

Transforming MDG growth pattern for SDGs

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DESA/DPAD

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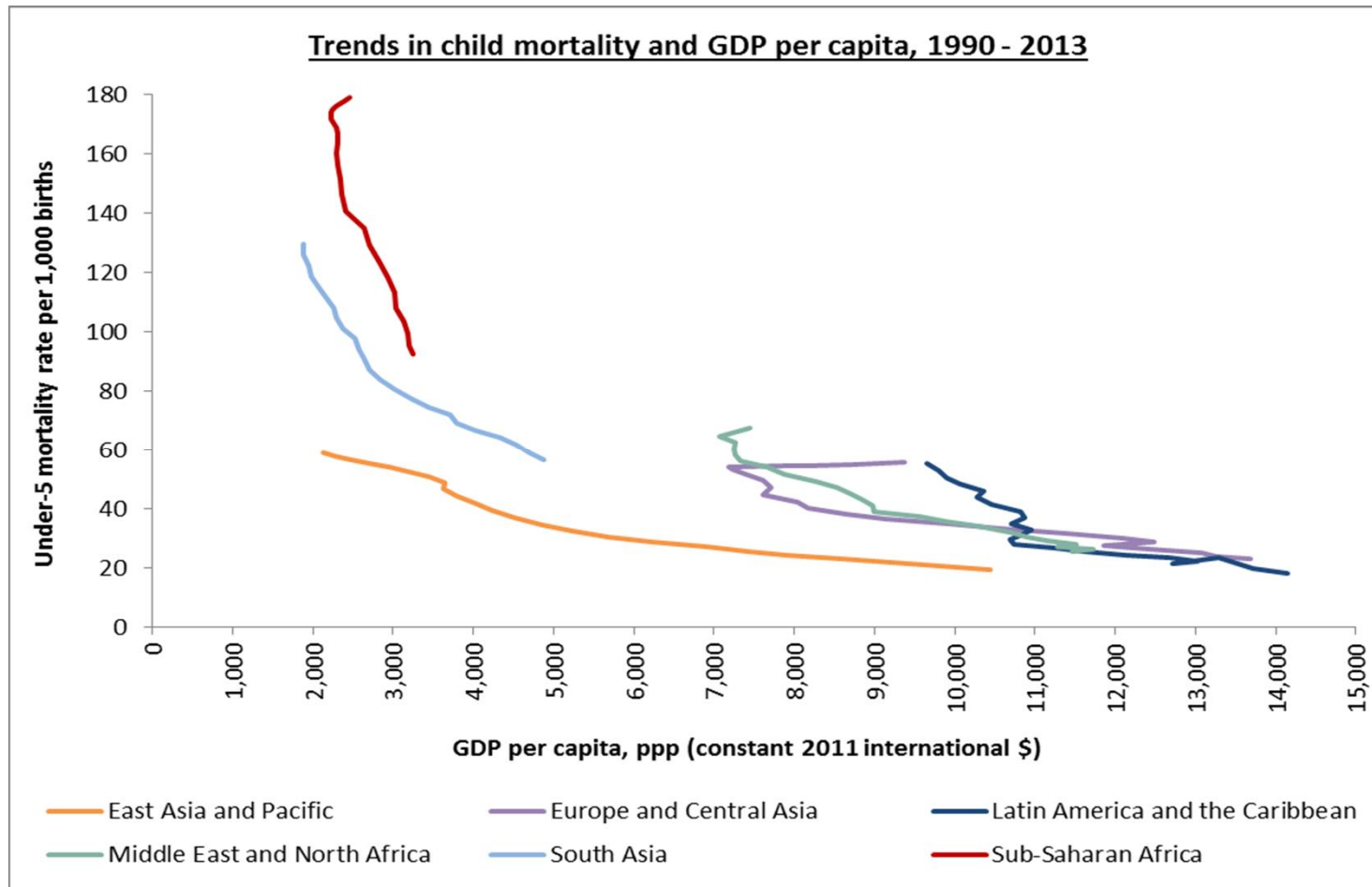
Outline

- “ Sustained, inclusive and equitable growth as effective path towards MDGs
- “ Nexus among growth, inequality and MDGs
- “ Necessary conditions for sustained growth
- “ Macroeconomic stability for sustained growth
- “ Making growth inclusive through employment and productive jobs
- “ Making growth equitable by improving equality in opportunity and outcome
- “ Transforming MDG growth pattern for SDGs

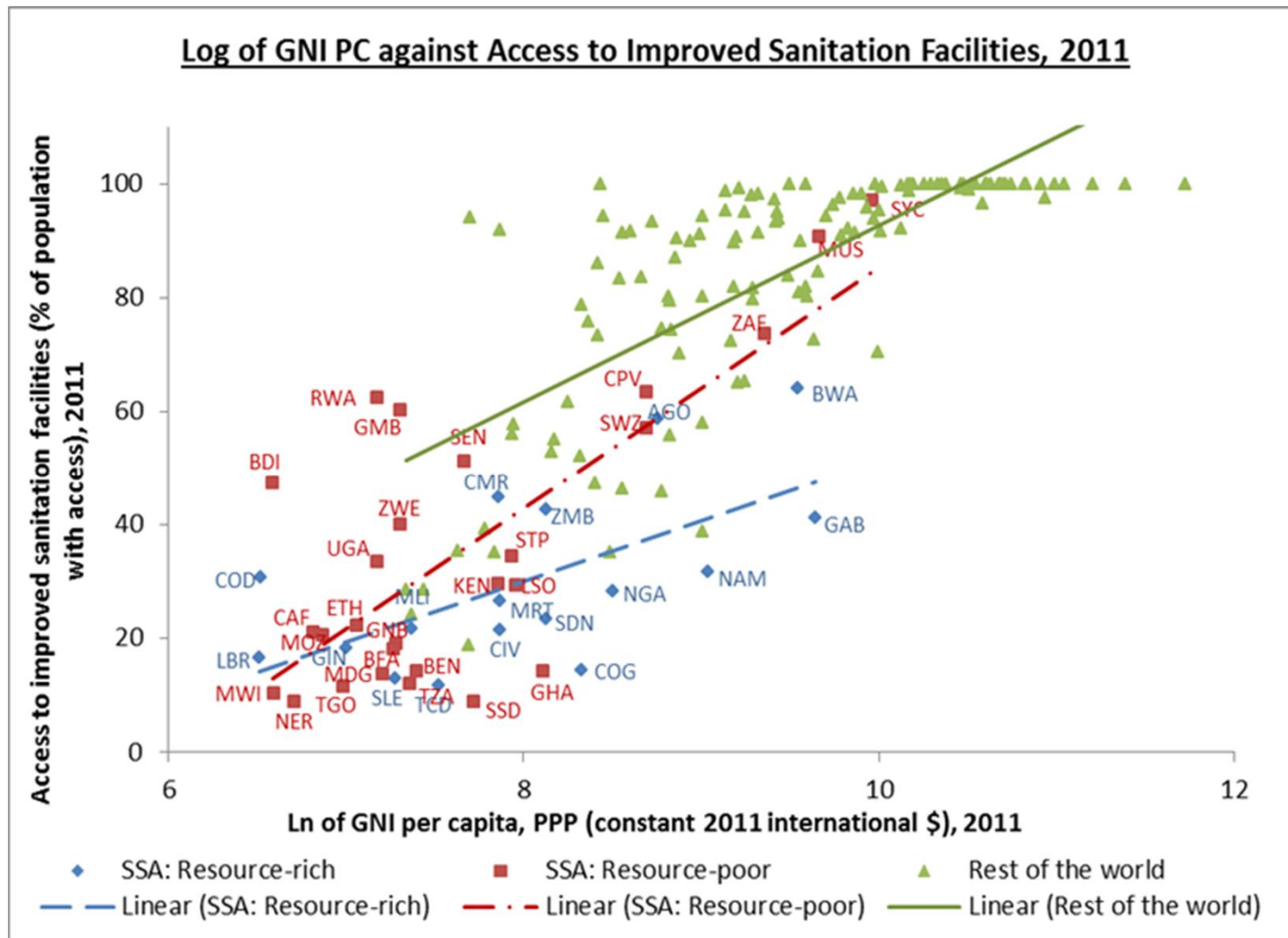
Sustained, inclusive and equitable growth

- “ Sustained growth: robust and stable in pace, lasting for 2-3 decades
- “ Inclusive growth: majority participating and benefiting from growth
- “ Equitable growth: equality in opportunity and income
- “ Interdependency of the three features

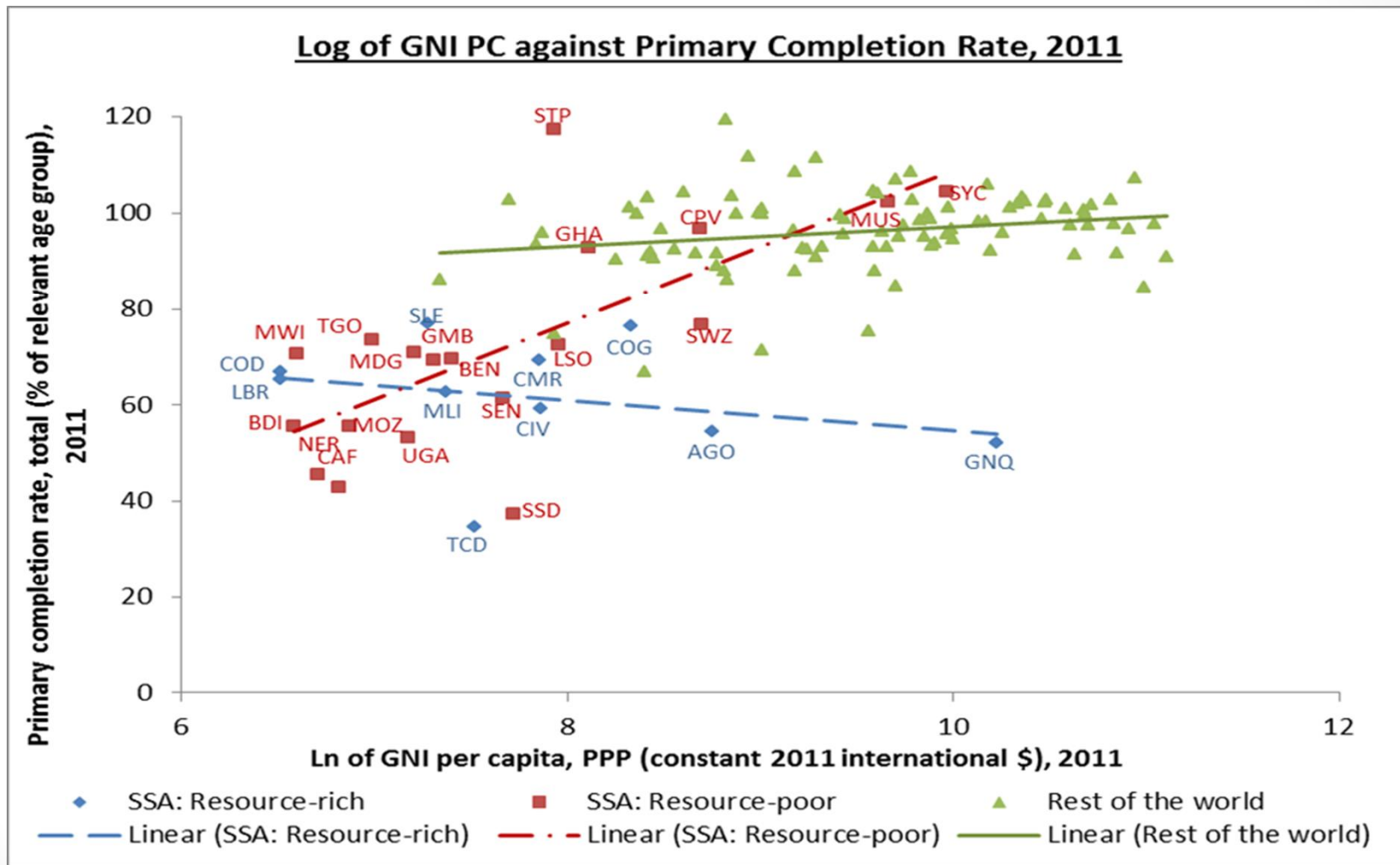
Nexus among growth, inequality and MDGs (1)



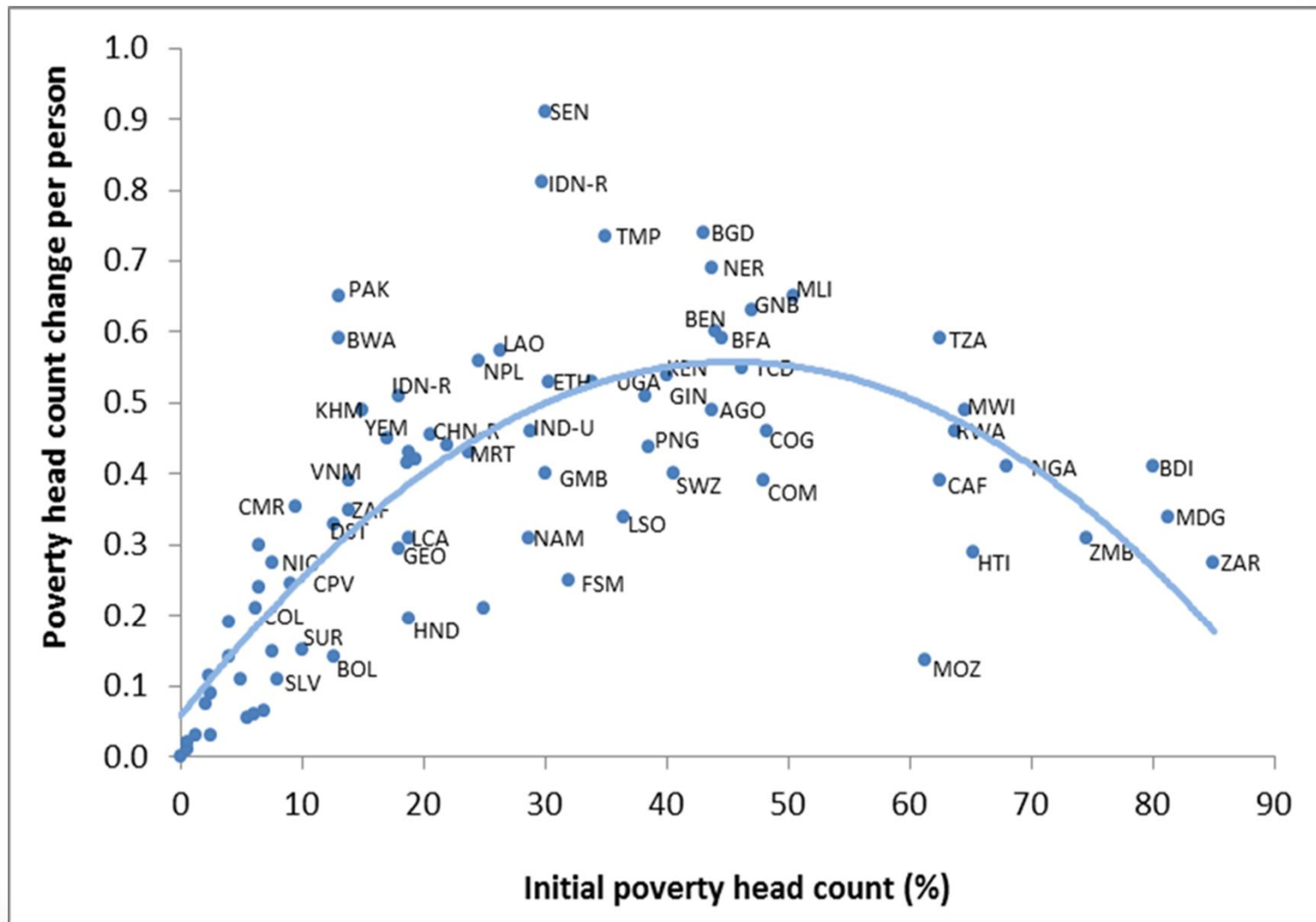
Nexus among growth, inequality and MDGs (2)



Nexus among growth, inequality and MDGs (3)

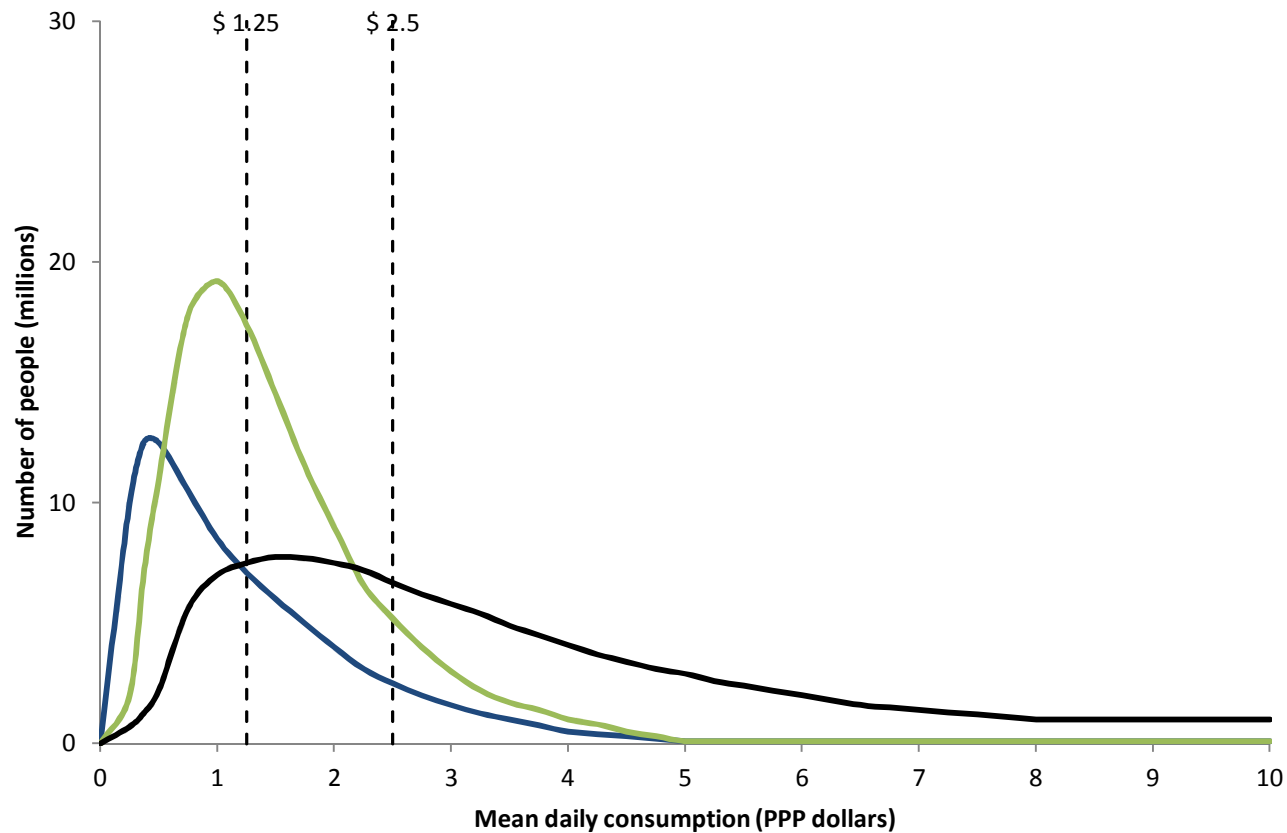


Nexus among growth, inequality and MDGs (4)



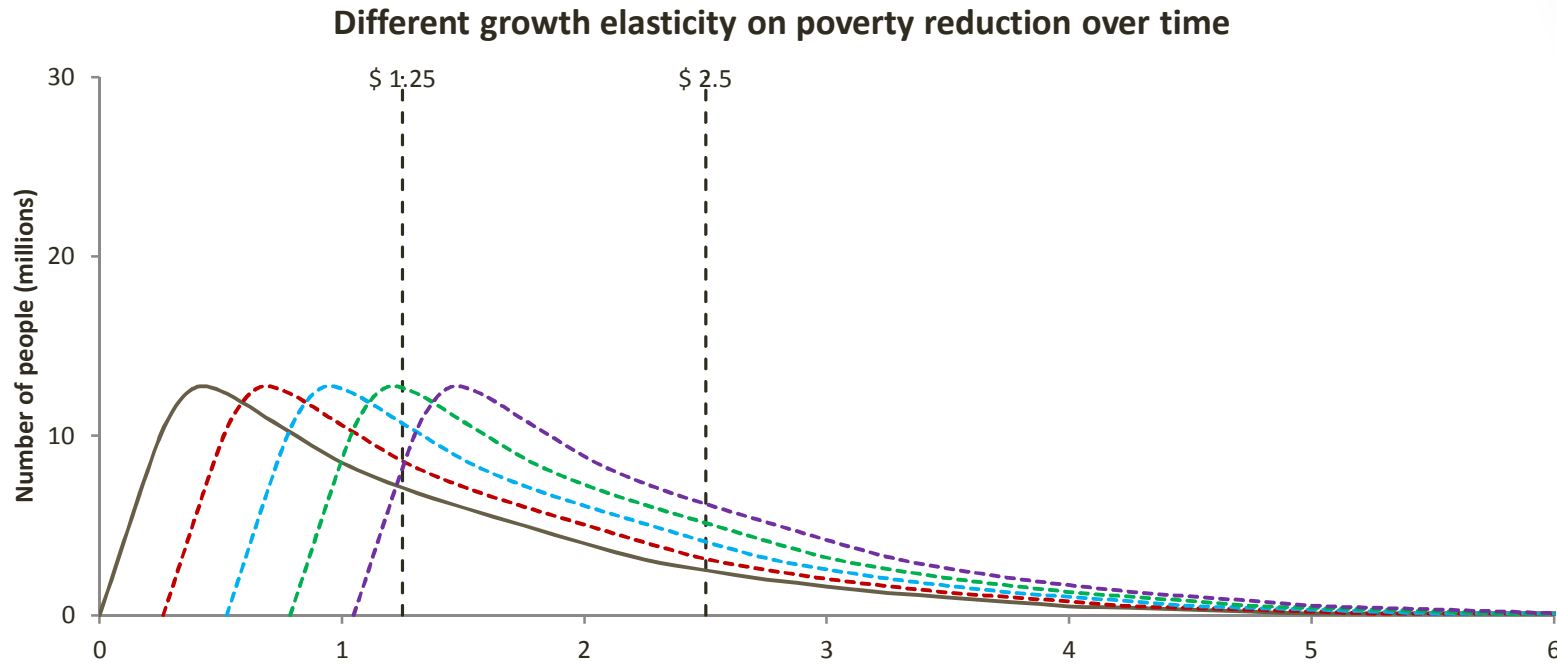
A framework to analyze growth effect on poverty reduction

Poverty and density functions for sub-Saharan Africa, India and China, 2010



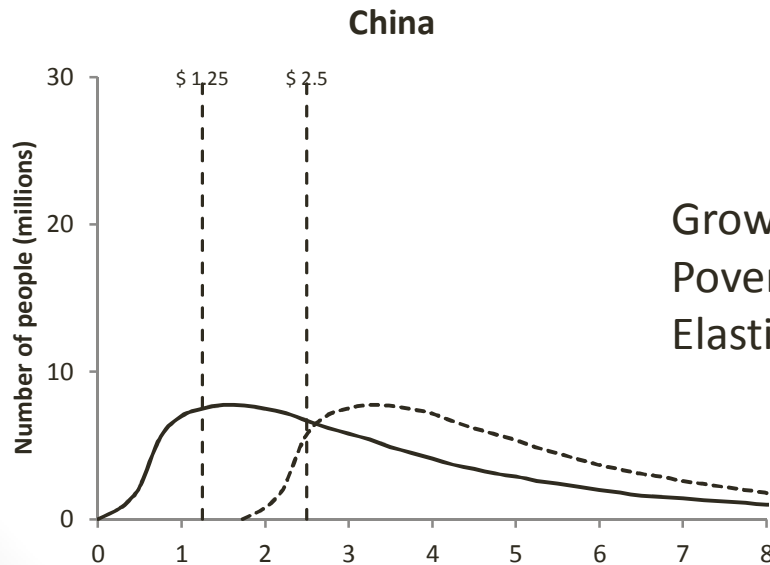
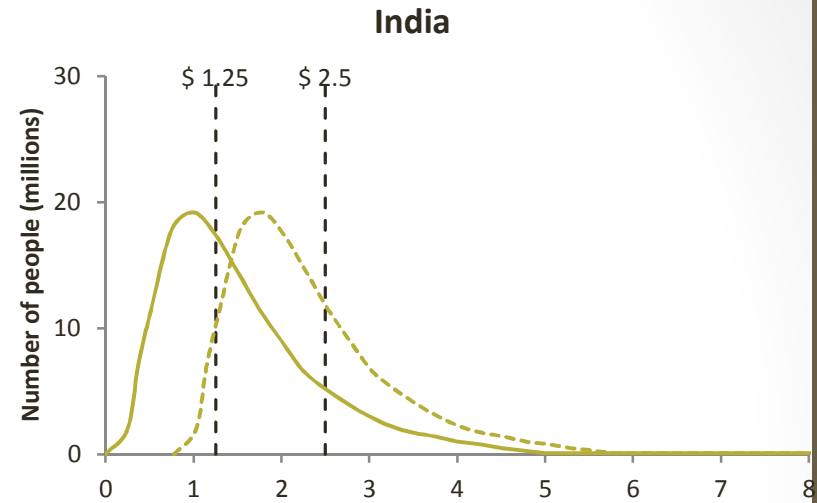
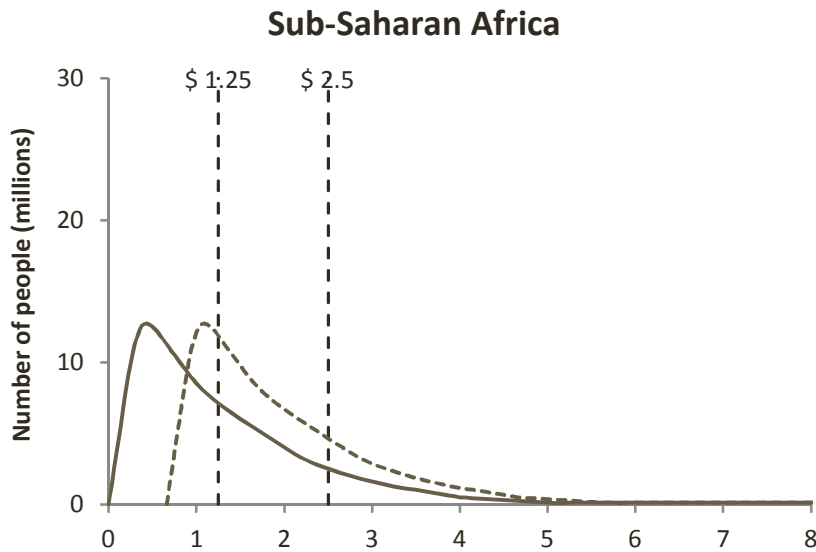
— Sub-Saharan Africa — India — China
Poverty rate: 48% 31% 12%

Exercise 1: growth effect on poverty reduction in sub-Saharan Africa



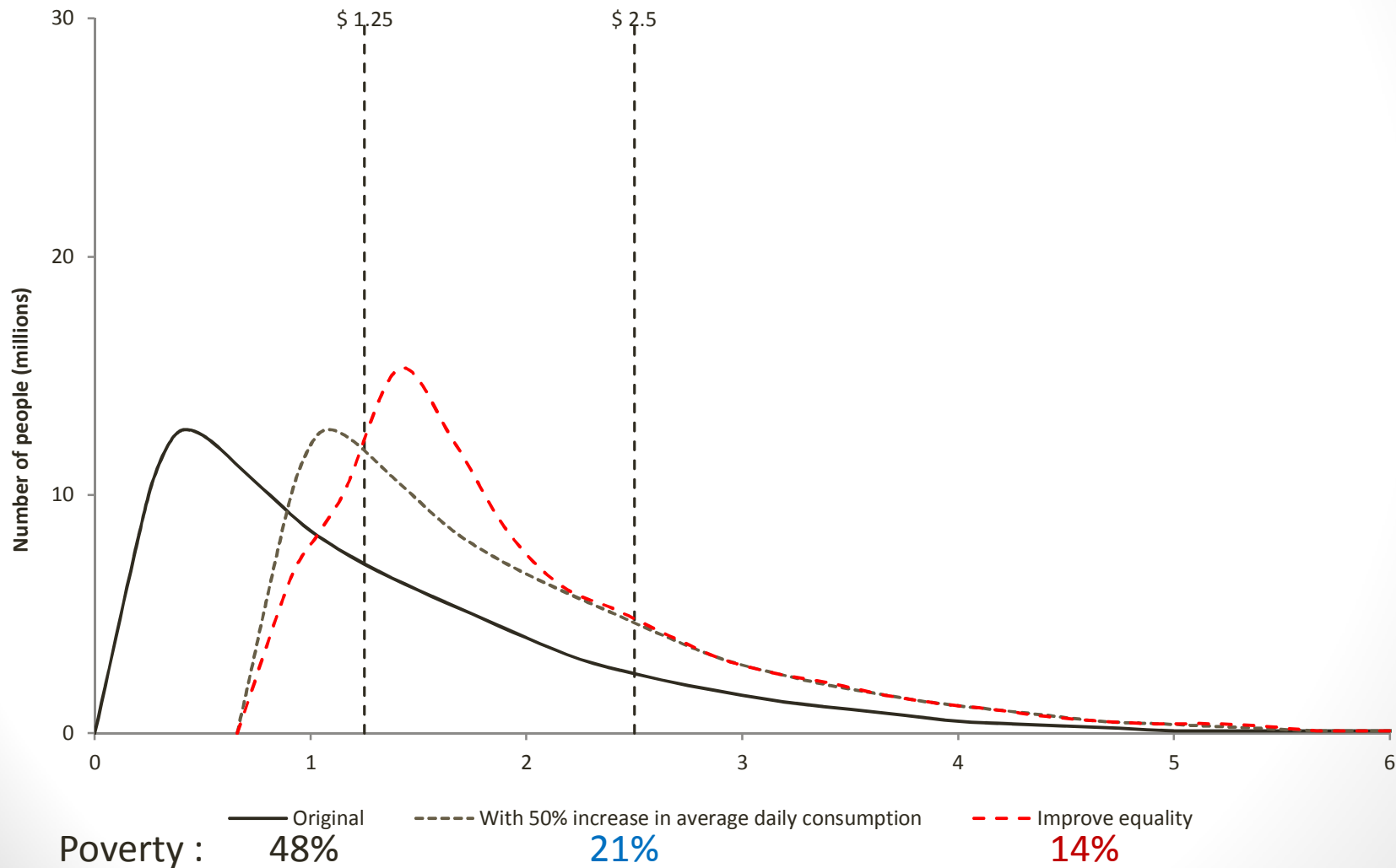
GDP growth:	20%	20%	20%	20%
Poverty reduction (pts):	12	15	8	13
Elasticity:	0.60	0.75	0.40	0.65

Exercise 2: growth effect on poverty by country



	Africa	India	China
Growth:	50%	50%	50%
Poverty reduction:	27	29	9
Elasticity:	0.54	0.58	0.18

Exercise 3: growth effect on poverty with improved inequality (sub-Saharan Africa)



Key points from the 3 exercises

- “ Growth effect on poverty reduction in a country varies over time
- “ Growth effect on poverty reduction varies across countries
- “ The estimates of “growth elasticity on poverty” by cross-country regression are biased
- “ The framework based country-specific density functions over time provides better estimates
- “ Headcount poverty underestimates growth effect on poverty reduction
- “ Meaningful poverty reduction requires sustained growth
- “ Improved equality can enhance growth effect on poverty reduction

Growth and inequality

Figure II.5.a Income inequality and growth (full sample)
Full sample: $\text{Growth} = 3.997 - 0.0479 * \text{Gini}$

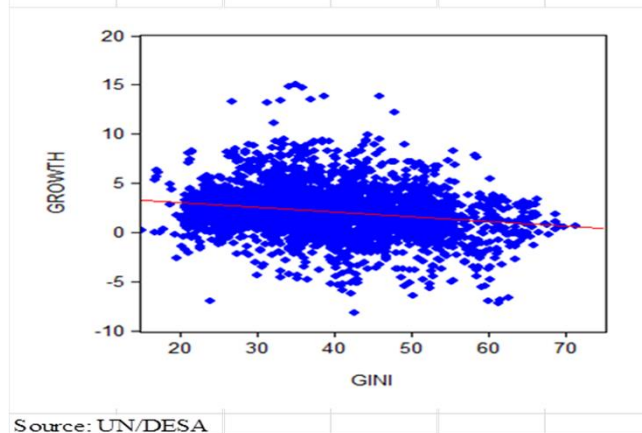


Figure II.5.b Income inequality and growth (sample for Gini < 30)
Gini less than 30 % : $\text{Growth} = 0.827 + 0.0615 * \text{Gini}$

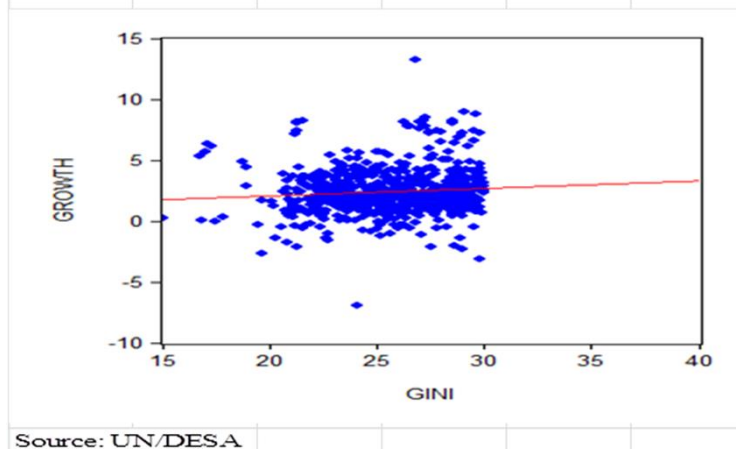


Figure II.5.c Income inequality and growth (sample for Gini < 40)
Gini less than 40%: $\text{Growth} = 1.727 + 0.0287 * \text{Gini}$

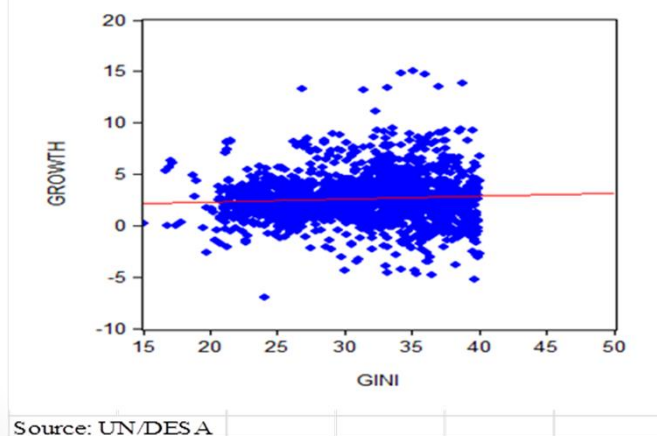
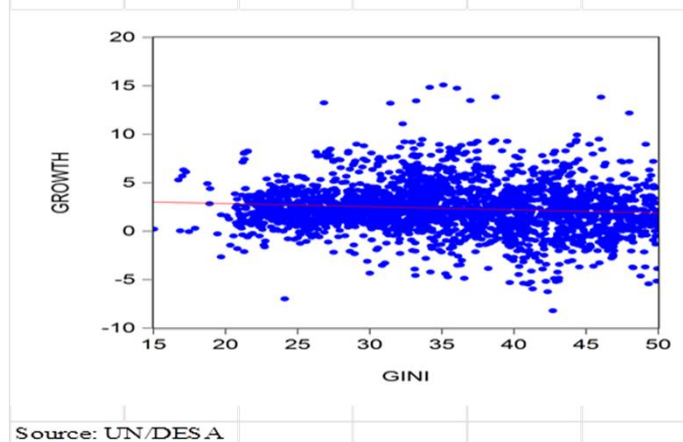


Figure II.5.d Income inequality and growth (sample for Gini < 50)
Gini less than 50% : $\text{Growth} = 3.484 - 0.0322 * \text{Gini}$



Building necessary conditions for sustained growth (1)

“ **High-level investment in physical capacity**

Government spending on infrastructure; domestic savings and foreign savings; effective, stable and inclusive financial sector

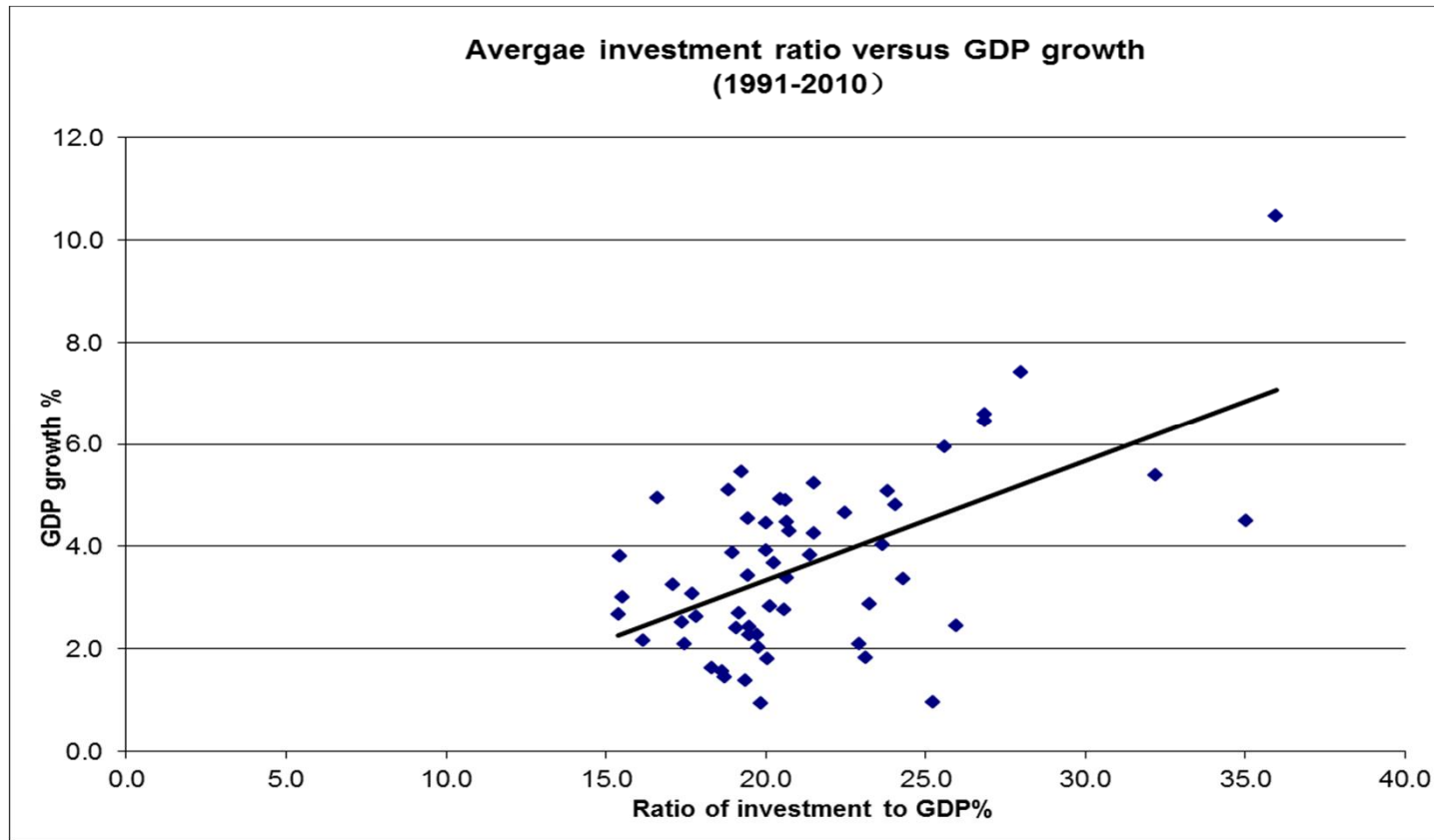
“ **Human capital**

Childhood development, education, training, health

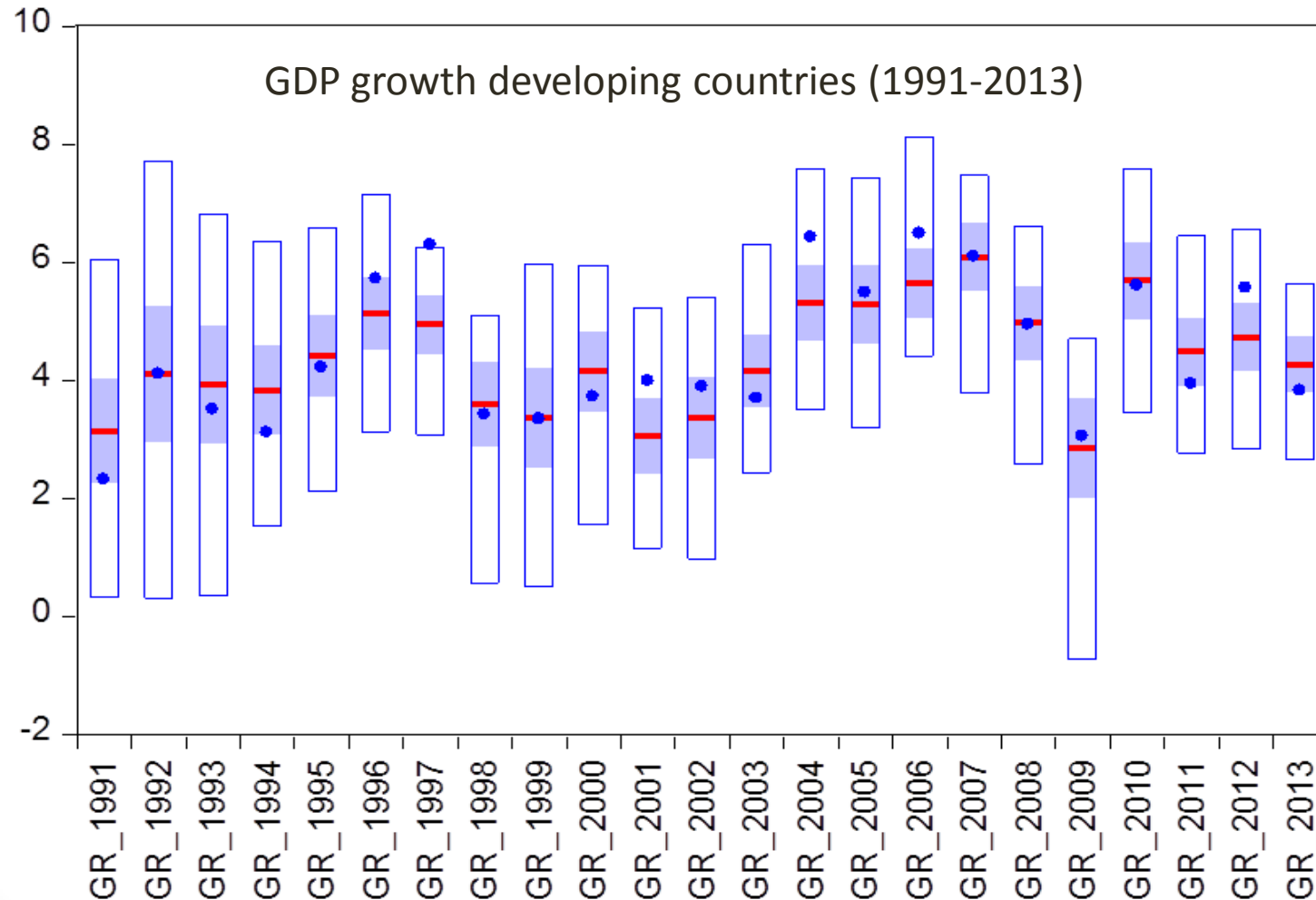
“ **Technological innovation**

Broad “innovation”, technology transfer, industrial policy, trade and FDI policies

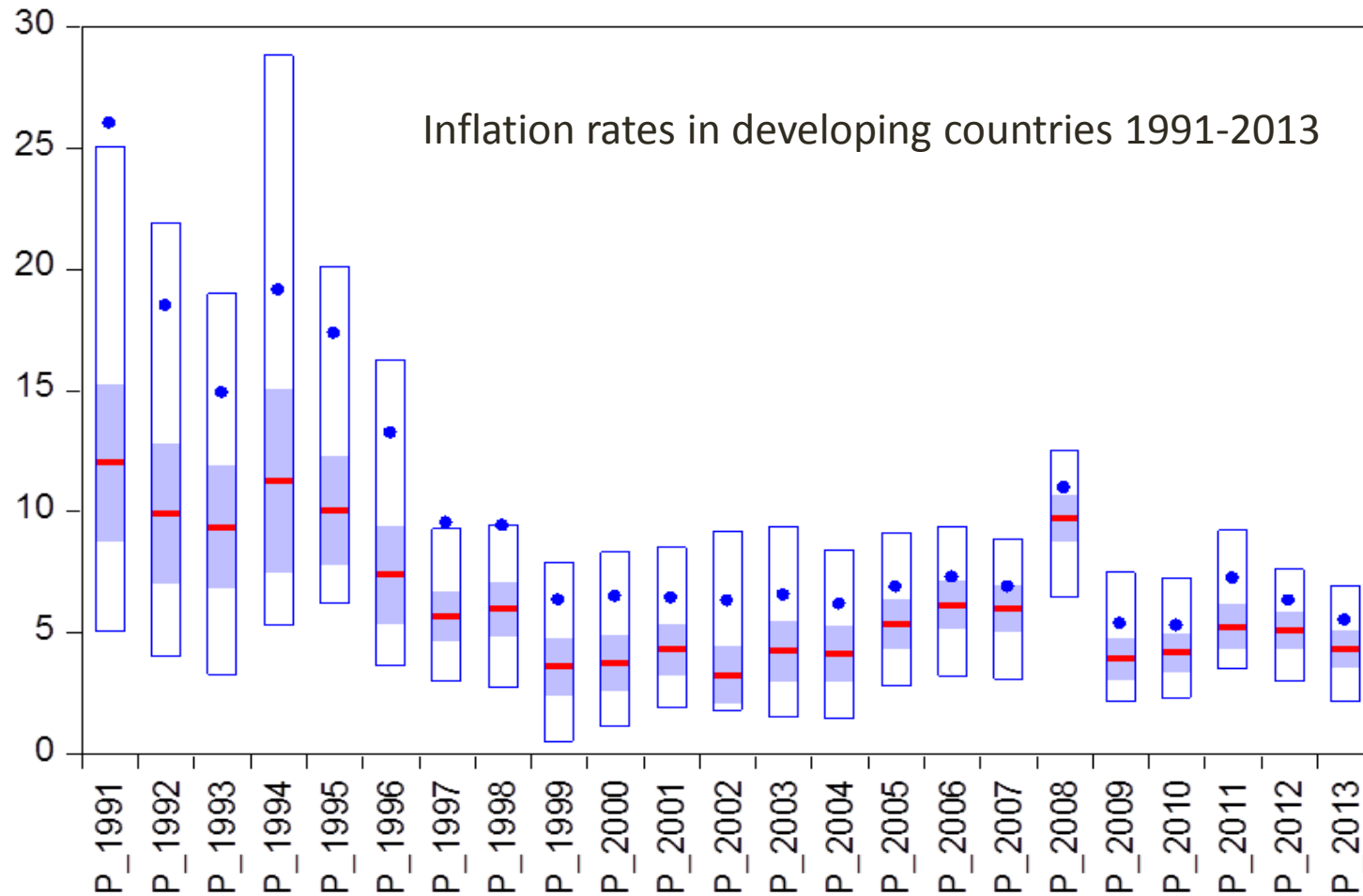
Building necessary conditions for sustained growth (2)



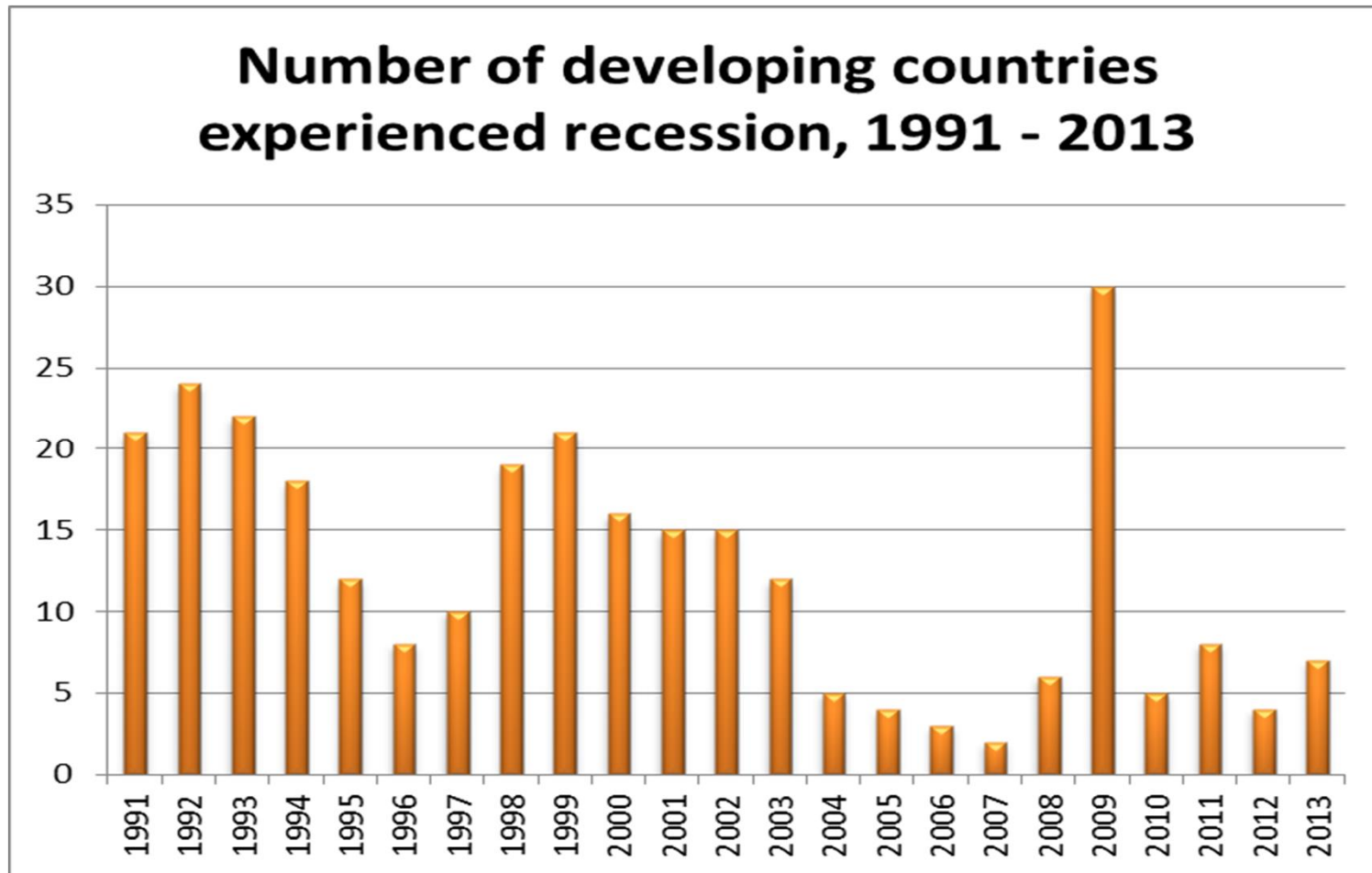
Managing broad macroeconomic stability for sustained growth(1)



Managing broad macroeconomic stability for sustained growth (2)

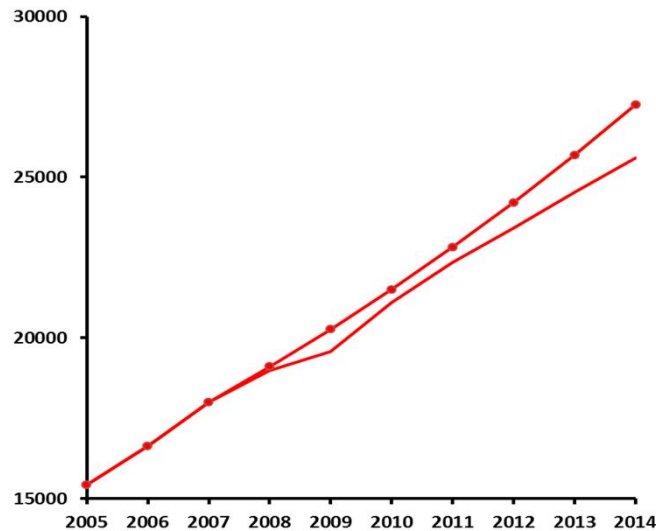


Managing broad macroeconomic stability for sustained growth(3)

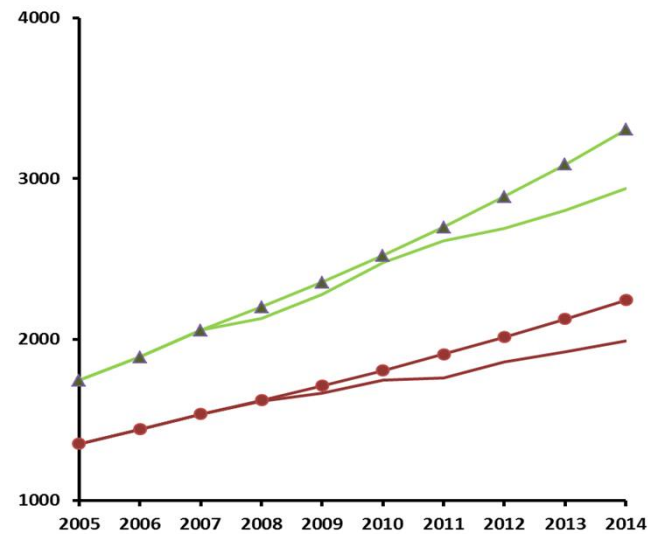


Managing broad macroeconomic stability for sustained growth(4)

Global financial crisis leading to loss of GDP in developing countries (\$billion)



— Developing country (Actual) —●— Developing country (Trend)



— Africa (Actual) —●— Africa (Trend)
— South Asia (Actual) —▲— South Asia (Trend)

Managing broad macroeconomic stability for sustained growth(5)

Three categories of macro stability:

- “ **Domestic stability:** structural balance, inflation, government and private sector debt, investment, employment;
- “ **External shocks:** foreign capital flows, international prices of oil and other primary commodities, exchange rate, and current account balance;
- “ **Stable international economic environment.**

Managing broad macroeconomic stability for sustained growth(6)

Policies in the first category:

Monetary policy

Policy objective and instruments

Inflation targeting: rule versus flexibility

Fiscal policy

From pro-cyclical to counter-cyclical

Fiscal rules

Medium-term expenditure frameworks

Managing broad macroeconomic stability for sustained growth(7)

Policies in the second category:

Stabilization fund to deal with volatile commodity prices

Capital management to mitigate surge and reversal in capital flows

Capital and financial accounts openness

Exchange rate policy and foreign reserves

Managing broad macroeconomic stability for sustained growth(8)

Policies in the third category:

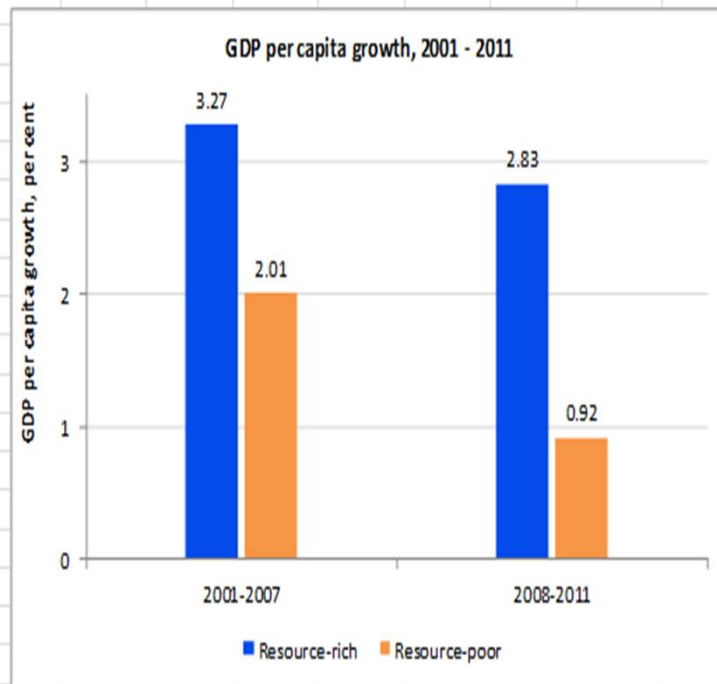
International macroeconomic policy coordination

Reforms to international financial system and global governance

Making growth inclusive through employment and productive jobs (1)

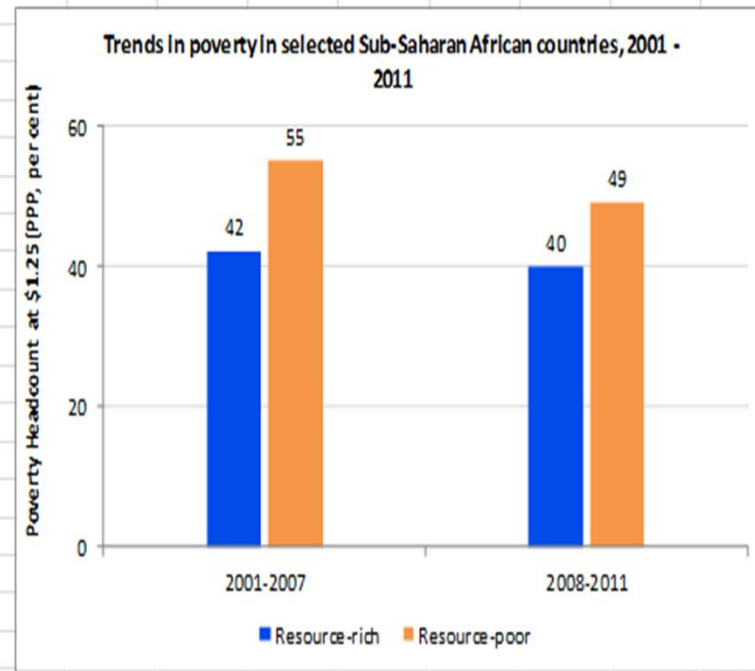
When growth is not inclusive, effect on poverty reduction is limited

Figure II.12a GDP per capita growth in Africa (2001-2011)



Source:

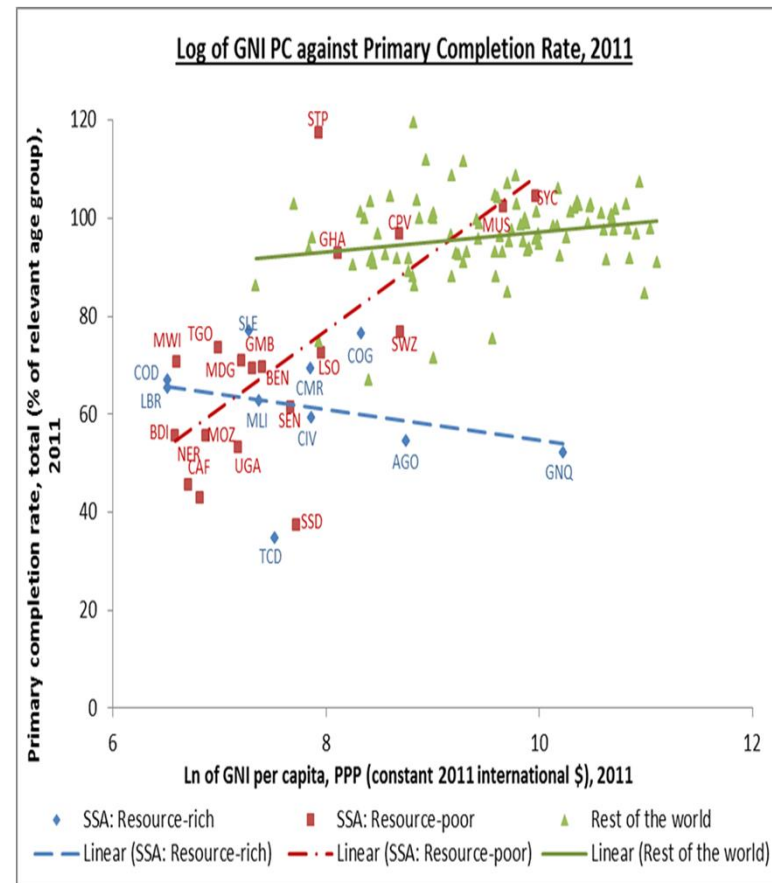
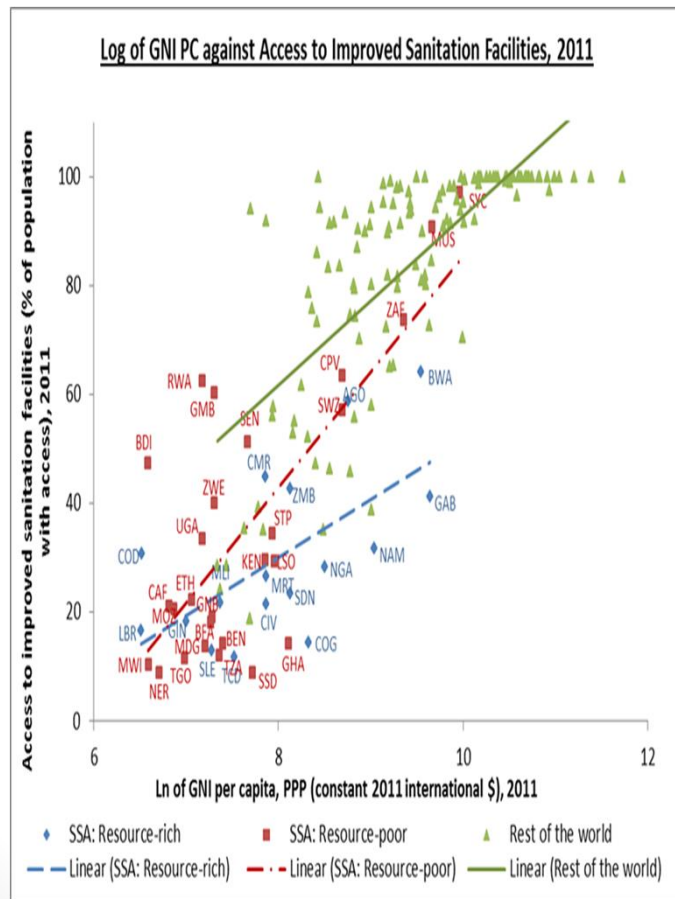
Figure II.12b Poverty reduction in Africa (2001-2011)



Source:

Making growth inclusive through employment and productive jobs (2)

When growth is not inclusive, effects on other MDGs are also limited



Making growth inclusive through employment and productive jobs (3)

Three categories of policies to make growth inclusive

Boosting labour demand:

Improve business environment, reduce hiring costs, support SMEs, aggregate demand

Building human capital:

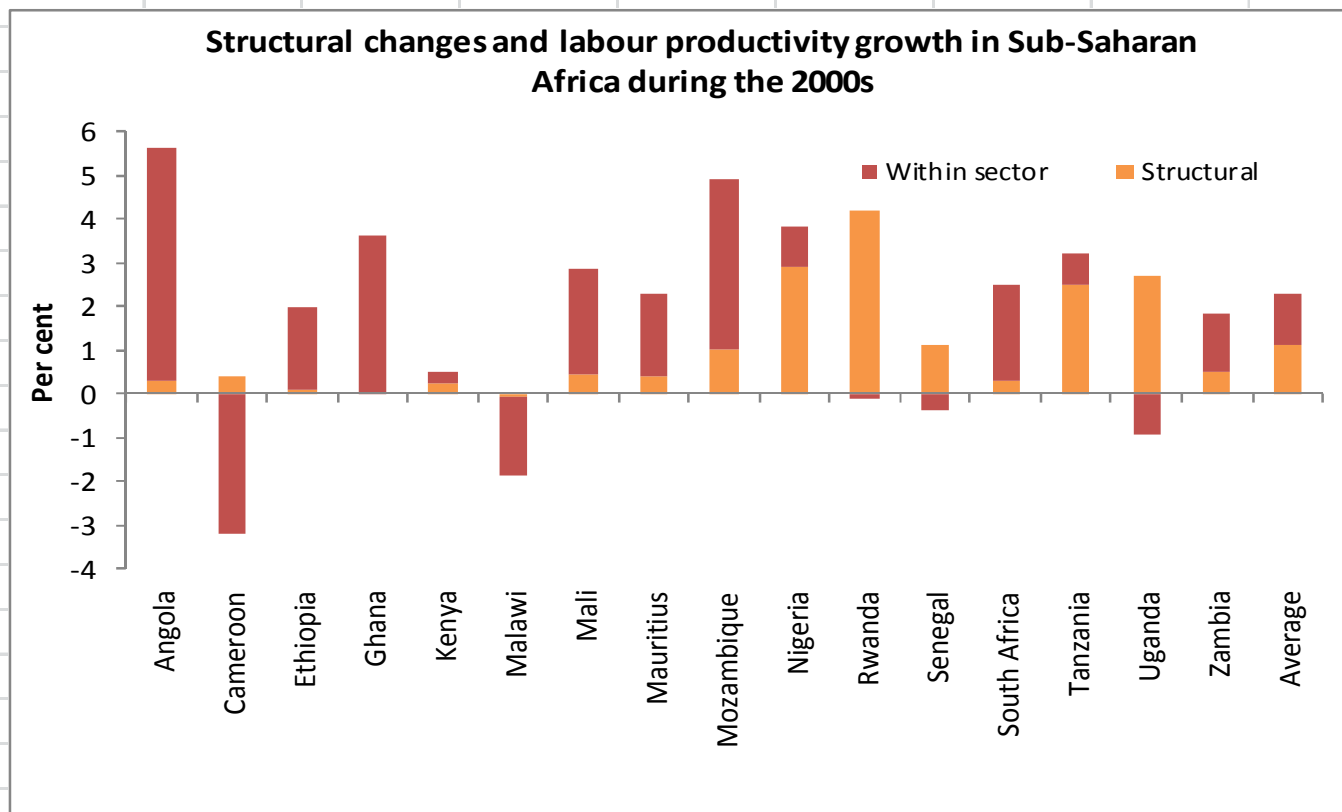
Education, skill training, match skills

Lifting labour income and labour productivity:

Structural transformation, labour-intensive sector, agricultural productivity

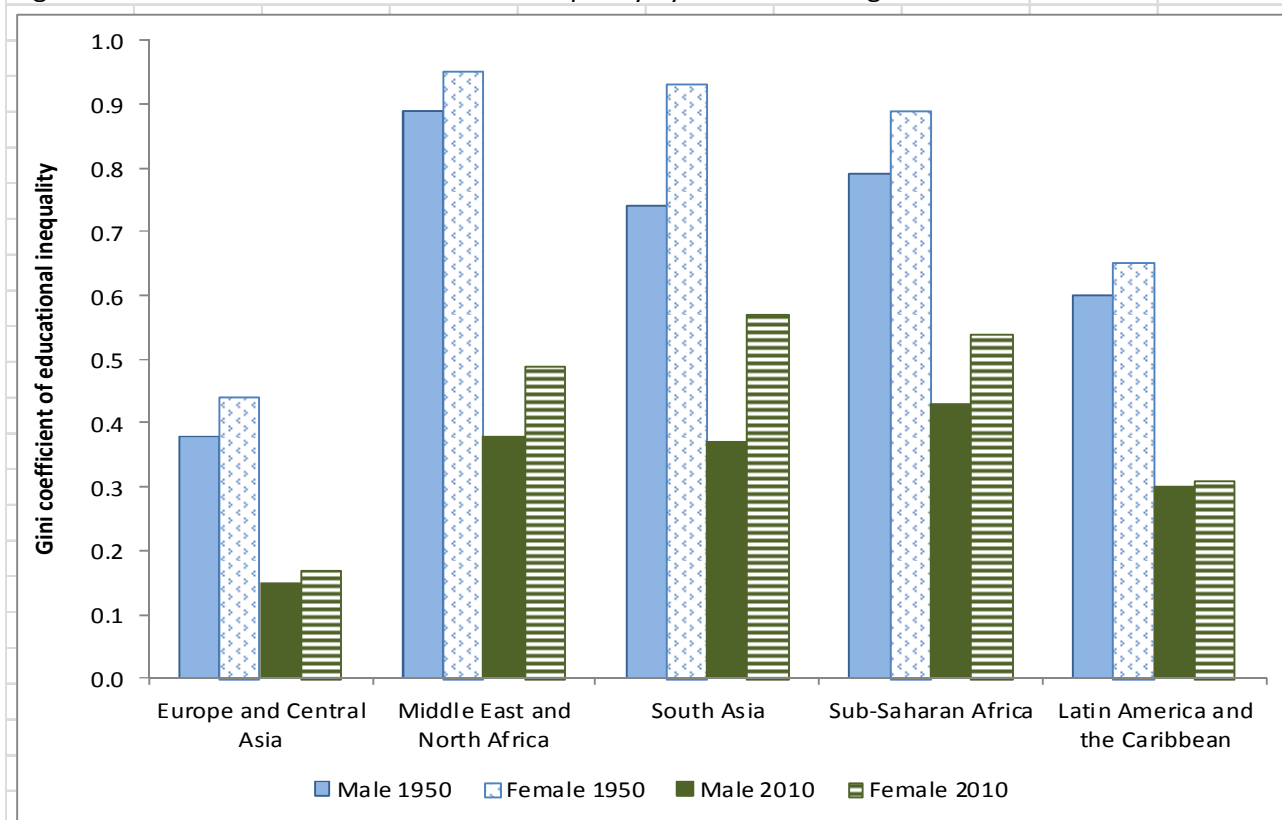
Making growth inclusive through employment and productive jobs (4)

Figure II.13 Structural changes and labour productivity growth in sub-Saharan Africa



Making growth equitable by improving equality in opportunity and outcome (1)

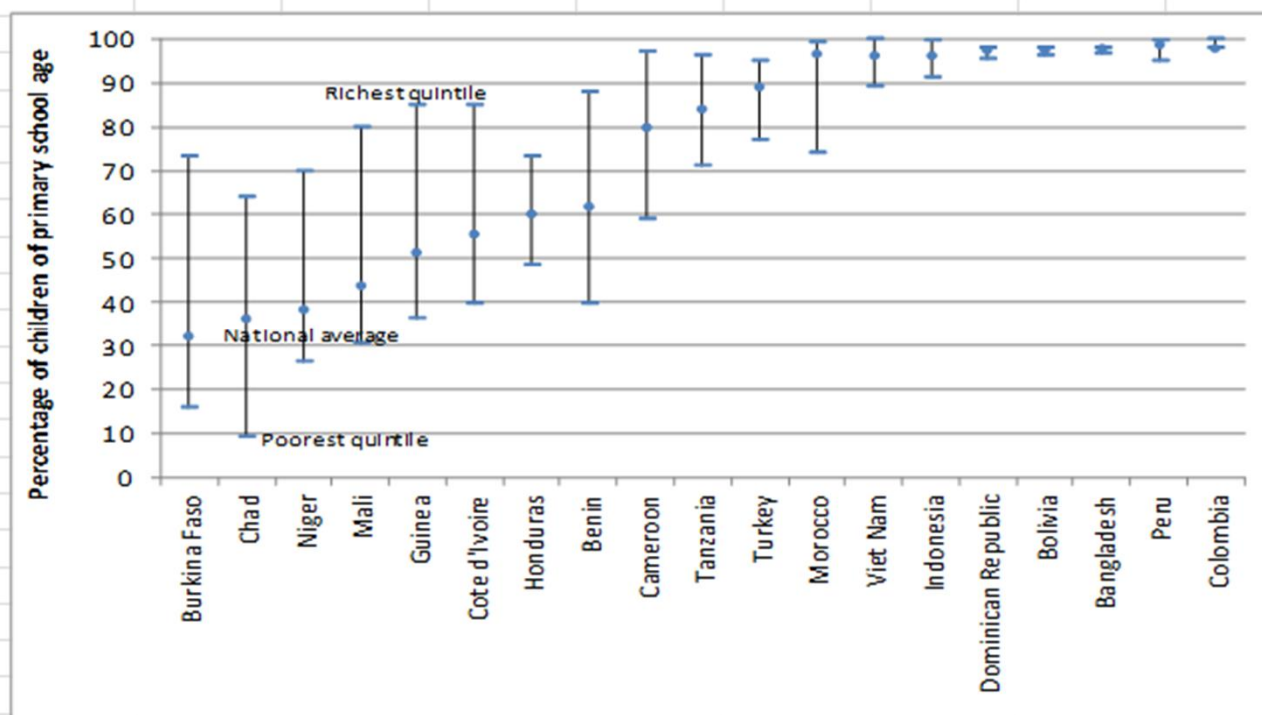
Figure 14 Gini coefficients of educational inequality by sex in some regions



Making growth equitable by improving equality in opportunity and outcome (2)

Figure II.15

Proportion of children attending primary school by wealth quintile, late 2000s



Making growth equitable by improving equality in opportunity and outcome (3)

Three categories of policies to make growth equitable

Improving equal opportunity:

Skill training, equal access capital, land, justice system, infrastructure, jobs; women's opportunity to employment

Reducing income inequality:

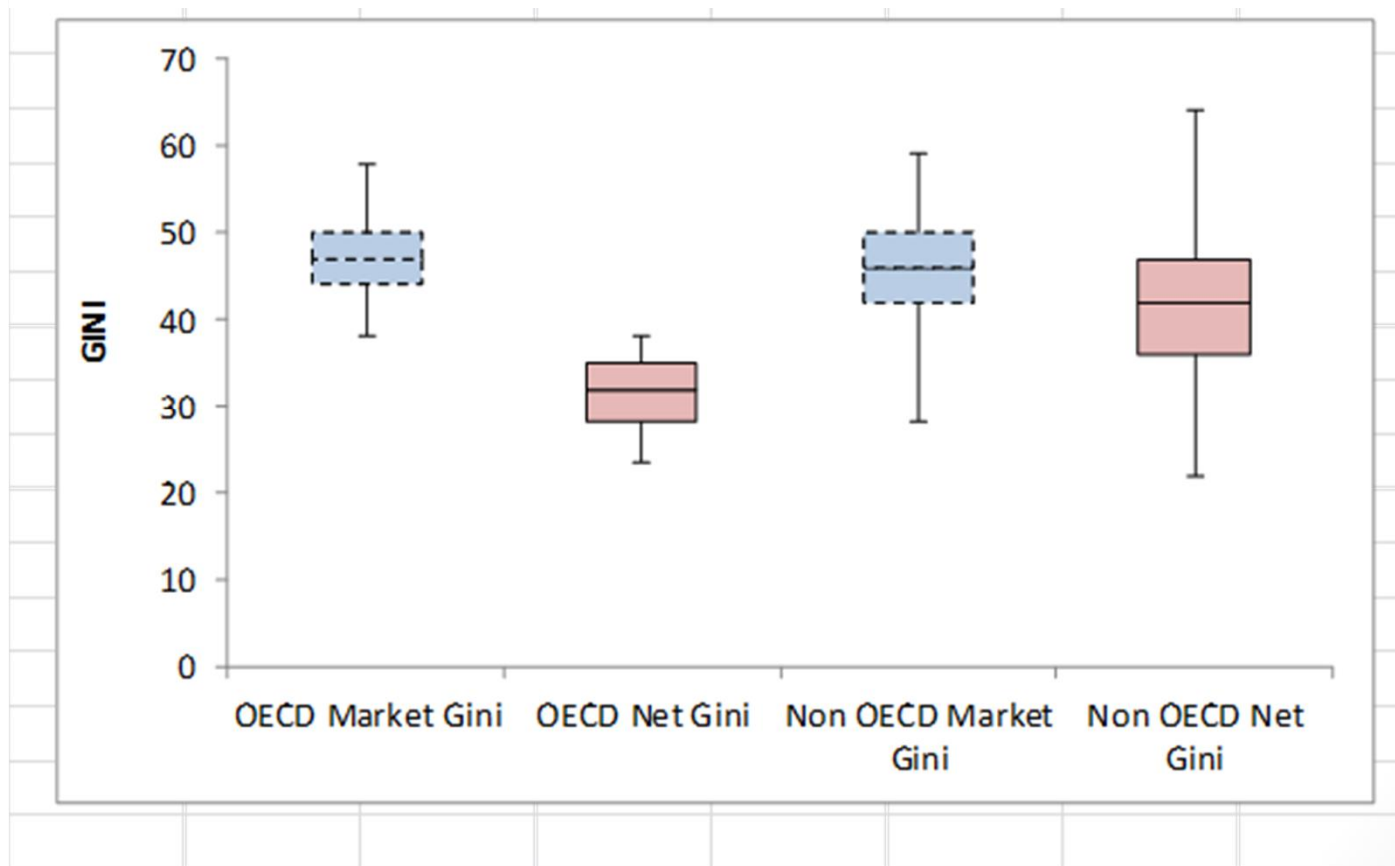
Redistributive measures

Social safety nets and social protection floors

Improving international equal opportunity for developing countries

Making growth equitable by improving equality in opportunity and outcome (4)

Weak tax basis in developing countries for redistributive measures



Transforming MDG growth pattern for SDGs (1)

Figure II.17 a Trends in East Asia and Pacific

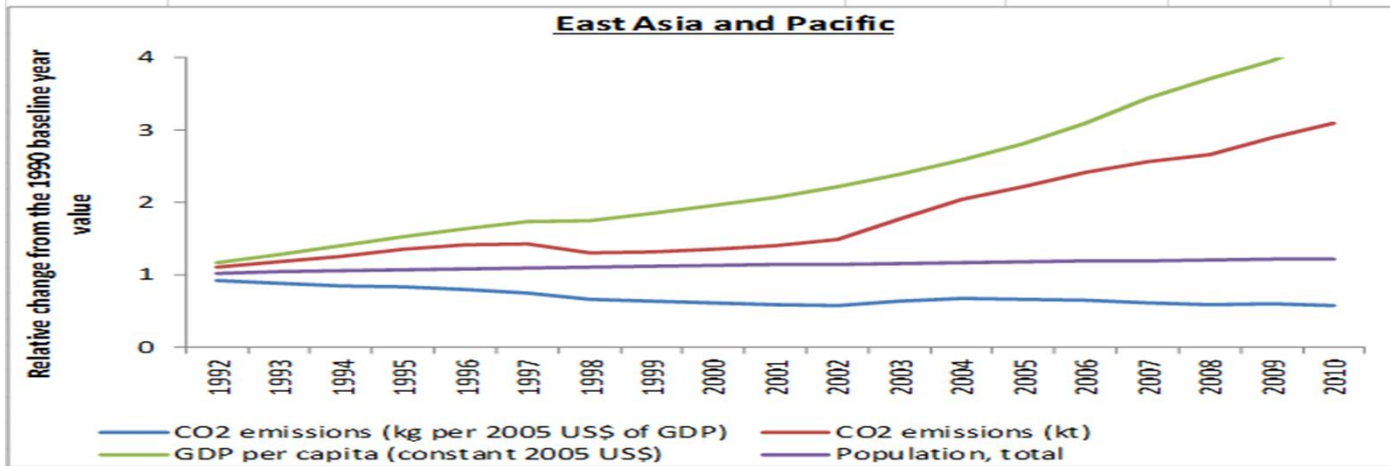
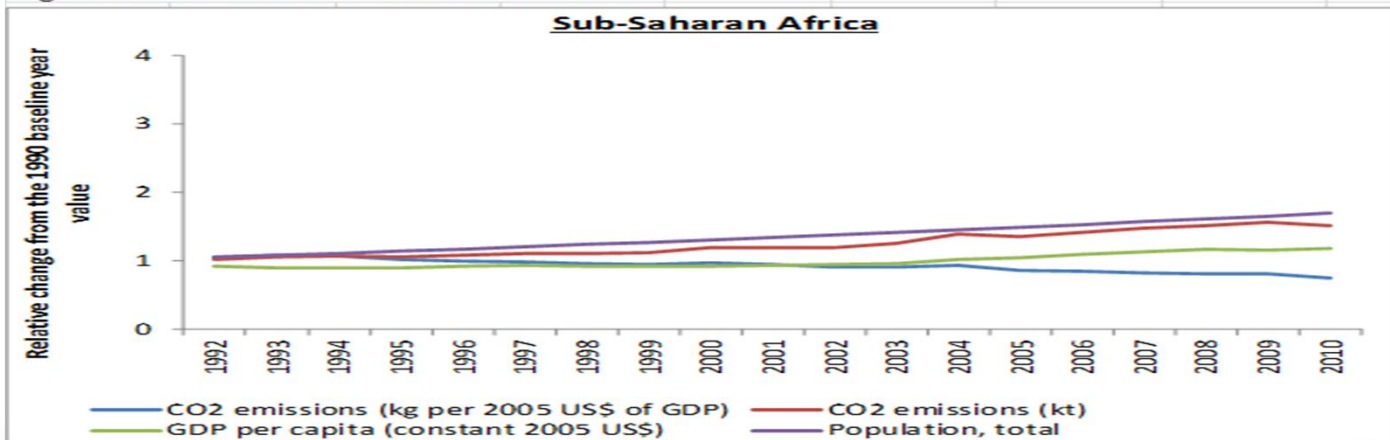
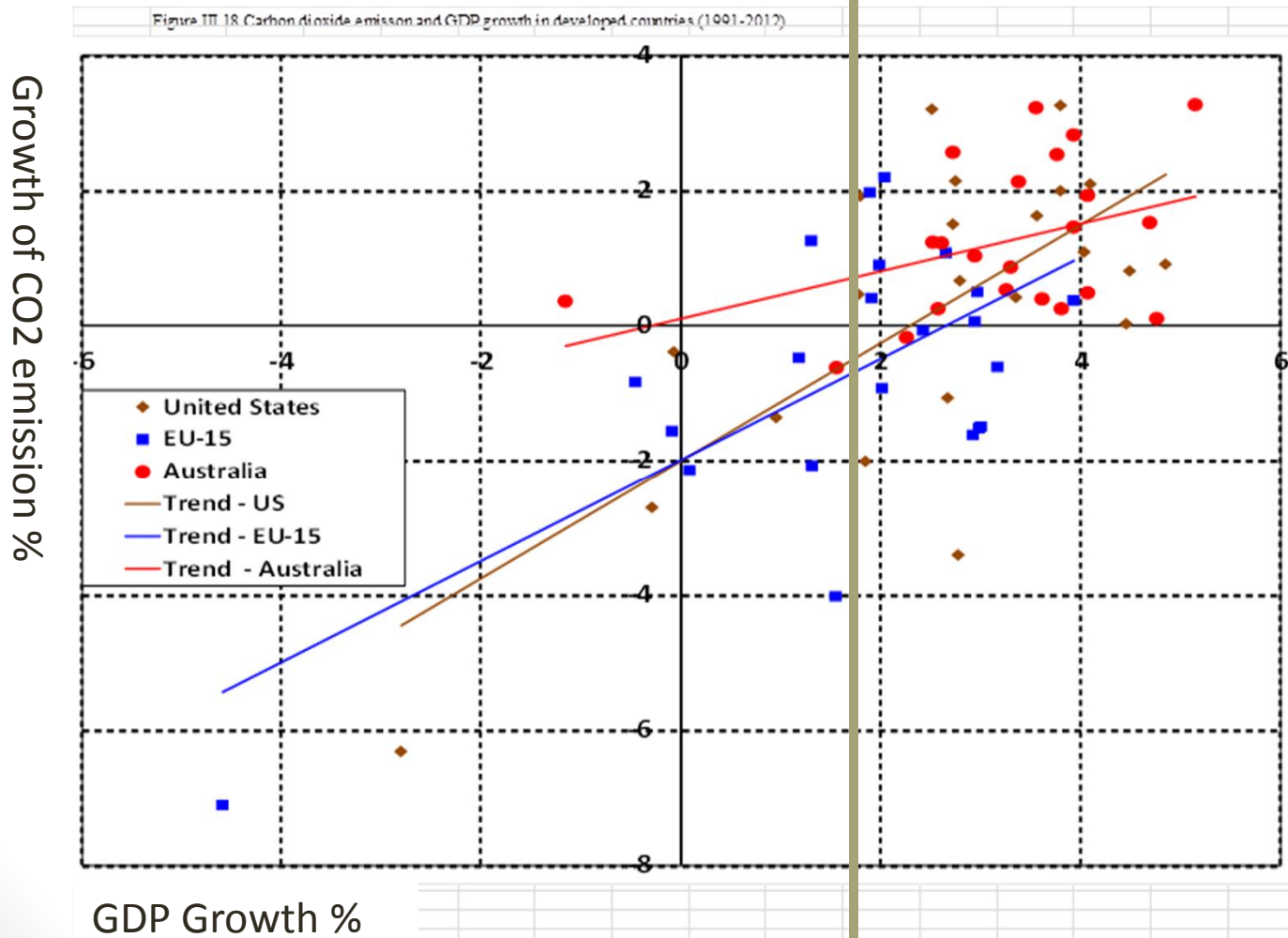


Figure II.17 d Trends in sub-Saharan Africa



Transforming MDG growth pattern for SDGs (2)



Transforming MDG growth pattern for SDGs (3)

Important steps for the transformation

Count full value of environment:

Mainstreaming the System of Environmental-Economic Accounts (WEES)

Get the prices right for environmental goods and services:

Taxes and regulations

Effective, inclusive, equitable and environment-protecting institutions

Transforming MDG growth pattern for SDGs (4)

From “sustained, inclusive and equitable growth” for MDGs to “sustainable, inclusive and equitable growth” for SDGs:

People-centered policies continue to be important
High-level investment, human capital, technology innovation focused more on SD

How to include environmental factors in macroeconomic policies?

SD infrastructure, more green jobs

Challenges for policy prioritization and coordination

An integrated policy framework for SDGs?

Thank you