

**MACROECONOMICS OF STRUCTURAL ADJUSTMENT
AND PUBLIC FINANCES IN DEVELOPING COUNTRIES:
A HETERODOX PERSPECTIVE**

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Abstract

This essay analyzes the process of structural adjustment in developing countries. Its focus is on macroeconomic adjustment in the short-term, but the discussion is situated in a wider context to consider how it relates to the implications of structural reform in the medium-term and the prospects for economic growth in the long-term. It begins by setting out the contours of the orthodox, the Keynesian and the heterodox perspectives on stabilization and adjustment to highlight the differences. Such different perspectives, it suggests, are attributable to differences in objectives, assumptions and beliefs. These are made explicit. It argues that the relationship between stabilization and growth is characterized by inter-connections rather than trade-offs and suggests that outcomes depend on modes of adjustment. It also provides a macroeconomic analysis of government deficits and public finances, which are critical in the process of stabilization and adjustment. This highlights the macroeconomic significance of government deficits and points to the fallacies of deficit fetishism based on accounting frameworks. Going beyond a critique of orthodox stabilization programmes, it shows that there are alternatives in macro-management for economies in crisis, for which it is necessary to shift the focus from the financial to the real economy, from the short-term to the long-term, and from equilibrium to development. Thus, the objective of macroeconomic policies should extend beyond managing inflation and the balance of payments to creating employment and fostering growth. In conclusion, the essay attempts to develop an analytical framework, which straddles time horizons, to understand the restructuring of economies over time.