Global Crisis and Prospects for Achieving the MDGs: evidence for Latin America

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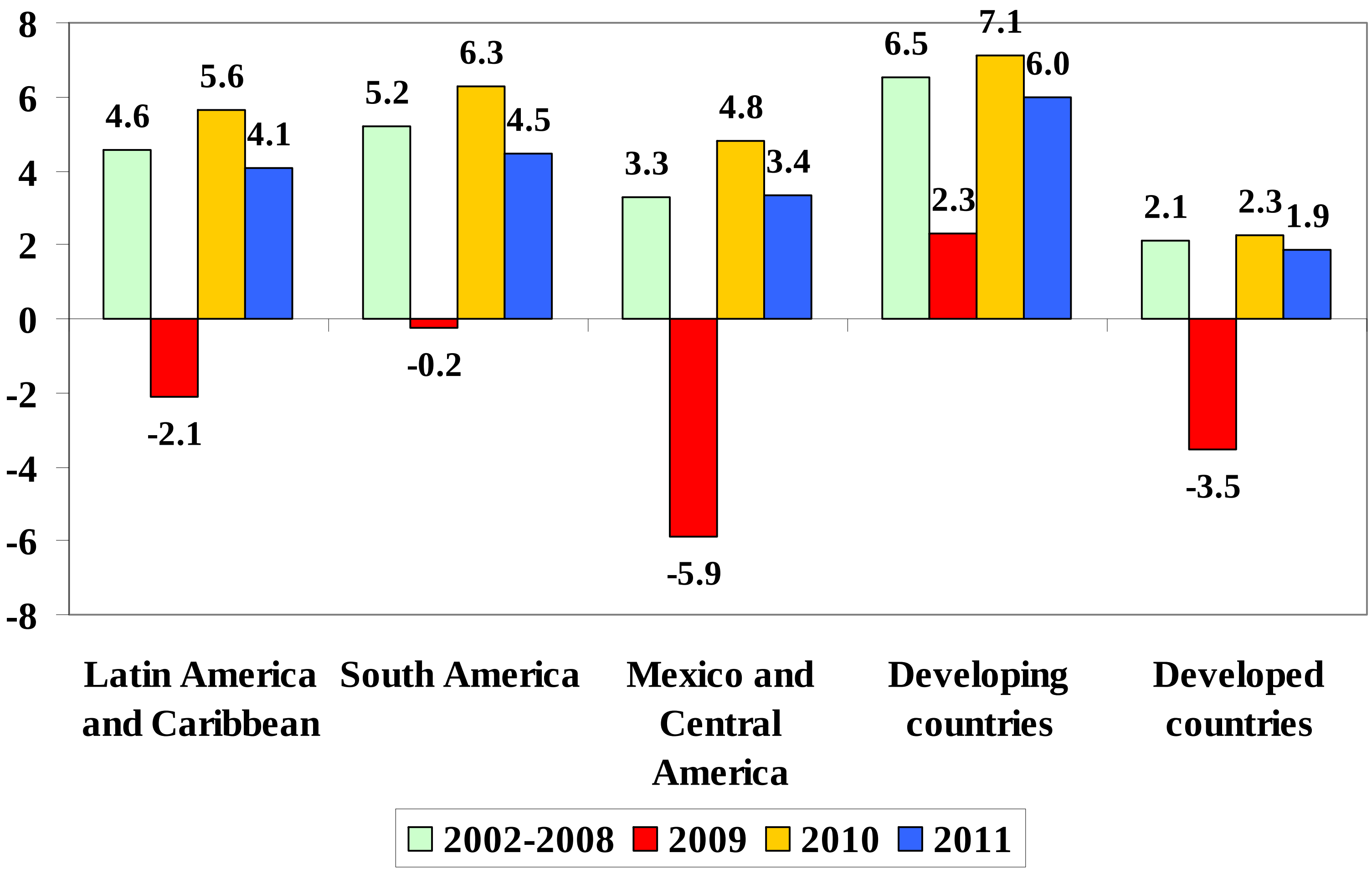
Inception and first training workshop on “Strengthening Macro-Micro Modelling Capacities to Assess Development Support Measures and Strategies in Uganda”, Entebbe, 18 October, 2011.

Crisis and Recovery

1. Global recession 2008-2009: worst since 1930s
   - Synchronized global turndown
   - Disproportionate effect on developing countries
2. Uneven recovery in 2010 and 2011
   - Continued fragility in advanced economies
   - Global recovery largely pushed by dynamics in developing countries ....
   - ... but weak prospects in advanced countries is moderating growth prospects in developing countries
3. Important risks remain for another slow down

Visible crisis in 2009, uneven recovery in 2010 y 2011

(GDP growth per year)



Crisis has come at great social cost

- Worldwide at least 30 million workers lost their job
- Advanced countries continue to see high unemployment rates, which in turn is slowing the recovery
- In Latin America and other developing countries, employment levels are back to pre-crisis levels, but more vulnerable employment
- ILO: share of working poor (earning less than $2 per day) increased from 15 a 19% between 2007-2009
- Worldwide, number of working poor increased by 100 million because of crisis (that is, compared with a situation without crisis)

Social impacts vary

- Countries with fiscal space to conduct counter-cyclical policies have recovered faster
- Countries with stronger social protection programs and space to protect human development programs have seen less impact, likely also on MDG achievement

The future ain’t what it used to be

- Greater sense of economic insecurity
- Continued volatility and risks to development
  - Food prices and insecurity
  - Higher risk natural disasters, climate change
  - Commodity price and financial market volatility
  - Etc.
- Reaching the MDGs in uncertain and volatile environment increasingly difficult, unless synergies can be found with needs to deal with food security, environmental risks, green growth, etc. and unless more can be done to build resilience against a volatile global economy

Reaching MDGs remains a challenge for LAC

BEFORE THE CRISIS

- Despite higher level of income per capita and a lot of progress made, majority of LAC countries were NOT on track to reach the MDGs
  - UNDP / UN-DESA / WB Study in 18 countries in region
  - Only Chile and Cuba were "on track" towards all MDGs
- Half of countries not "on track" (BAU) towards poverty reduction target
- Large majority not "on track" to meet health targets
- Only 4 countries in LAC on track to meet MDG 2

What impact of the crisis?

- Drop income per capita, more unemployment and underemployment, less government revenue, hence:
  - More poverty?
  - Less social spending?
  - Less progress towards MDGs with long term implications for human development?
- To what extent can counter-cyclical policies and continued MDG spending strategies have avoided such impacts?
- HOW WOULD WE KNOW?
  - Impact assessments are difficult
  - Study in 6 countries in LAC (for now) to assess impact and implications using the Integrated Framework for MDG Analysis (macro, sectoral, micro), spelled out briefly through first presentation.

How was the impact of the crisis assess?

- **Pre-crisis baseline ('Business-as-usual')**: economy continues to grow at 2002-2008 pace till 2015 and also social spending follows historical trend
- **Crisis baseline:** economy grows at observed rates in 2009 and 2010 and is assumed to recover gradually to reach pre-crisis growth rates again by 2015; social spending adjusts counter-cyclically (except Ecuador!) between 2010 and 2015 (*in accordance with govt. plans*)
- **MDG scenarios:** public spending and interventions are "scaled up" as required to reach MDGs 2, 4, 5 and 7 by 2015 under different financing strategies
  - Crisis impact (1) = crisis - pre-crisis baseline
  - Crisis impact (2) = MDG scenarios before – after crisis

Simplistic approach to assess crisis

- Real GDP growth is imposed through a calibration procedure
- Model solved twice to achieve base-year solution
  - factor productivity is adjusted endogenously to maintain imposed real GDP growth rates
  - previous solution is starting point for second solution whereby GDP is fully endogenous
- The effects of the crisis take place through productivity losses, without exogenously updating any other parameter.
- Productivity losses affect the level of production, employment, household income/consumption per capita, and so on.

Crisis impact on MDGs

(in terms of increase in gap towards 2015 target)

	Bolivia	Chile	Ecuador	Nicaragua	Uruguay
MDG 1: Poverty (% of population)	0.8	0.0	0.8	2.2	0.0
MDG 2: Completion rate in primary education (% of relevant age cohort)	0.6	0.1	2.4	0.3	-1.2
MDG 4: Child mortality (deaths per 1,000 live births)	1.7	0.2	1.3	1.3	-0.6
MDG 5: Maternal mortality (deaths per 1,000 live births)	8.0	0.0	6.1	4.7	n.a.
MDG 7a: Access to drinking water (% of population)	0.9	0.8	2.1	0.5	0.0
MDG 7b: Access to basic sanitation (% of population)	2.2	2.2	4.8	1.8	0.0

Less impact in countries with more space for counter-cyclical responses

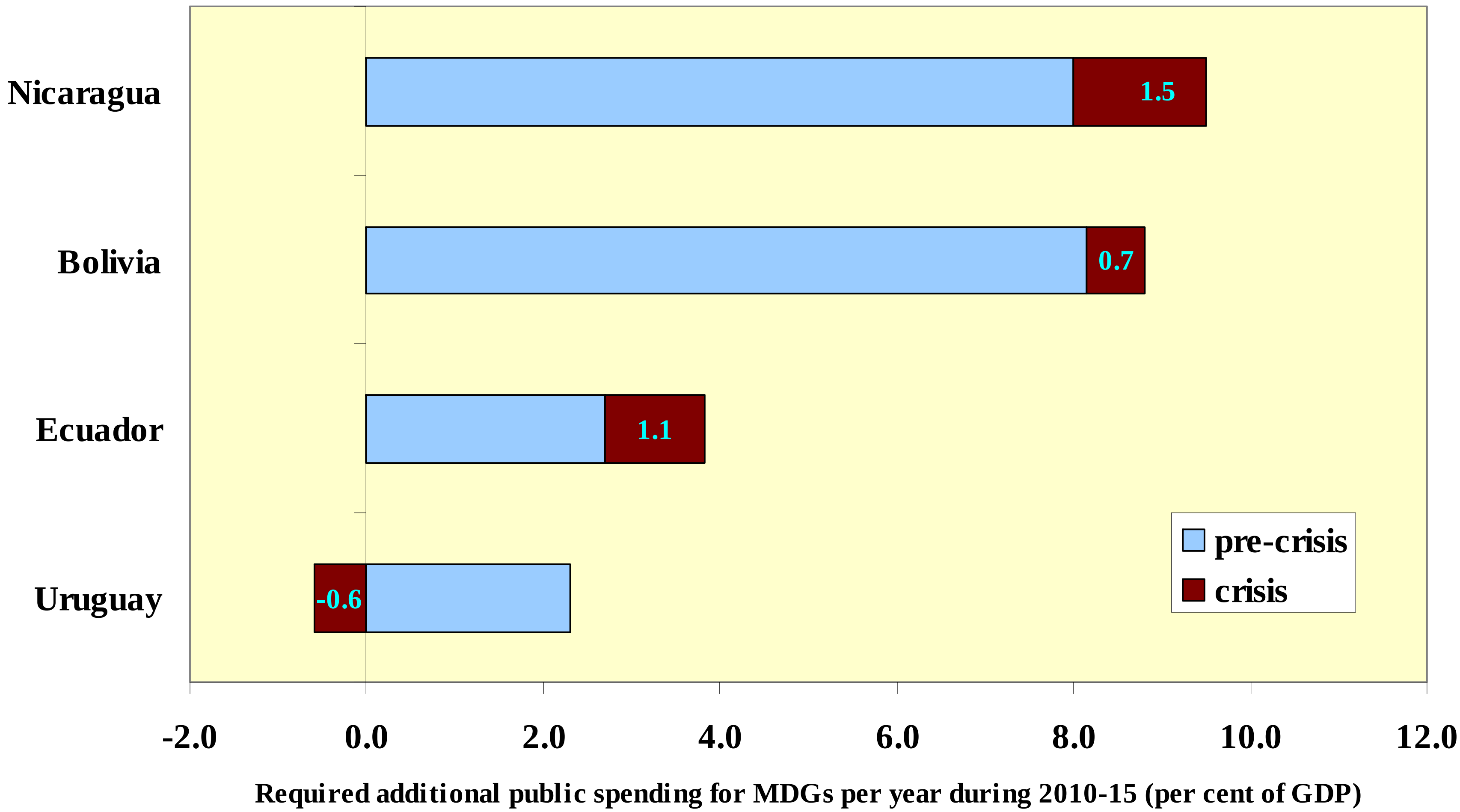
- Stronger GDP growth slowdown in Ecuador and Nicaragua (4 points), lesser impact in Bolivia, Chile and Uruguay
- Ecuador’s social spending adjust pro-cyclically (drops off after strong increases in 2006-7) and results show more adverse effect on MDGs
- Nicaragua’s social spending adjusts counter-cyclically but not enough to prevent significant setbacks in MDG achievement
- Uruguay and Chile suffered less from global crisis, in part because of strong counter-cyclical policies and mechanisms to protect social spending. In Uruguay the fiscal stimulus “overshoots” several MDG targets

Achieving MDGs more expensive and could create debt overhang

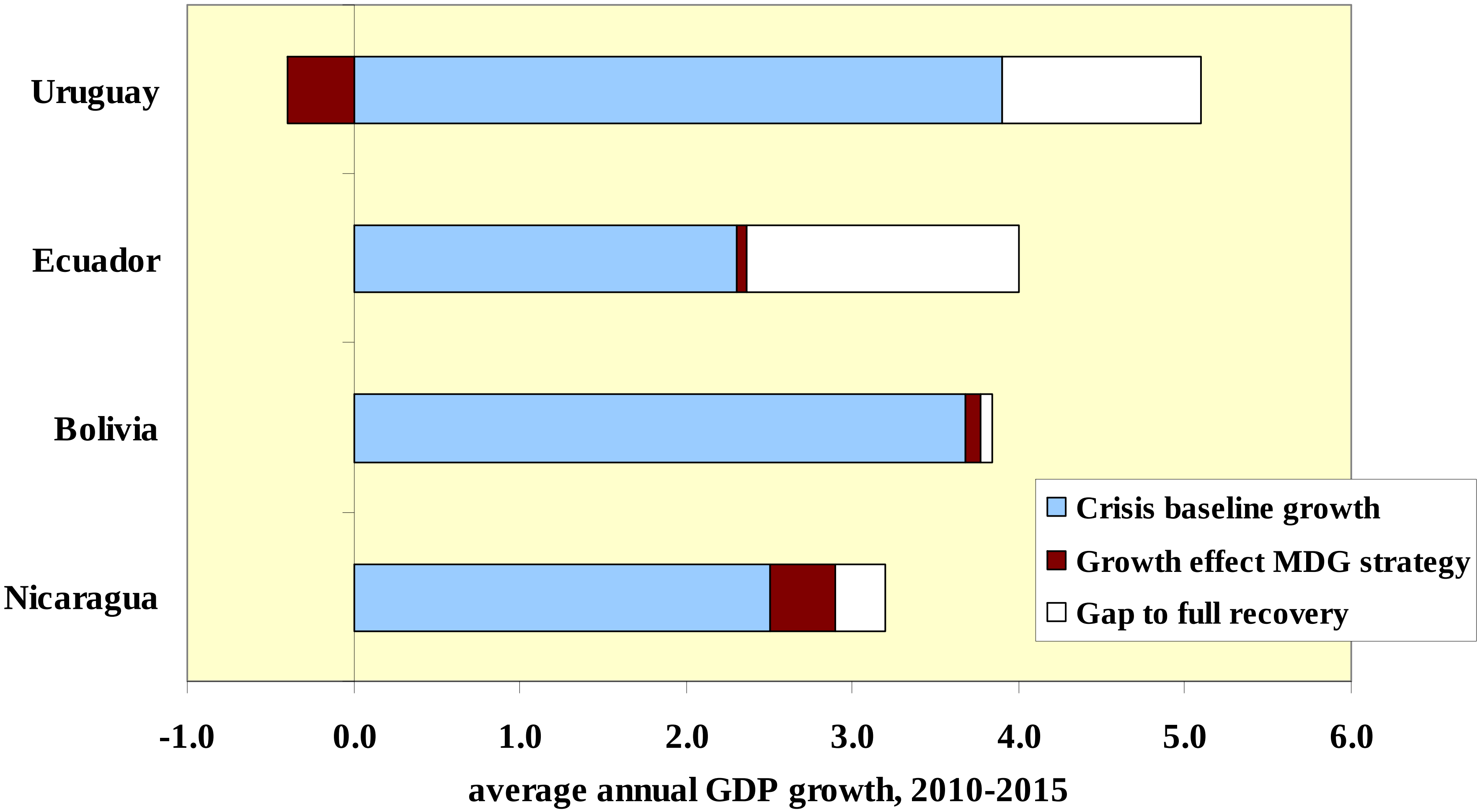
- Pre-crisis MAMS exercise: additional cost of reaching MDGs in LAC between 1% and 8% of GDP per annum with marginal costs increasing towards 2015.
- Crisis impact: additional costs to achieve MDGs would increase by between -0.6 % (Uruguay!!) and 1.5 percentage points of GDP (Nicaragua) in the five countries

Crisis causes MDG costs to rise

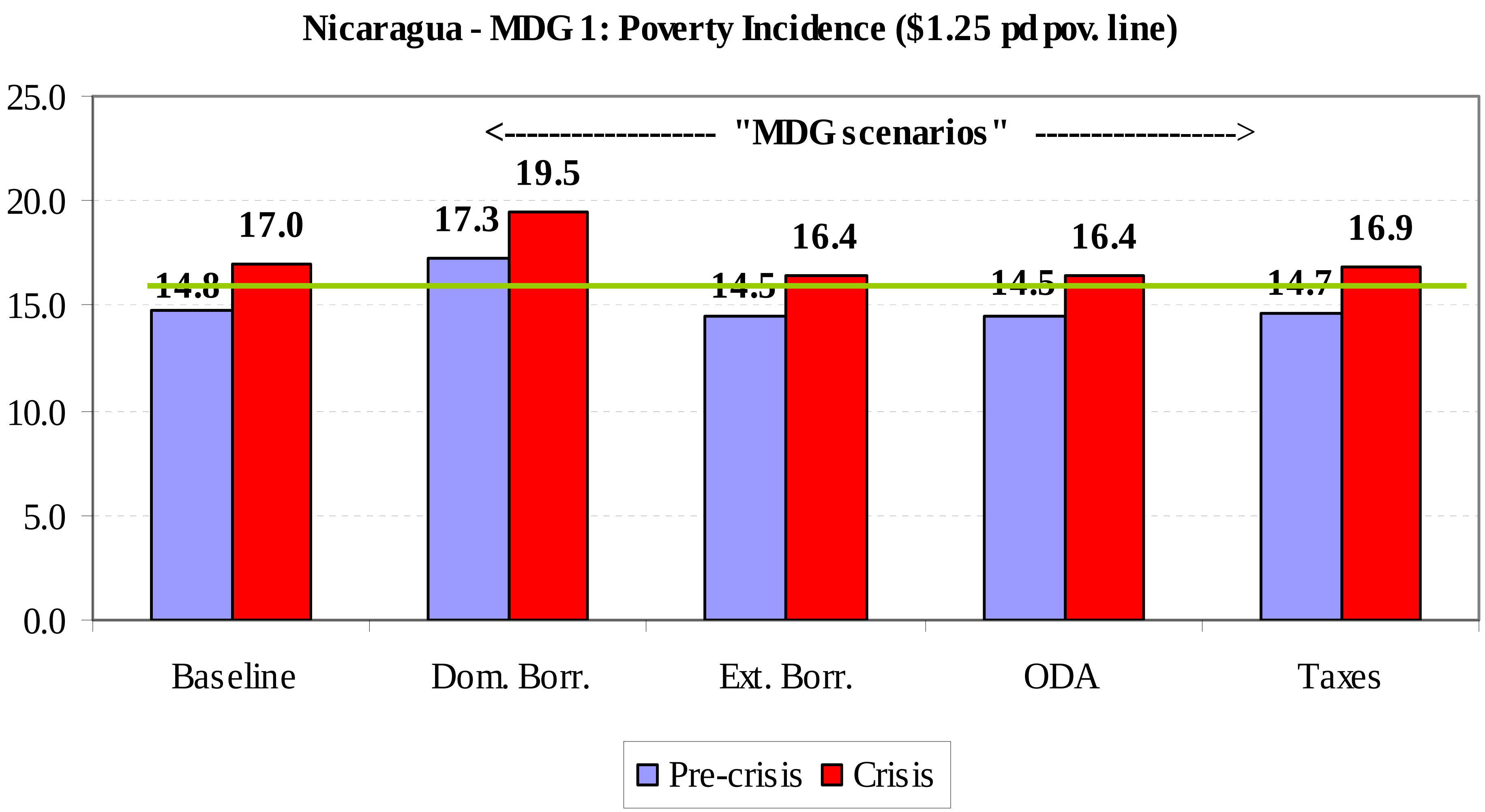
Additional public spending on MDG-related services required to reach MDGs by 2015
(% of GDP per annum, 2010-15)



MDG Strategy is counter-cyclical (mostly), but not sufficient for full economic recovery

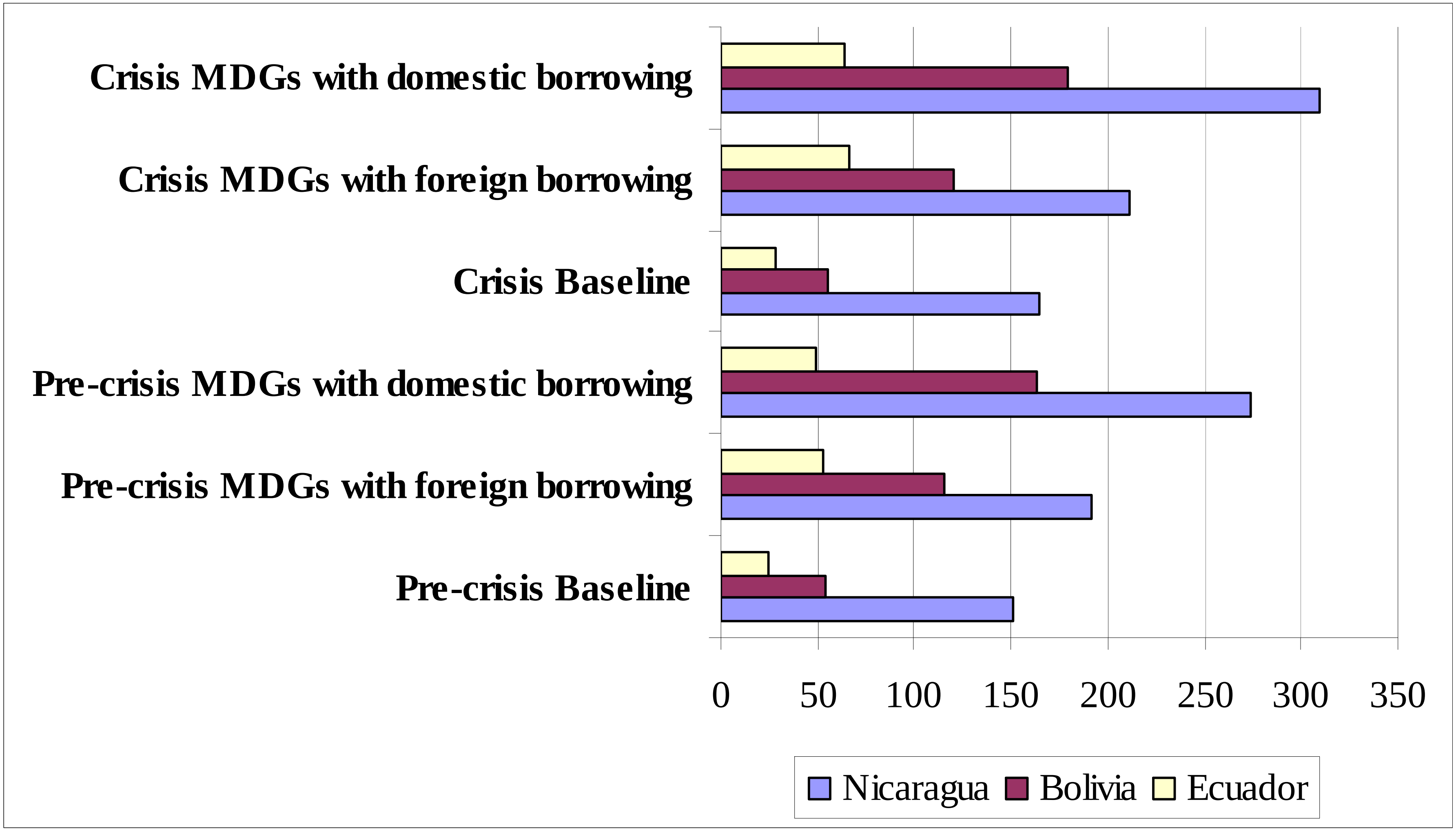


Trade-offs between poverty and other MDGs



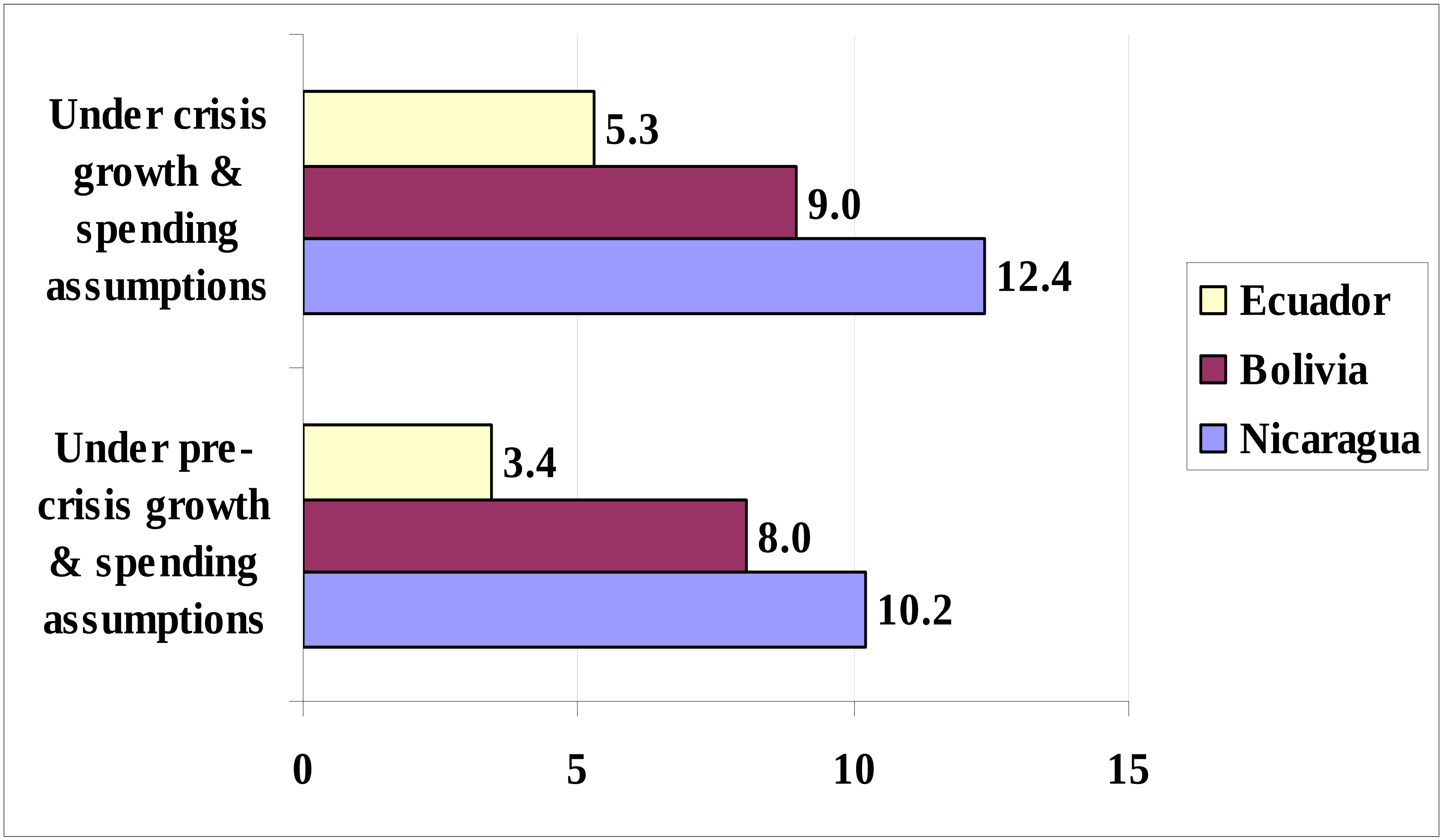
MDG scenario could risk creating large debt overhang

Total public debt in baseline and MDG-achieving borrowing scenarios (% of GDP, 2015)



Additional Tax Effort could be overwhelming

Additional revenue required to finance MDG achievement by 2015 under tax-financing scenarios *(% of GDP per annum, 2010-15)*

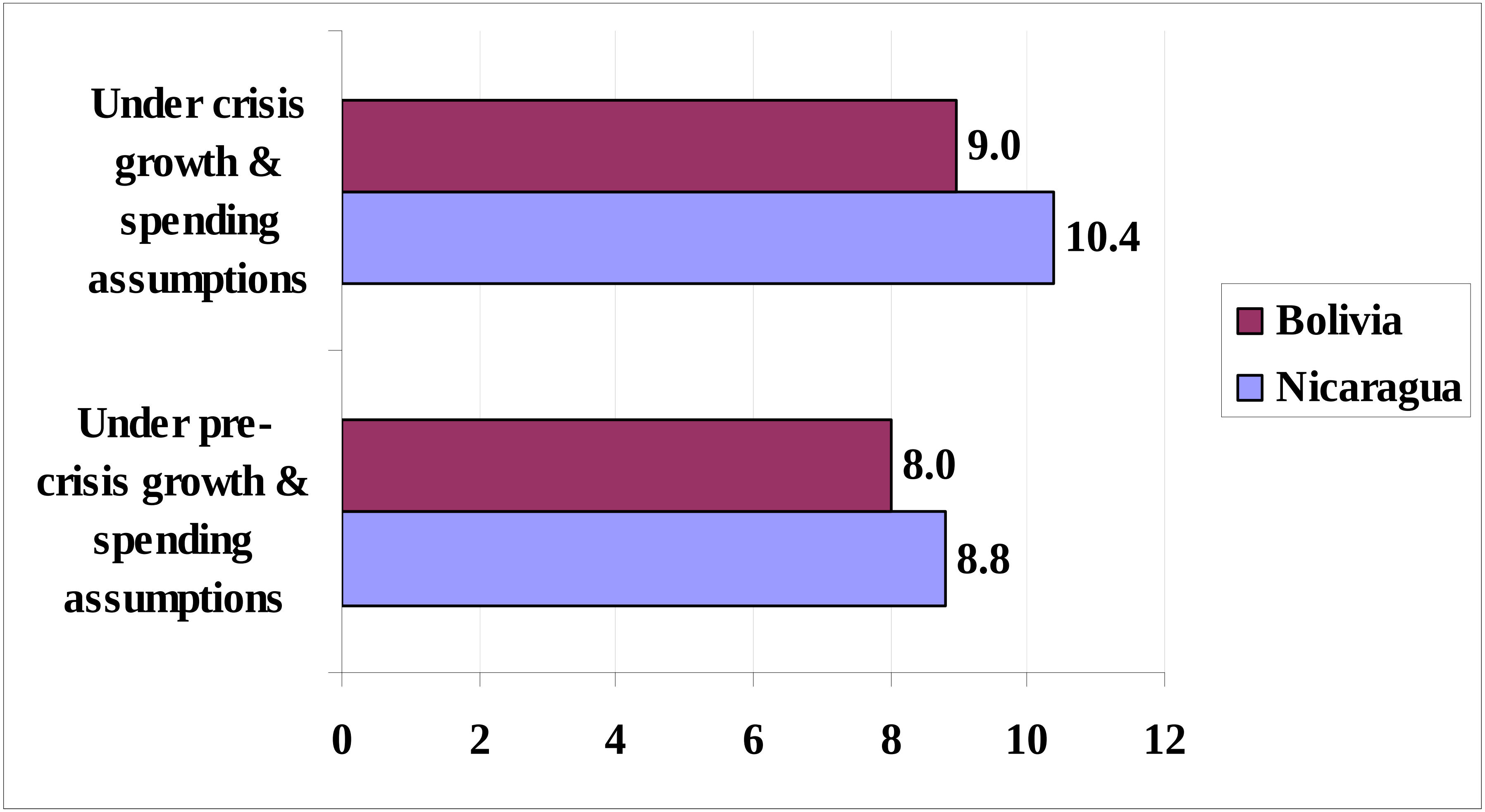


Trade-offs between short and long run

- MDG strategy is (mostly) counter-cyclical but far from enough for growth recovery in short run
- Most growth and productivity gains will be earned over the medium to long run (model, as is, may exaggerate this trade-off!)
- Thus: policy makers need to deal with inter-temporal trade off of investing immediately in social development but mainly future economic development, risking fiscal sustainability along the way
- How to overcome possible trade-offs:
  – Target short-term stimulus towards growth and employment poles
  – Strengthen and accelerate productivity effects of infrastructure and other complementary investments (including in “green economy”)
  – Seek sustainable financing sources

Or, foreign donors should be much more generous

Additional aid required to finance MDG achievement by 2015 under foreign-aid scenarios (*% of GDP per annum, 2010-15)*



Policy coherence needed

- **Identify macroeconomic trade-offs, such as:**
  - Real exchange rate appreciation (or volatility) undermining export competitiveness and economic diversification
  - Spending strategies endangering fiscal sustainability
  - Growth undermining financing strategies
- **Will require coherent national development strategies:**
  - Link MDG strategy with counter-cyclical macroeconomic policies
  - Link MDG strategy with economic diversification strategies (industrial and technological innovation policies, infrastructure, education and labour market policies)
  - Link MDG strategy with green economy (renewable energy, sustainable agriculture, etc.)
  - Link MDG strategy with effective social protection systems

The future ain’t what it used to be

- Assume uncertain and volatile future
- MDG strategy can help ensure better future for all, but is no end station
- Yet, getting to this station comes at a cost: no *win-win* outcome can be guaranteed, though adequate and coherent public policies can guide us in that direction
- MAMS analyses don’t give finite answers, but can help guide the decision making by quantifying trade offs and suggest where to seek greater policy coherence