. Some official peak associations are moribund, as is alleged of many national chambers of commerce in French-speaking Africa. Recognized bodies also may omit important segments of society. South Africa’s National
Economic Development and Labour Council (NEDLAC), for instance, has been criticized as unrepresentative in a country where the majority of people work outside the formal sector, and thus are associated with neither a labor union nor a large company. In particular, groups representing the poor may be left out.

Even when low-income and otherwise marginalized people are well-represented by civil society organizations, that does not guarantee they will get their way on policy questions that matter to them. The “poor” are rarely a homogeneous constituency with clearly defined interests and a unified stance on specific fiscal and monetary issues. The countervailing power of groups representing the business and investment communities, as well as possible conflicts among environmental, human rights, and other NGOs, limit the political influence any single group can have on macroeconomic decisions in most countries.

(b) The context of macroeconomic policy and the dynamics of participation

Participation and policymaking do not take place in a void. The political, social, and economic contexts of the country influence them. Among the most influential contextual factors are the political system, governance arrangements, the depth of social cohesion, and the pace of current economic activity. All of these can affect the options and patterns of civil society participation in macroeconomic policy.

Democratic practices have been expanding around the world, with support and encouragement of the donor community (Goldsmith, 2001). Competitive democratic or democratizing regimes are more likely to have open political and governing structures that are responsive to citizens, and create the circumstances that would allow civil society groups to organize freely and to participate in the policy process. This is no guarantee, however, that propoor decisions will result. India is a good example of a democratic country that nonetheless has persistent and widespread poverty (Varshney, 2000).

In many countries, even those nominally classed as democracies, citizens have problems obtaining basic information on government economic policies and plans. Also important is the willingness of government officials to listen to, and act on, alternative policy perspectives. A lack of follow-through by officials may poison the atmosphere for continuing participatory consultation. For instance, civil society organizations in Bolivia (a “free” country according to the international watchdog Freedom House) had a negative experience with the “National Dialogue” in 1997, which the government called to elicit popular participation in policy formulation. The National Dialogue gave insufficient time to civil society organizations to access information and develop a response. There was little follow-up, fueling suspicion and skepticism within civil society about the official approach to national debates on macroeconomic management. A second National Dialogue in 2000 was more successful, partly because it drew on municipalities to be important vehicles for the participatory process. The Church and other Bolivian civil society organizations acknowledged that they had moved from an antagonistic stance toward government to a more constructive relationship (Molenears & Renard, 2002).

Participation options can be affected by a country’s degree of ethnic, class, and regional cohesion. Partly because they often have heterogeneous populations, many developing states lack political legitimacy in the eyes of their citizens. Being seen as right and proper is important, because it affects the degree to which citizens trust the government to act in the public interest, and how willing civil society groups may be to take part in policymaking. Often, developing and transitioning countries have internal political conflicts that are regionally based, with ethnic or religious overtones. A national legacy of regional challenges to authority, especially if they overlap with, and reinforce, ethnic cleavages and controversies, may make it especially difficult for a regime to obtain widespread civic engagement.

The level and growth of national income are significant for civil society participation: a faster growing and richer productive system means more resources to distribute to secure the support and compliance of all groups in society. It is obviously more of a challenge to obtain consent on macroeconomic policy issues when the economic pie is frozen or shrinking, which may encourage zero-sum competition and a “winner-take-all” mentality among rival interest groups. These negative economic conditions favor the stronger groups with established links to politically and economically powerful actors, who tend to prevail over the poor and marginalized in getting government to respond to their demands.
(c) How do people participate?

Citizen involvement can usefully be thought of as a continuum that ranges from more passive to increasingly active modes: information sharing, consultation, collaboration, and empowerment (see Table 1). While empowerment is sometimes cited as a feature that distinguishes whether participation is “genuine” or not, the other modes are valid and useful to citizens, too.

Citizens are most likely to take part in fiscal and monetary policies through information sharing, consultation, and collaboration—less often decisionmaking or empowerment. Neither citizens nor their organizations typically have the last say in choosing macroeconomic policies (public referenda in some countries are an exception) or in carrying out those policies. These policies tend to be decided and implemented by central political authorities and executive agencies. The prospects for participation in monetary and fiscal policies are also influenced by the stage of the policy process. Citizens are likely to have the greatest opportunities to join in analyzing and diagnosing macroeconomic policies, and in monitoring and evaluating those policies once they are put into practice. Less scope usually exists for citizens to play a part in macroeconomic policy formulation and implementation.

Information sharing/dissemination and consultation are important levels of participation. Public authorities would be well advised to help stakeholders understand, for example, why the prices of certain commodities are going up or why particular social programs are being cut back. Not only does such knowledge allow the groups in question to adjust their behavior more quickly; it can help to demystify and legitimize the government’s economic policy choices.

While no one should underestimate the capacity of nonexperts to learn about macroeconomic policy, misperceptions can be profound. For example, in Nigeria high-denomination currency notes are not available due to the widely believed myth that printing such notes is inflationary. The reliance on low-denomination bills has increased government printing costs for currency, and has contributed to higher private sector transaction costs because firms must buy note-counting machines (Collier, 2000).

Even in countries with high levels of human capital formation and deep democratic traditions, the task of communicating with nonspecialists about macroeconomic policy can be daunting. A network of advocacy groups has been trying to do just this in Canada since the mid-1990s through the vehicle of the Alternative Federal Budget. Despite having an impressive participatory process, the Canadian activists have had trouble demonstrating to community members that there are realistic alternatives to the government’s monetary and fiscal choices. Other activists criticize the Alternative Federal Budget as an academic exercise that has failed to capture the imagination of the public or to show them that budgets can be vital documents with roots in the community. Part of the difficulty comes from working outside of the government, rather than in partnership with it—representatives of the

<table>
<thead>
<tr>
<th>Table 1. Levels of participation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Information-sharing:</strong> one-way information flows. From government to the public, examples are dissemination of written material through official documents, newspapers, or magazines; distribution of documents from local government offices; press conferences; radio or television broadcasts; or establishment of websites. From the public to government, examples include responding to questionnaires and surveys, accessing toll-free telephone “hot lines,” or providing various kinds of data.</td>
</tr>
<tr>
<td><strong>Consultation:</strong> two-way information flows and exchange of views. Examples are beneficiary assessments, participatory poverty assessments, town hall meetings, focus groups, national conferences, round tables, and parliamentary hearings. Collaboration: joint activities where the initiator invites other groups to be involved but retains decisionmaking authority and control. Examples include public reviews of draft legislation, government-led working groups, and government-convened planning sessions.</td>
</tr>
<tr>
<td><strong>Shared decisionmaking:</strong> collaboration where there is shared control over decisions made. Examples are: joint committees, advisory councils, public-private partnerships, and taskforces.</td>
</tr>
<tr>
<td><strong>Empowerment:</strong> transfer of control over decisionmaking, resources, and activities from the initiator to other stakeholders. Examples are, local natural resource management committees, community empowerment zones, water user associations, and civil society “seed” grants.</td>
</tr>
</tbody>
</table>

Source: Adapted from Crosby (2000) and Edgerton, McClean, Robb, Shah, and Tikare (2000).
group did meet with the finance minister, but he criticized them for underestimating the power of international financial markets. The Canadian experience shows that going through the steps of consultation and collaboration with civil society organizations does not guarantee that those constituencies will enthusiastically support the outcome or that government will necessarily listen (Gonick & Scarth, 1996; Loxley, 1999).

Consultation takes stakeholders deeper into the policymaking process. Rather than simply letting people know about faits accomplis, the authorities may solicit people's advice while designing the policy. Although principal macroeconomic decisions may have already been taken, consultation encourages adjustments to make the resulting policy more effective in meeting people's needs. A good example is Uganda. In 1998, the government conferred with poor people in rural and urban areas about budget allocations. Communities identified access to clean water as a priority, which resulted in a higher weighting being given to the provision of safe water in the central budget (Mugambe & Robb, 2000). This is a case where being consulted on a macroeconomic policy issue (the composition of government spending) verges on taking part in the macroeconomic decision itself.

As the discussion so far demonstrates, macroeconomic policy participation involves ideological and political struggles, and can be a challenge or even a threat for governments to implement. Most immediate is the management intensity of launching and conducting consultations and collaborative efforts to bring external groups into the policy decisions. These can be costly for governments to fund, and raise the question of how to institutionalize participation absent external donor support. Then there are the risks associated with the outcomes of a participatory process: policy stalemate or societal division if actors cannot or will not agree or compromise; unrealistic expectations regarding what is possible, or the extent to which all interests can be accommodated; and cynicism and disappointment about the policy, the actors involved, or the results. Sometimes participatory decision processes may lead to national consensus about the makeup and importance of “propoor” fiscal and monetary policies. More likely, however, are negotiated compromises that only partly favor low-income constituencies. Sometimes interest group rivalry may lead to deadlock or even outright defeat at the hands of a better organized, better placed coalition of groups. Failure to be pragmatic about the likely results of expanded participation may create frustration among activists and a sense of letdown that do not serve the cause of long-term poverty reduction.

The next two sections of this paper look specifically at how participation can occur in the two main components of macroeconomic management: monetary policy and fiscal policy. We conclude by drawing out the implications for development managers.

3. PARTICIPATION IN MONETARY POLICY

Monetary policy involves actions taken by a country's public institutions to influence the money supply or interest rates. It is clearly unrealistic to expect civil society organizations or individual citizens to set monetary policies shoulder to shoulder with financial specialists. This does not mean, however, that valuable modes of participation are lacking.

(a) Participation issues

The institutional actors involved in monetary policy include, foremost, the central bank, followed by the finance ministry, the treasury, the office of the president or prime minister, the legislature, and private financial institutions (e.g., banks, finance companies, investment firms). Two factors influence the options for participation in monetary policy. The first concerns the degree of autonomy in the linkages between the central bank and the other financial actors. The second involves the extent to which they operate according to principles of democratic and accountable governance.

Regarding autonomy, central bank independence is seen as the cornerstone of sound monetary policy. Institutional arrangements to make central banks independent have centered on the appointment, tenure, and dismissal of the governor, as well as the role and the constitution of the boards of central banks.

Countries vary on how much independence is formally granted to the central bank. The United States' Federal Reserve System and Germany's Bundesbank are among the most autonomous central banks. An opposite case is New Zealand, where the central bank is subordinate to the elected government. A mid-
spectrum example is India, though plans are under consideration to create a Bundesbank-like “independent monetary authority” to replace the Reserve Bank of India. The recently elected government in Nigeria has also announced plans to re-establish the autonomy of the Central Bank of Nigeria.

As these examples illustrate, and as Maxfield (1999) points out, central bank independence has fine distinctions. It rarely means total freedom from influence by the executive or the legislature, or complete autonomy to set goals and choose policy instruments. Even highly independent central banks have linkages to outside institutional actors that may influence or constrain their actions. These linkages constitute the avenues for potential participation in monetary policy by civil society, mainly through the political process.

The viability of these avenues, however, depends upon the second factor mentioned above: the quality of democratic and accountable governance. To the extent that a country’s leadership is popularly elected, and takes its mandate to respond to the needs and desires of the electorate seriously, citizens’ views on monetary issues can find their way into the deliberations of central bankers, members of the executive branch, and legislators. Where political processes are more open and broadly based, the clout and access of propoor elements of civil society relative to more wealthy interests may be sufficient to gain some degree of influence on politicians and government officials. Finally, to the extent that information on monetary policy issues and decisions is available and is disseminated, civil society groups can work out informed positions, build constituencies, and exercise their voice intelligently.

Despite de jure independence, central banks in developing countries are often subject to informal channels of political influence from the financial community and to high staff turnover, which in practice limit their operational autonomy (see Cukierman & Webb, 1995; Cukierman, Webb, & Neyapti, 1992). In many developing and transitional countries, interlocking elites in government and the private sector can sway central bank decisions in their favor. Donor pressure and the influence of globalization, however, are countervailing forces pushing for central bank independence, strengthening the worldwide trend for formal autonomy for central banking authorities (Maxfield, 1997). Where decisionmaking is decentralized, the proliferation of players with veto power may encourage politicization of monetary policy and add to inflationary pressures (Treisman, 2000b).

(b) Information sharing and dissemination

Central banks traditionally operate with secrecy on the grounds of holding down volatility in financial markets. Recently, however, many central banks have been moving to more transparency in their operations, objectives, and economic assessments. On the donor side, the IMF is now putting on the World Wide Web the staff reports from consultations on the Poverty Reduction and Growth Facility (see IMF, 1998). The arguments for increasing information-sharing regarding monetary targets and actions are both technical (more transparency allows economic actors more certainty and confidence regarding central bank decisions) and political (more transparency increases accountability to the electorate) (see Posner, 1997). The media in some countries may, however, lack easy access to the Internet and much of this information may not get into circulation. Moreover, the media are often still under direct or indirect state control and thus will be reluctant to look for or publicize controversial findings about their government.

Among the public sector institutions with a role in monetary policy, it is not just central banks that disseminate information related to monetary issues. In many countries, the legislature, through public hearings, is an important actor in sharing monetary policy information. Finance ministry and treasury officials may be called upon to testify at these hearings, and sometimes hold press conferences. IMF staff, in some instances, have been instrumental both in encouraging officials to give briefings to the media and in providing advice on the content of such briefings. This kind of information dissemination is becoming a more widespread practice for some developing and transitioning country governments, although in many countries the legacy of secrecy and information hoarding remains strong. An encouraging example comes from Bulgaria, where in 1999 the Parliament’s Information and Public Relations Directorate, along with the Council of Ministers and the Bulgarian National Television, developed a television question and answer show that focuses upon economic issues; guests make a presentation and viewers can call in with questions. A sampling of topics debated over the past couple of years includes: monetary...
policy, capital markets regulation, bank privatization, development of small and medium enterprises, tax policy, pension reform, small investor protection, foreign investment, and municipal budgeting (Brinkerhoff, Coletti, & Webster, 2000).

(c) Consultation on monetary policy

Participation in consultation builds upon information dissemination. In countries with a well-developed infrastructure of media outlets, think tanks, and advocacy organizations—such as South Africa and India—civil society (and the private sector) can employ information about monetary policy to do two important things:

— Demystify and interpret monetary policy. While most people can recognize how inflation affects them, the details of monetary policy are seldom widely understood. The media and economic think tanks play a key role in translating the government’s stance on monetary issues into language that lay people can comprehend and in elaborating the implications of government’s policy decisions. Without some basic knowledge, civil society cannot be consulted in a productive manner. Further, coalition-building requires that groups understand their interests and how current or future monetary policies will affect them. This kind of participation is central to clarifying highly specialized issues regarding the money supply and to justifying in the eyes of citizens the monetary targets and interest rates the government chooses.

— Propose alternative views about monetary policy. Civil society organizations can move beyond demystification to analysis of current monetary policy to offer a critique or a proposal of alternative prescriptions. In the context of poverty alleviation, advocacy groups and think tanks can undertake independent data collection and analysis to illustrate the impacts of monetary policy alternatives on the poor. External critiques may lead central bankers and finance ministry officials to clarify their positions, thereby enhancing the authority of their actions. Or the debate may cause the central bank to rethink its actions and choose a different course—thus in a roundabout way providing some empowerment to critics.

Pivotal for consultation is for countries to have a sufficiently robust set of civil society organizations and private sector interest groups, with the ability to obtain, interpret and disseminate the information on monetary issues. India has many groups that monitor its central bank. For example, IndiaInfo.com, a new Internet company for Indian consumers and businesses in India and around the world, maintains a “Budget Watch” that includes data on Reserve Bank activities. In South Africa, the Alternative Information and Development Center performs a similar function from a left-of-center point of view. But, it is largely industrialized countries that have such a civil society endowment (see Anheier & Salamon, 1998; Salamon et al., 1999).

Establishing participation through consultation on monetary policy (and other macroeconomic policies) will necessarily be a long-term endeavor, so it is important to adjust expectations of what benefits participation can bring and when those benefits can be realized. Government-led participatory dialogue is more likely to get consultation going quickly and to do so in a way that minimizes the potential for paralyzing conflicts. The disadvantage is that by government selecting the dialogue partners, some legitimate constituencies risk being excluded. This can be compensated for, however, if the dialogue is opened up later on, which implies a sequenced strategy for policy participation.

While hyperinflation and budget deficits are frequently starting points for policy change, the macroeconomic agenda generally moves toward distributional issues as various societal groups experience greater or lesser degrees of economic pain. Recognizing this policy trajectory can be important in getting government officials to embrace the need to incorporate civil society participation in monetary policymaking.

Ireland illustrates a case of well-managed quasi-corporatist consultation that included monetary policy issues. The Irish government launched its “social partnership” within a very short timeframe, in response to an economic crisis in the 1980s where inflation and economic stagnation were central issues. This was useful in getting the major economic actors (business and labor) on board with reforms early. As the partnership evolved, other issues were brought to the policy table, and the cast of participants expanded. Throughout the reform process, Ireland has had an extended debate on social exclusion and on macroeconomic policy impacts on less-favored groups (e.g., the unem-
ployed). Ireland’s experience reinforces the fact that monetary issues are integrally connected to other economic policies (O’Donnell, 1998, 1999; Reynolds & Healy, 2000).

4. PARTICIPATION IN FISCAL POLICY

Fiscal policy determines the way governments manage revenues, expenditures, and debt. Civic involvement on the revenue side principally concerns the level and structure of taxes—who pays and how much. On the expenditure side, civic involvement focuses on: priorities for public spending—who gets what services, and how generously those services are funded; and efficiency, effectiveness, and equity issues related to spending for services. The relationship between revenue and expenditure is critical, for it determines the fiscal surplus or shortfall—which, in turn, affects overall macroeconomic stability.

As with monetary policy, the bulk of the opportunities for participation in fiscal policy exist at the levels of information-sharing and consultation. Because fiscal policy is so intimately connected with distributional issues, the range and relative positions of interest groups are highly influential in shaping the opportunities and outcomes of participation (see, for example, Alesina, 1994).

(a) Participation in tax policy

Taxation is a facet of macroeconomic policy that is relatively easy for the layperson to grasp. While ordinary people encounter monetary policy only indirectly, they are likely to have immediate experience with public revenue agencies, and may have developed strong opinions about taxes. This may make it easier for civil society organizations to marshal their membership to follow and influence tax policy compared with monetary policy.

Tax reform may lead to a reduction in government revenue, an increase in revenue, or a shift to new sources of taxation with no net effect on revenue. In addition, reform often seeks to redress imbalances between relatively better-off and worse-off societal groups via redistributive revenue measures. Whatever the specifics, tax policy is prone to political controversy because it invariably creates self-aware winners and losers (stakeholders whose tax liability drops and others whose liability goes up).

Civil society organizations in developing countries are taking an increased interest in tax reform. In 1994, for example, the Freedom from Debt Coalition in the Philippines launched a national tax campaign, focused on making the tax system more progressive. The campaign proposed tax exemptions for low-income groups, tax incentives for small and medium enterprises, and limitations on deductible expenses for corporations (Francisco, 1999). These proposals, however, never entered the political mainstream—a problem often encountered by groups that claim to speak for the poor. Even though the Philippines gets high marks for democratization since the fall of the Marcos regime in 1986, that has not ended the hegemony of private fortunes and large, family-owned business monopolies. The national tax campaign had no noticeable effect on the Philippines Comprehensive Tax Reform Program enacted in 1997 with support of the international financial institutions.

Fiscal policy relies heavily upon a dependable influx of resources from taxes. Having a tax system that people accept, if not wholeheartedly embrace, is important to encourage tax compliance and an ongoing flow of financial resources to the government. In many developing and transitioning economies, however, citizens’ perceptions, attitudes, and behaviors regarding taxes result in widespread noncompliance and evasion. For example, the post-apartheid government in South Africa is facing significant problems with noncompliance. Before coming to power, the African National Congress encouraged its supporters to refuse payment of water and utility charges as a means of contesting the legitimacy of the state-sponsored black local authorities. Now the ANC faces the challenge of reversing a “culture of nonpayment” for municipal services among township residents. The resulting arrears pose a major financial burden on all levels of government.

Madagascar tried to deal with similar problems in 1998 by releasing to the press lists of tax violators and recipients of exemptions, giving names and addresses. A week later, the deputy prime minister rescinded all discretionary exemptions from import taxes. However, the main employer federation responded with a communiqué that accused the tax service of incompetence and bad faith, and the agency subsequently proved reluctant to confront tax evasion (Andrianomanana & Gray, 2001).
Consulting and collaborating in tax reform

As the examples of South Africa and Madagascar underscore, tax reform is one of the fiscal policy “battlegrounds” on which “wars of attrition” are fought between societal groups with conflicting interests (Alesina, 1994, p. 48). While public sector officials might prefer to avoid such conflicts, serious tax reforms invariably produce controversy.

Civil society participation sometimes can help resolve these battles. Australia wrestled for years to find a better way to raise public revenue, but the debate foundered over whether to shift to a broad-based consumption tax. A civil society forum in 1996, the National Tax Reform Summit, was instrumental in moving the debate forward, demonstrating that participatory processes can facilitate making “tough” decisions (Harrison, 1997). The gridlock broken, Australia’s Parliament voted for a New Tax System that took effect in 2000. Not that everyone agreed—the main opposition party continued to denounce the consumption tax as “economic snake oil” (Australian Labor Party, 2000).

But participation need not produce tough decisions, as evidenced by Switzerland. The Swiss political system builds in extensive direct participation in tax policy and other macroeconomic questions through a centuries-old practice of citizen initiatives and referenda (Wyss & Widmer, 2001). The result can be competitive bidding between communities to lower or eliminate taxes, such as the inheritance tax, despite the fiscal problems that may ensue.

The United States has a comparable political process at the state level for direct action on taxes. Many states allow residents to convert their preferences on tax issues into legal statutes through referenda. While based on democratic and egalitarian principles, the referendum process is exploited by well-organized and well-financed special interests. Underorganized or marginalized constituencies (e.g., the poor) are rarely as good at mobilizing political clout on their own. Few would conclude that the pervasive interest group participation in US referenda produce “propoor” tax outcomes.

Developing and transitioning countries are unlikely to have similar large numbers of civil society actors with technical expertise and the access to decisionmaking venues for tax, or other macroeconomic policies. The policy process in semi- or nondemocratic societies tends to be less open to start. This suggests that, for many countries, the first steps for increasing participation in tax policy need to focus on information dissemination and transparency regarding existing tax procedures. Such an approach involves several targets.

—First, it means encouraging tax authorities to pay closer attention to their relations with citizens, and engage in more systematic and broader outreach. Most public sector reform programs already do this (including those in the United States where the IRS has been singled out for improvement along these lines).

—Second, it considers capacity-building with the media to raise the quality of reporting on tax issues.

—Third, it aims at selective strengthening of civil society advocacy organizations that have an existing or nascent interest in tax policy. Most developing countries do not have single-issue advocacy groups devoted to tax issues, as found in industrial democracies. Still, tax issues can be taken on by organizations that have a broader economic policy agenda, such as Developing Initiatives for Social and Human Action (DISHA) in India or the Institute for Democracy in South Africa (IDASA).

(c) Participation in expenditure policy

Government spending is the flipside of tax policy, and the participatory issues mirror those observed with regard to taxes. As with taxes, the composition of the budget affects low-income people directly. They tend to be heavy users of government social services in most countries; and cutbacks in service levels to save government money can have an immediate negative impact on them. The overall level of public spending also affects them, but usually more indirectly through impacts on macroeconomic aggregates.

Developing and transitioning country governments typically have to walk a budgetary tightrope, and the well-documented experience with structural adjustment demonstrates the problems, tensions, and pitfalls of maintaining this balancing act. Further adding to the strain of trimming budget deficits and funding desirable social expenditure is the “leakage” that many countries face resulting from bribery, kickbacks, and misappropriation of funds. Because governments everywhere need the support of constituents to remain in power, the universal tendency is to spend more rather than
less to assure support and popularity. Governments have little choice but to trim what they spend, but the difficulty is determining where cuts should fall. Public officials face resistance from all groups that bear the brunt of fiscal discipline—whether that be government workers whose pay is cut, businesses that lose tariff protection, or rural producers who have to pay international market prices for agricultural inputs. While technical arguments enter into the debate, ultimately political bargaining will resolve the question of which groups make which sacrifices.

Governments have often sought to take charge of the fiscal policy process by insulating policymakers from outside pressures. From the standpoint of government, opening the budget debate to increased popular input raises three main concerns: participation will discourage fiscal discipline; it will raise citizen expectations regarding resource allocation and subject government to demands it cannot meet; and it will set off a divisive and potentially destabilizing political dynamic. While in some cases these fears may be valid, evidence exists to suggest that they may be overstated. At a minimum, there are approaches and tools to help to offset participation's negative impacts on budgeting (see Aronson, 1994; Rietbergen-McCracken, 1996).

(d) Participatory consultation and fiscal discipline

By subjecting policymakers to pressures from diverse interest groups, participatory processes can be a means to reinforce budgetary restraint. In Sweden, for example, parliament consulted with civil society through a commission of inquiry in the early 1990s to devise a closely controlled new budget process. The government now sets its annual budget at a short meeting focused on the bottom line, thereby limiting opportunities for public reaction and criticism. Under the new approach, the budget axe has fallen on virtually all areas of state activity, including health and education. Sweden softens the effect on vulnerable groups by allowing parliamentary committees to move funds around within the larger budget categories—provided they stay within overall spending limits. As hoped, Sweden's public accounts have moved into a strong surplus position (Bengtsson & Mattson, 1998; Public Management Service, 1998).

Reaching broad consensus on fiscal discipline in Sweden, given the level of economic well-being, the relative equality of income distribution, and the homogeneity of the population, is arguably easier than in the developing world. But, a number of activities in developing and transitioning countries employ the same principles as the Swedish case—transparency, civil society consultation, and consensus-building—and thereby contribute to maintaining fiscal discipline as well as advocating for budgetary reallocations to benefit the poor, women, and children (see Cagatay, Keklik, Lal, & Lang, 2000; Falk & Shapiro, 1999; Robb, 1999).

One developing country example comes from South Africa. The South Africa Women’s Budget Initiative (WBI) specifically acknowledges the tensions posed by limited resources. Started in 1995, the WBI analyzes the impacts of the government budget on different groups. The participants in the Initiative do not simply argue for more funds, but address themselves to shifting funds around to reflect different priorities. The WBI relies upon researchers from NGOs and academic institutions, but also includes parliamentarians and civil servants. Drawing strength from being a government–civil society partnership, the initiative has influenced policymakers as they prepare South Africa’s budget. The WBI’s members have organized a number of conferences and workshops that serve as forums to foster an exchange of views and to generate consensus. In most instances, the media have been included in recognition of their important role in educating the public on economic issues. The WBI’s efforts have put pressure on parliamentarians to allocate funds to support labor law reforms, employment and training programs, anti-discrimination policies, gender-focused health and social services delivery, pension policy, HIV/AIDS policy, and children’s welfare (Budlender, 1998).

These experiences suggest that civic participation in fiscal policy does not contribute automatically to “budget busting” and irresponsible spending. To the contrary, participation can provide opportunities for government to inform citizens about the constraints it faces, for interest groups to agree on the importance of the government living within its means, and for dialogue on how to reconcile social needs with fiscal targets. Obviously, getting to these results depends in large measure upon all parties having clear expectations regarding the objectives of any participatory exercise, a condition
for success that applies to policies of all types (McGee & Norton, 2000).

(e) Participation and fiscal resource allocation

Worldwide experience with civic participation in budget policy shows that rather than raising expectations for service delivery that governments cannot meet, the most common outcome is that budgeting exercises become more transparent, outcome-oriented, and accountable. The Austrian economist, Joseph Schumpeter (1918), once wrote that “the budget is the skeleton of the state stripped of all misleading ideologies.” Rhetoric aside, poor people’s activists who gain the capacity to analyze their budgets in detail usually find they get the scraps left after more powerful interests have picked over the largest bones. Participation thus can be critical to make fiscal resource allocation more equitable, as well as efficient and effective. These outcomes appear to be linked to the degree of decentralization in a given country, and the quality of local governance (see Blair, 2000; Osmani, 2000). Decentralized and democratic governance provides opportunities for citizens to hold local officials accountable to a much greater extent than is feasible with national budgets (see Manor, 1999).

Decentralization is not a panacea, however. It also gives local elites greater latitude to steer budgetary benefits their way, which may be less likely at the center where public scrutiny is often more intense and competing interest groups are often more active (Rose-Ackerman, 1999; Treisman, 2000a). Where the central government executive branch appoints district or urban authorities, they may be disinclined to answer to the local population. Further, unless local governments have capacity in budgetary data collection and processing, increases in efficiency and accountability are not likely (Tanzi, 2001).

The case of the city of Porto Alegre, Brazil is a widely cited example illustrating how civic involvement in budgeting can enhance resource allocation as well as contribute to democratic governance. In this case, the level of participation extends beyond information-sharing and consultation to collaboration. Following the local election victory in 1989 of the Popular Front—an electoral alliance of leftist parties—citizens and civil society organizations are not simply consulted; they propose spending projects, set priorities, and help decide which projects will be funded (Baiocchi, 2001; De Sousa Santos, 1998; IDB, 2000).

Uganda is another example of where participation in the form of civil society collaboration has improved the allotment of resources within the budget. Since 1998, Ugandan civil society organizations have been included in the exchange of ideas on priorities and spending commitments, and public debate in the media has been encouraged. Responsibility for the provision of a large number of services was devolved to district and urban authorities. This increased people’s participation in decision-making made fiscal policy choices more transparent and public officials more accountable. The long-term aim is to integrate central and local government budgetary processes and devolve spending decisions to local governments. The budget process is being further developed to open up multiple channels of accountability. For example, to augment transparency and accountability in decentralized management of resources, advertisements are placed in the press indicating amounts disbursed to each district by sector. In the education sector, budget allocations for schools are posted on school notice boards (Mugambe & Robb, 2000).

In a growing number of countries, civil society monitors expenditures through tracking of services actually delivered and conducting service user satisfaction surveys. As Uganda shows, providing information on education sector budget allocations to citizens permits them, through visual inspection, to compare what is happening in their schools with the amount of funding provided to local authorities. Porto Alegre has a participatory monitoring process that holds regular forums where the municipal administration and citizens’ groups deliberate on progress, outcomes, and problems (Avritzer, 2000). In Gujarat, India, the civil society organization, DISHA, has specialized in propoor budget analysis and lobbying (Buhl, 1997). In Bangalore, India a civil society organization, the Public Affairs Centre, conducts in-depth service delivery surveys and disseminates the results through its own publications and through the media (Paul, 1998; Paul & Sekhar, 2000). The World Bank has supported the application of service delivery surveys targeted on propoor services for several years (Langan & Simpkins, 1996). Recently, the Bank has funded service report cards in the Philippines, for example (World Bank, 2000b). This kind of policy monitoring gives
civil society organizations some measure of power to hold public service delivery agencies accountable for performance and use of financial resources.

(f) Fiscal policy participation and conflict

Macroeconomic policymaking enmeshes economic technocrats, public administrators, politicians, and interest groups in a complex web of interactions that pit the forces for change against those favoring the status quo (see Haggard & Webb, 1994; Bates & Krueger, 1993). How countries handle the clash of interests has much to do with their socio-political context, relative power differentials among various societal groups, and governance arrangements. If citizens feel there are no avenues for expression of their views, and that government is uninterested in listening or being responsive, the potential for conflict rises. The view that expanding participation in fiscal policymaking will unleash divisive conflict is usually advanced by actors who are concerned that their interests may be adversely affected. The cases cited in this paper often involved some degree of discord; for example, participants in Ireland’s social partnership have not always agreed on macroeconomic policy and spending priorities. That does not, however, lead to a conclusion that restricting civic participation would have been more desirable.

Participation through information-sharing can help citizens better understand the limits to resource reallocation. The perception, usually expressed by government technocrats, that citizens cannot grasp budgeting issues is largely unfounded. The participatory experiences of the World Bank show the opposite, as does the DISHA case (see, for example, Clarke & Dorschel, 1998; Rietbergen-McCracken, 1996). Consultation and collaboration with citizens on budget allocation can lead to more effective policy decisions and implementation. Conflicts arise—for example, Porto Alegre’s budget hearings saw heated exchanges on many occasions—but need not escalate into confrontations of unmanageable proportions.

Service cuts due to the need for fiscal restraint, a scenario most developing and transitioning country governments confront, can place public officials and citizens at odds, and can make civic consultation highly conflictual. An example from Canada shows how officials handled such a situation, and offers some guidance.

In the early to mid-1990s, the province of Saskatchewan’s fiscal situation called for significant cutbacks in public services. One of the sectors strongly affected was health care. Senior officials held open forums in localities affected by hospital closures. The objectives of the consultations were to explain the policy as a function of the fiscal context and to engage communities in a dialogue about how remaining health sector funds could be most effectively spent. The initial forums were, as the associate deputy minister said, “nightmarish.” Hundreds of angry citizens expressed outrage and concern, rebuking the government. Elected officials failed to attend, leaving the civil servants on their own to try to deliver the message and undertake a dialogue. Tensions ran so high at the meetings that the wave of discontent reached the premier’s office. He decided that a cabinet minister should attend the consultations, and that he himself would participate in some of the sessions. The subsequent consultations served to placate citizen concerns, in part by demonstrating that senior politicians were willing to engage in explanation and dialogue, and to incorporate citizen input into later expenditure priorities and choices (Institute on Governance, 1996). But, these discussions did not prevent the government from losing the next provincial elections. Unhappiness with the closure of hospitals was reckoned as an important factor in that outcome.

5. CONCLUSIONS AND LESSONS LEARNED

This paper has examined participation in macroeconomic policy management, drawing upon cases from around the world. As with many complex sociopolitical phenomena, the dynamics of government actions to involve citizens in macroeconomic policy management defy easy categorization. All the same, a number of major themes emerge.

—Sustainable macroeconomic policies blend the most competent technical answers with political feasibility. Here, the lesson for macroeconomic policy is similar to that for policies across all sectors (see Brinkerhoff & Crosby, 2002; Brinkerhoff, 1996; Hansen, 1996). Therefore, recognition of the political nature of macroeconomic policy, and of the need to invest in communication is important (see also Frishtak, 1996). How macroeconomic policy is presented, and how it is
sequenced, can influence the perceptions of policy stakeholders, and can contribute to shaping the array of winners and losers. This means a strong role for the media and for policy analysis and civil society advocacy organizations, as well as for government officials.

—To lead macroeconomic policy participation requires agencies and staff with the capacity to reach out to citizens and engage them. Building of such capacity includes providing agencies with the resources and incentives to interact with community-based groups and civil society organizations, and developing monitoring programs to assure feedback on progress and to make necessary adjustments. Being realistic about participation is important; this means both recognizing its costs and benefits and not giving in to excessive fears of its negative aspects. Public agency staff may need training in the areas of strategic management, policy participation, community relations and outreach, and stakeholder consultation (see, for example, Brinkerhoff & Crosby, 2002).

—Information-sharing is the foundation for all other forms of macroeconomic policy participation. Governments need to inform their citizens about current and planned monetary and fiscal decisions, including the rationale behind policy choices. When macroeconomic policy content is demystified, average citizens can understand it. Governments do not necessarily have to take on the demystification and translation role themselves; this can be done by civil society organizations. Governments, however, have the responsibility to make available the information in a transparent and accessible manner. Even traditionally secretive financial institutions such as central banks can share information on monetary policy without sacrificing independence.

—Participation works best when it is built into ongoing public institutions and decisionmaking procedures. While examples can be found where temporary or ad hoc efforts worked to engage citizens in macroeconomic management and reform, the most successful cases are where participation becomes institutionalized. This allows for an iterative cycle of policymaking, with civil society organization input continuously feeding back into new decisions. Legislative bodies can be important structures for policy participation and feedback into the policy process, through public hearings and parliamentary committees. Such participation is more likely to the extent that the governance principles of transparency and accountability are operational; for example, these can be facilitated by the passage of “sunshine” laws, which mandate open meetings and the sharing of information. Circumstances change continuously and it is important that disadvantaged groups have opportunities to keep on taking part in decisions about their country’s monetary and fiscal posture.

None of these conclusions will apply if macroeconomic participation is simply part of the next generation of conditionalities within the latest architecture of World Bank and International Monetary Fund (IMF) lending. The laudable goal of “country ownership” of macroeconomic reforms obviously goes well beyond government officials expressing their willingness to undertake a particular course of action. Macroeconomic policy depends ultimately on support from citizens and interest groups, and their participation must be built into national political structures and practices.

REFERENCES


