NORTH-HOLLAND

A General Equilibrium Analysis of the Effect of Macroeconomic Adjustment on Poverty in Africa

Paul A. Dorosh, *International Food Policy Research Institute*

David E. Sahn, *Cornell Food and Nutrition Policy Program*

Using CGE models for four countries (Cameroon, The Gambia, Madagascar, and Niger), this paper examines the consequences of macropolicy reform on real incomes of poor households in sub-Saharan Africa. The simulations suggest that, compared to alternative policy options, trade and exchange rate liberalization tends to benefit poor households in both rural and urban areas—as rents on foreign exchange are eliminated, demand for labor increases, and returns to tradable agriculture rise. The small magnitudes of the gains in average real incomes of poor household groups modeled suggest that macropolicy reform alone will not be sufficient in the short run to significantly reduce poverty in Africa.

1. INTRODUCTION

Has economic policy reform in sub-Saharan Africa worsened income distribution and exacerbated poverty? These questions remain the subject of considerable debate. Critics of the reform process argue that orthodox adjustment policies, including exchange rate devaluation and reduced government spending, have resulted in a disproportionately large burden for the poor (Cornia, Jolly, Stewart, 1987; Taylor, 1988; UNECA, 1989). Other analysts

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Address correspondence to Paul A. Dorosh, IFPRI, 2033 K St., NW, Washington, DC 20006–1002, USA.

Paul A. Dorosh is currently a Research Fellow with the International Food Policy Research Institute. This work was conducted while he was an Associate Professor at Cornell University. David E. Sahn is Professor of Economics at Cornell University.

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of the adjustment process, while acknowledging that reforms have often failed to generate real economic growth,[1] suggest that, in general, the poor (and especially the rural poor) marginally benefited from many adjustment measures (World Bank, 1994; Sahn, Dorosh, and Younger, 1996).

In assessing the effects of reform on the poor, as well as other groups of households, it is crucial to separate the results of adjustment policy from the impacts of terms-of-trade shocks and other factors linked to the economic crises that necessitated adjustment measures. Therefore, in this paper we use computable general equilibrium models to simulate the effects of policy reform on real incomes of various household groups from four African countries: Cameroon, The Gambia, Madagascar, and Niger.[2] We focus on two major broad types of adjustment policies—trade and exchange rate liberalization, and reductions in government spending—and present counterfactual simulations that elucidate important pathways by which policy reforms affect real incomes of poor households in the African context.

As a prelude to the model simulations, we briefly discuss key aspects of the economic structures and adjustment processes in the four countries in Section 2. A brief description of the models follows in Section 3. Section 4 then presents the results of counterfactual simulations of alternative adjustment policies. Concluding remarks are in Section 5.

2. COUNTRY CONTEXT

The four countries modeled in this paper, while sharing some broad economic characteristics common to most countries in sub-Saharan Africa (such as a high share of labor employed in agriculture, dependence on primary commodity exports for foreign exchange, and relatively small industrial sectors), differ considerably

[1] Poor macroeconomic performance in the wake of economic reform programs has been attributed to a number of factors including lack of effective implementation of policy reforms, adverse terms-of-trade shocks, and other structural factors impeding growth.

[2] CGE models have been used to examine the sectoral and macroeconomic impacts of economic policies in a number of African countries, such as Cameroon (Benjamin, Devarajan, and Weiner, 1989), The Gambia (Radelet, 1993), and Kenya (Tyler and Akinboade, 1992). Few studies exist in which household disaggregation permits a discussion of the implications for income distribution. An exception is the analysis of Côte d'Ivoire by Schneider et al. (1992).