

Discussion of “Elements of a Pro-Employment Macroeconomic Framework” by Yan Islam

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The views expressed here are those of the author and do not necessarily represent those of the IMF or IMF policy.

Overview

● **Agree**

● **Disagree**

Outline

- **Should we move to a “pro-employment” macro framework?**
 - **Short answer: sure**
 - **Long answer: It’s a bad idea, and we already do it.**
 - **Real question: How?**

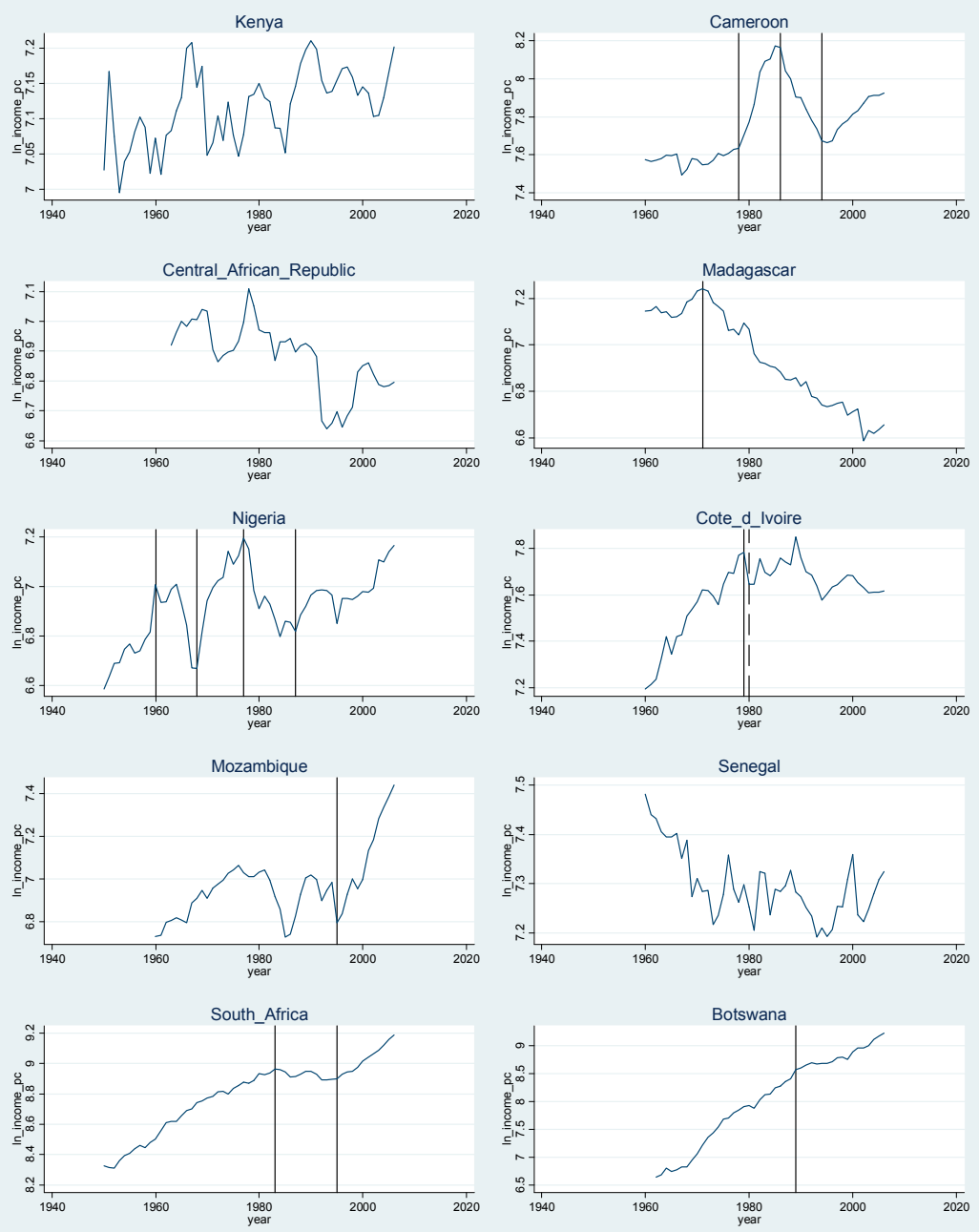
New Outline

- **Some stage-setting: the baby and the bathwater**
 - **SSA take-off**
 - **A bit about distribution**
- **What about employment?**
- **The framework: weaknesses indeed, but are these the main ones?**
 - **Is low inflation a source of constraint on access to finance?**
 - **Cliffs and loss functions**
- **Some issues in macro/development interactions**
 - **Debt sustainability**
 - **Exchange rates**
- **What do we know about employment creating growth, and what macro has to do with it? (No answer here)**

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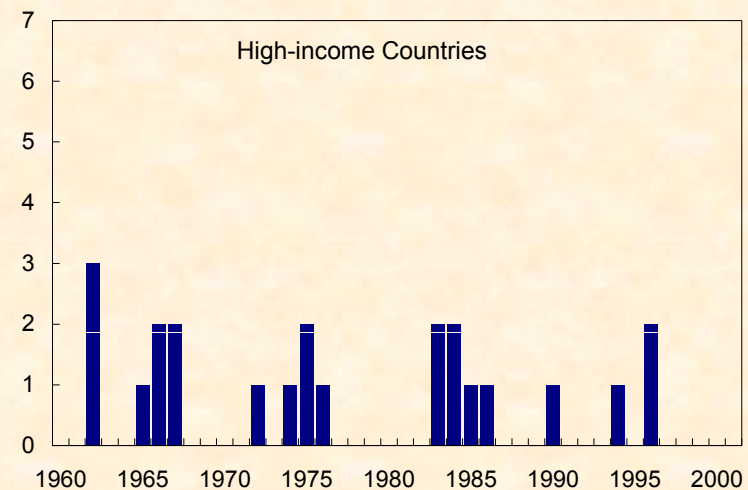
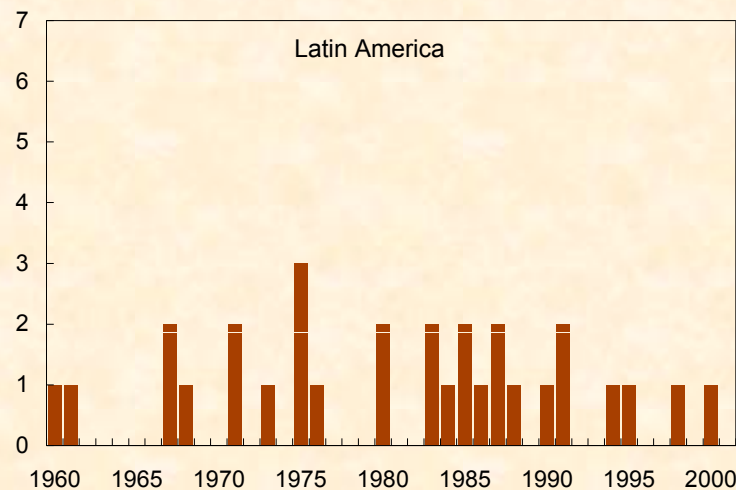
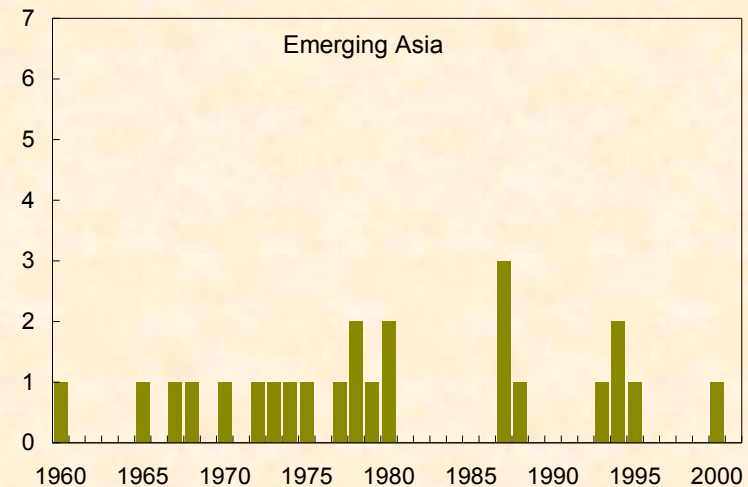
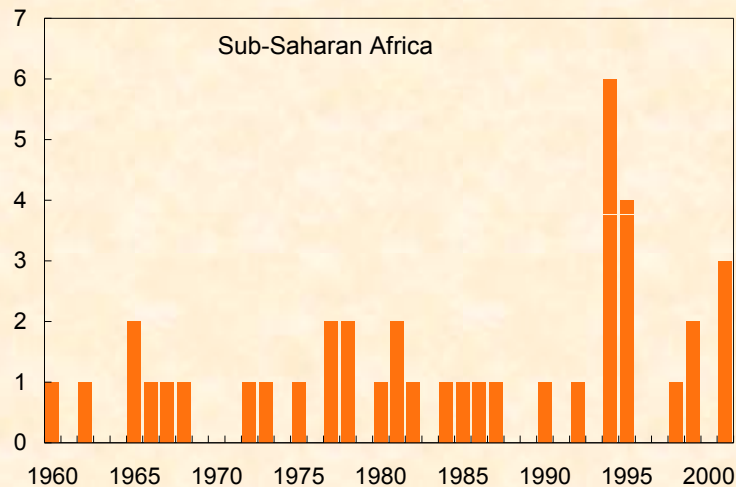
Figure 3d. Log Real GDP Per Capita and Structural Breaks: Africa
 BP asymptotic breaks are dashed, SUDMax breaks are solid



Minimum interstitial period = 8, p-value = 10. Source: Penn World Tables and authors' calculations

Unprecedented Number of Up-Breaks

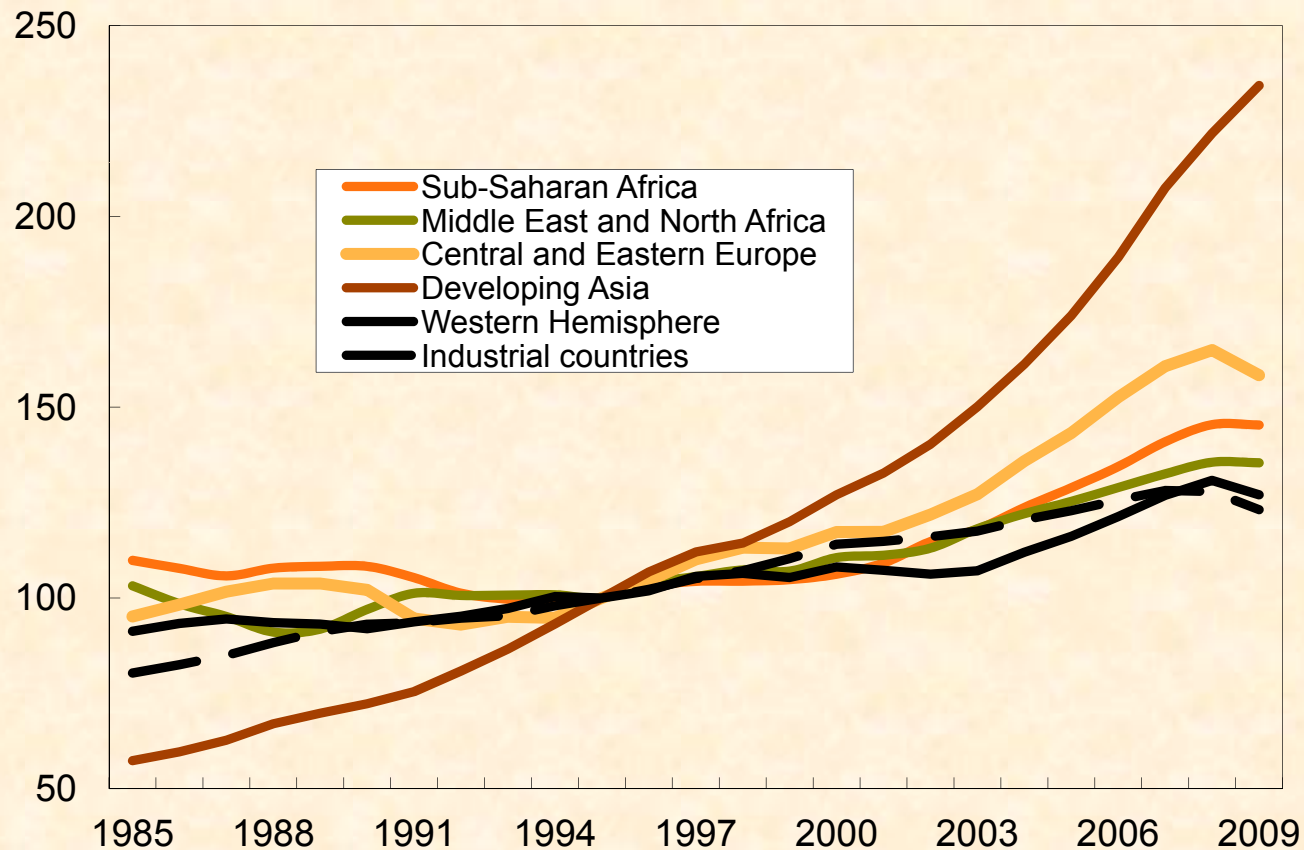
Frequency of Growth Upbreaks
(Number of upbreaks)



Source: Berg, Ostry and Zettelmeyer (2008)

Per Capita GDP: Keeping Up With Other Regions

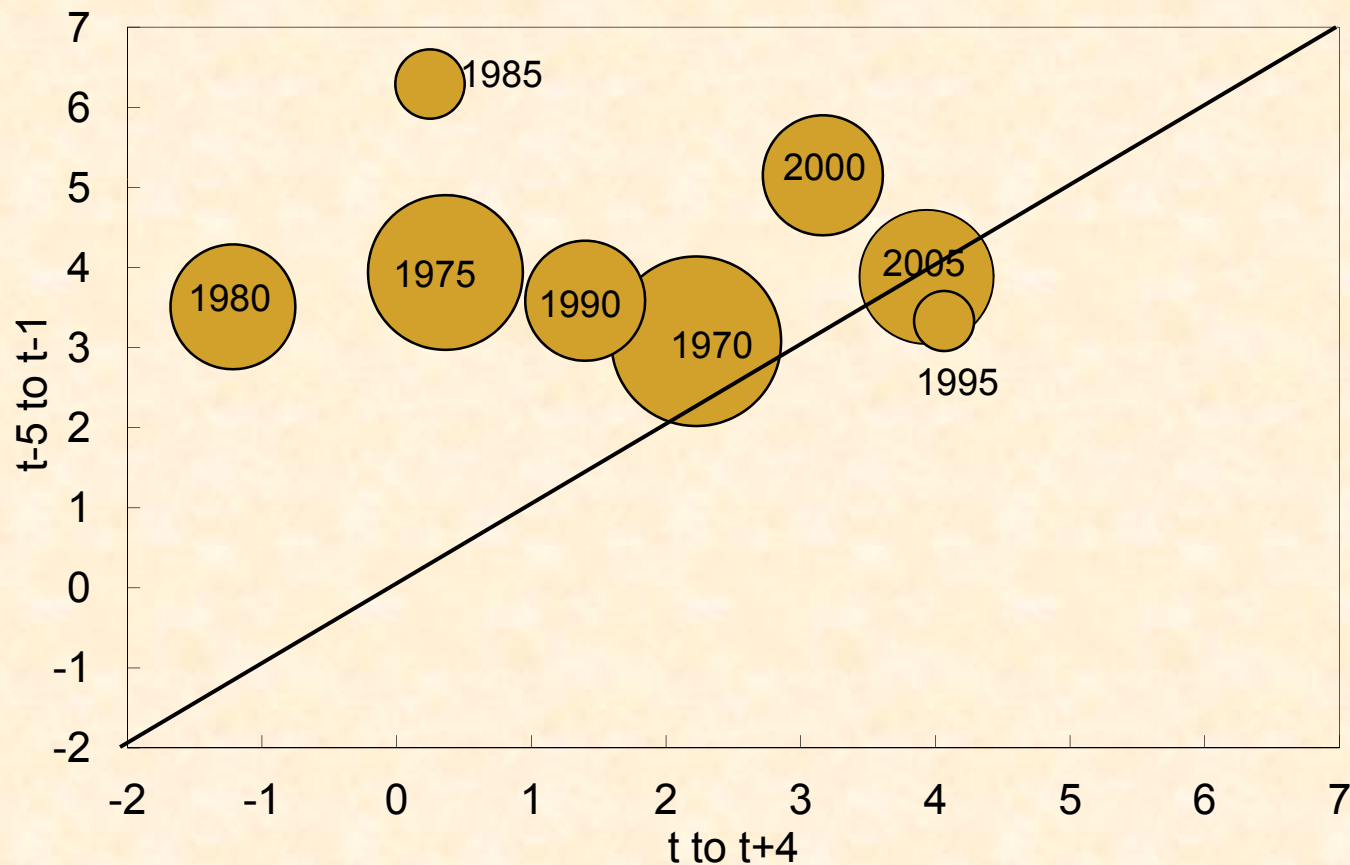
International Comparisons: GDP per Capita
(Index 1995=100 In real US dollar)



Source: IMF, *World Economic Outlook*

This Time It's Different?

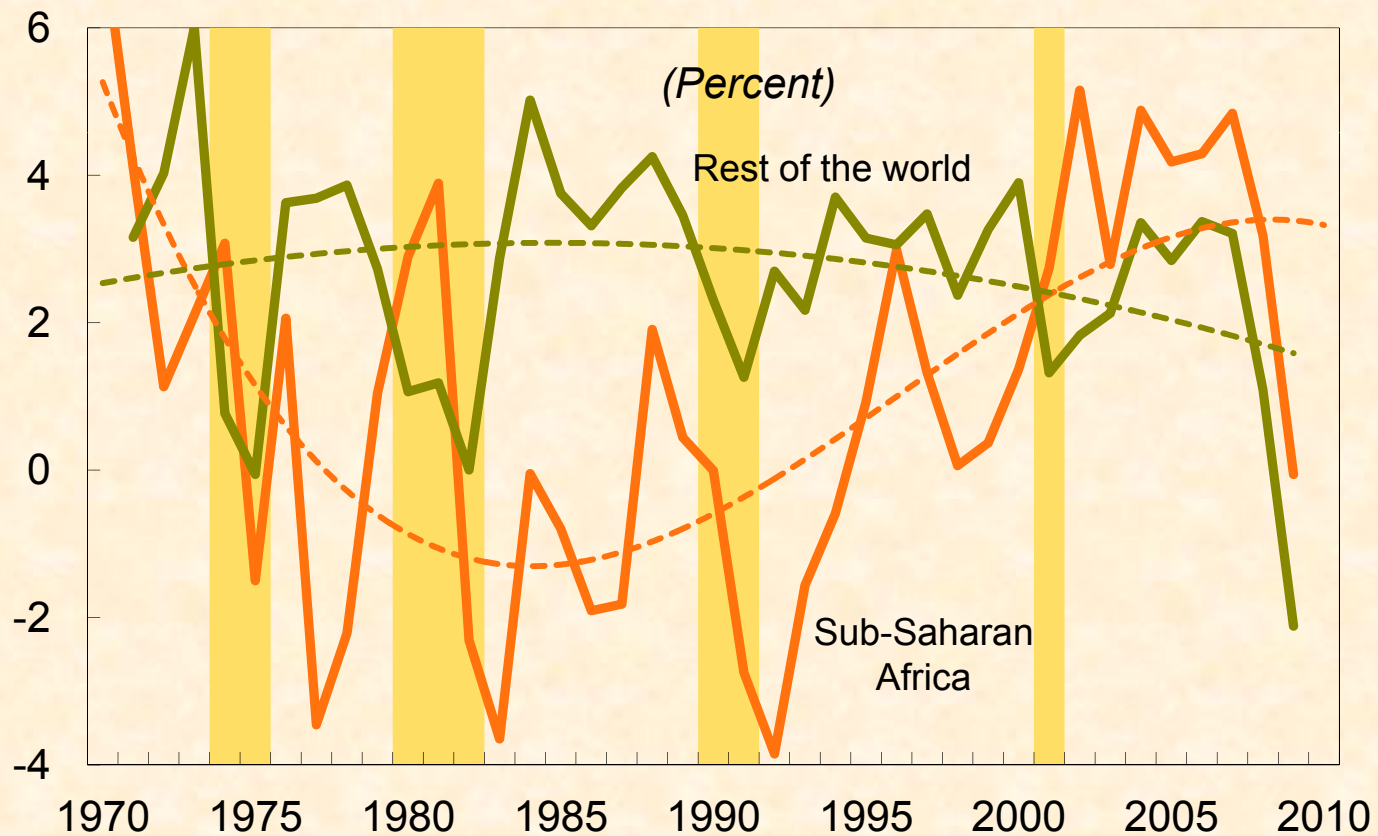
SSA GDP Per Capita Growth, Five-Year Average
Countries with growth rate $> 2 \frac{1}{4}$ in $t-5$ to $t-1$)



Note: The size of the bubbles correspond to the number of countries in each period.

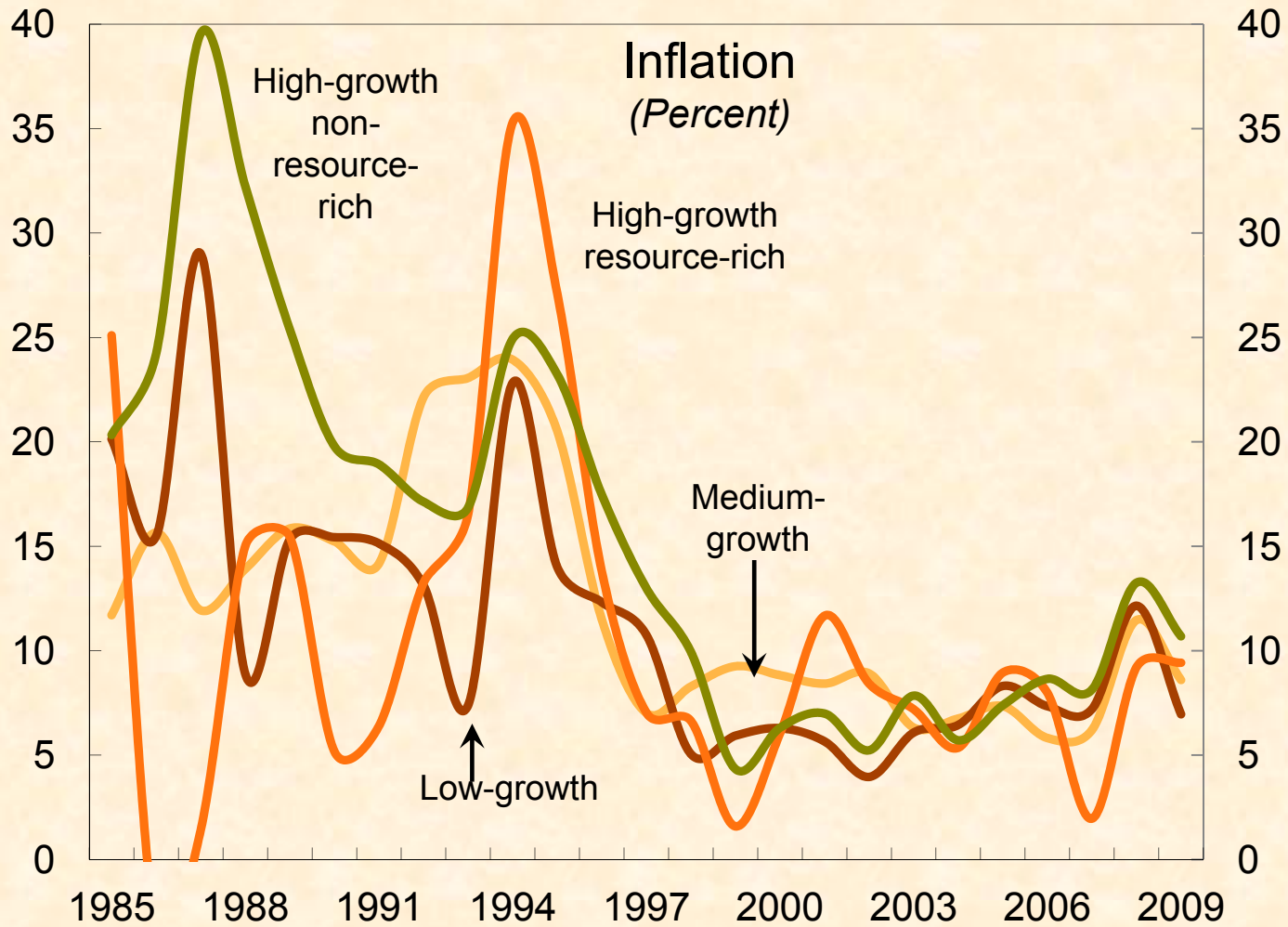
What is not driving the take-off: World Growth

Sub-Saharan Africa Diverging but not
Necessarily Decoupled
GDP Per Capita Real Growth

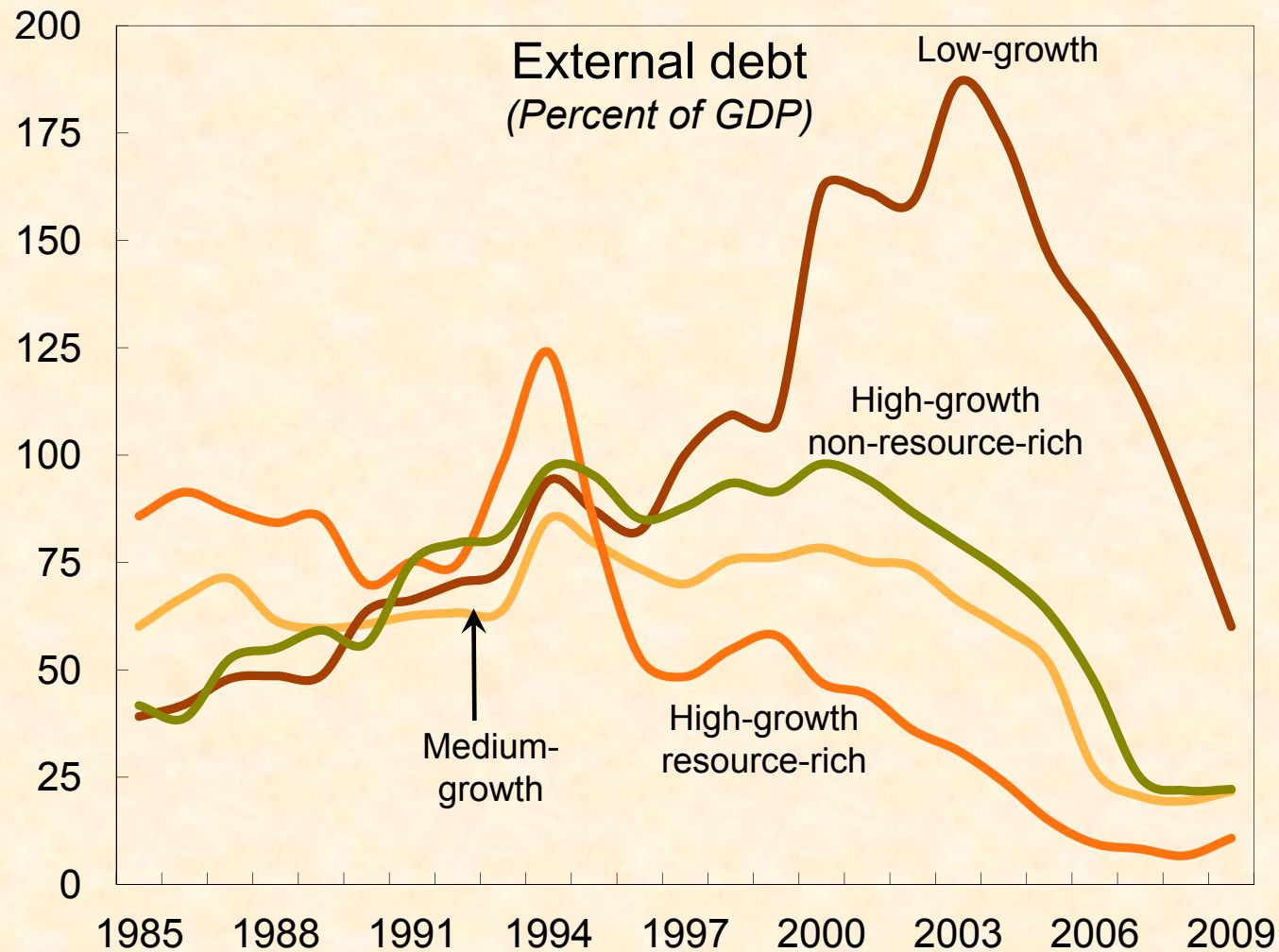


Source: IMF, *World Economic Outlook*

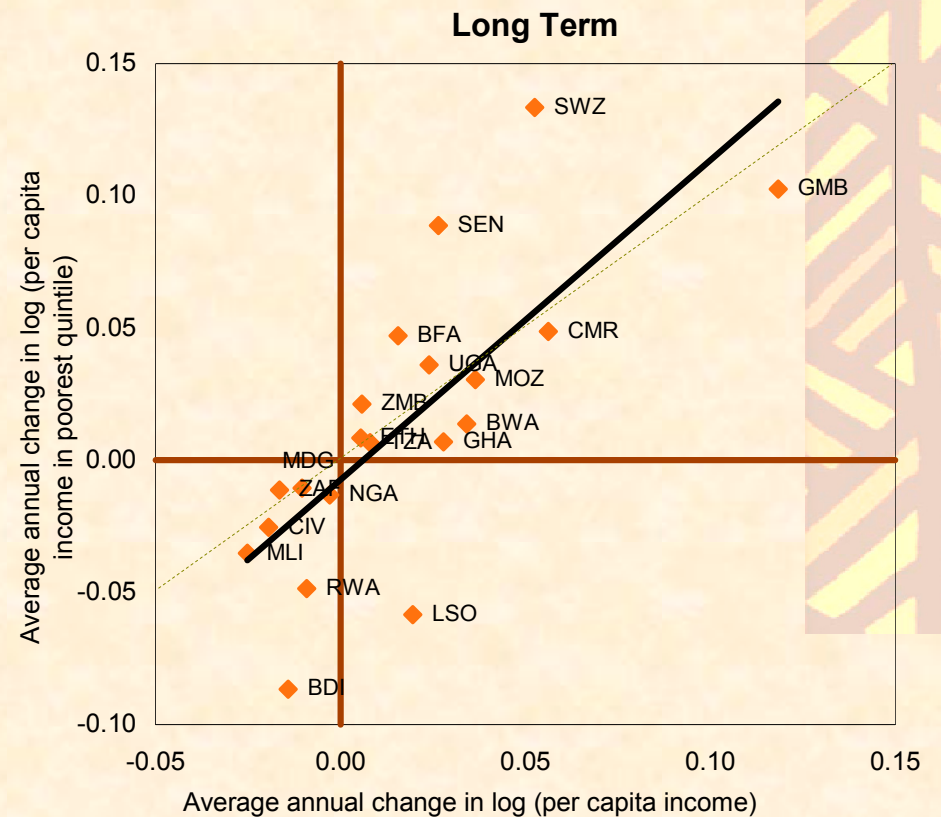
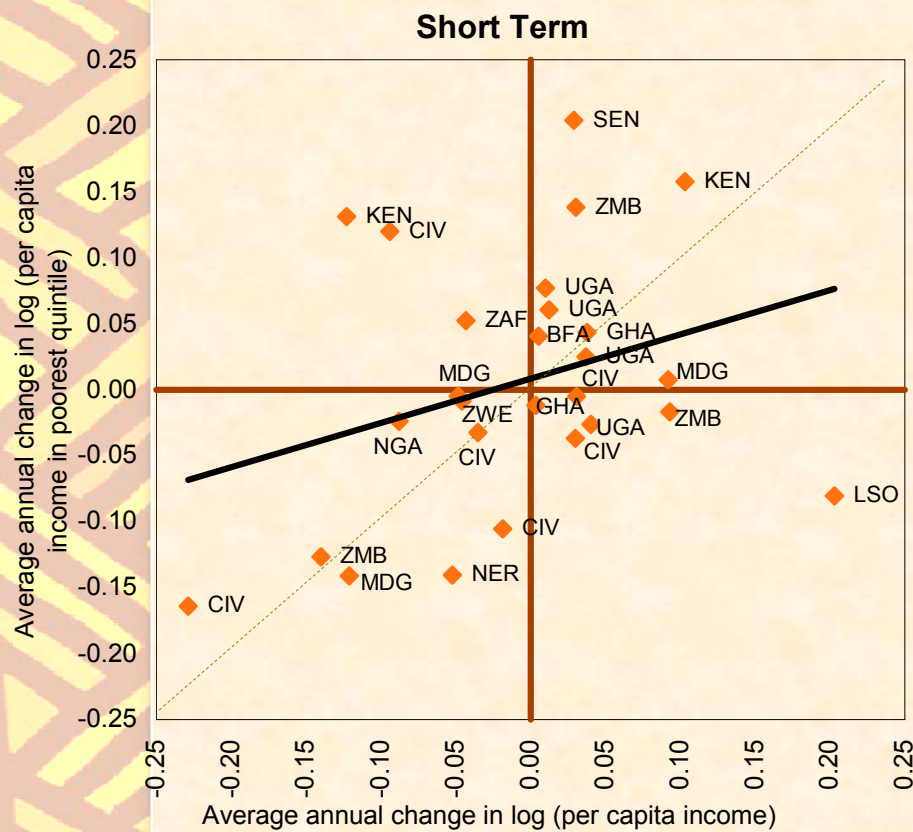
What has helped (2): Get The Basic Macro Right



What has helped (2): Get The Basic Macro Right

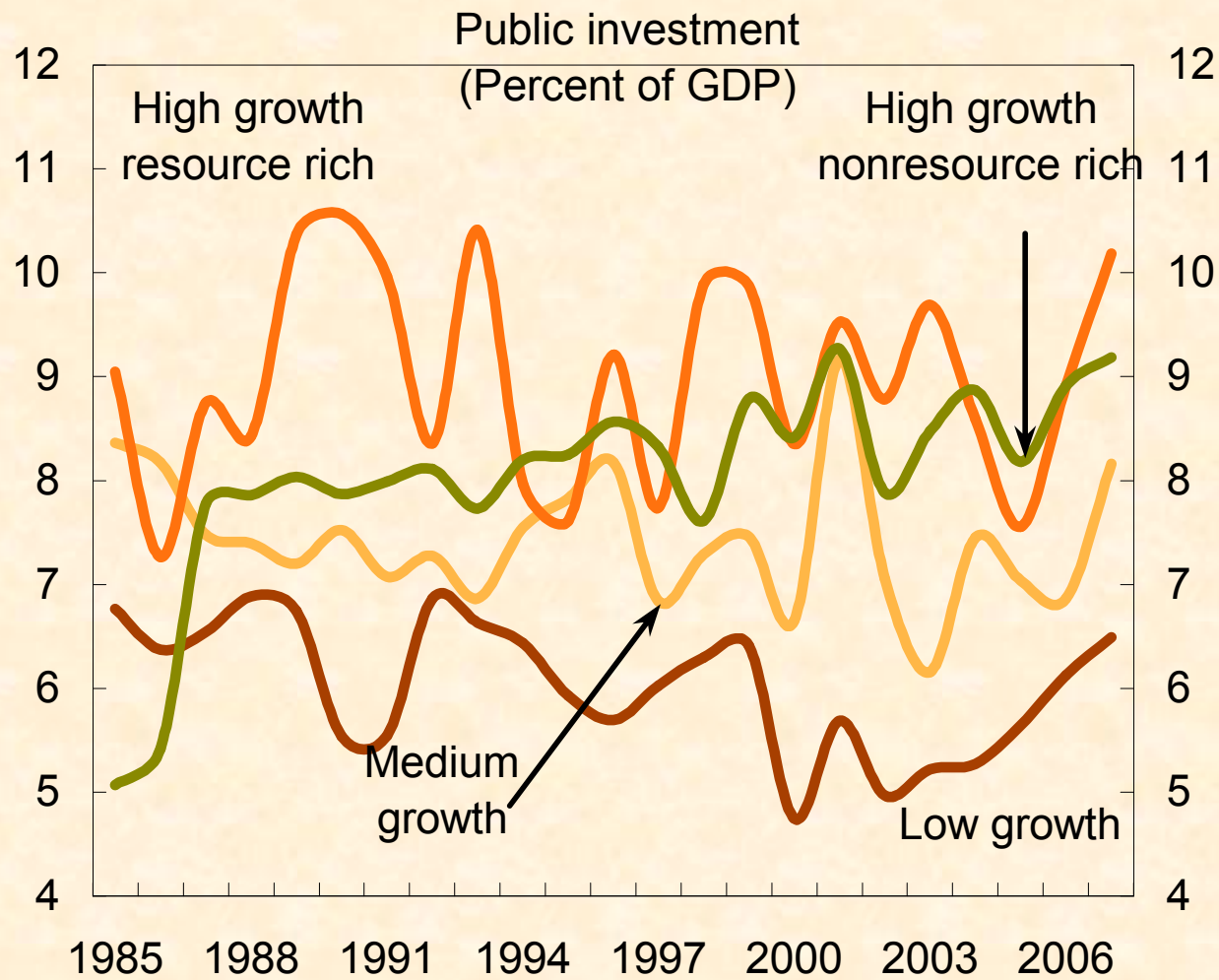


Now some challenges (1): Sharing the gains



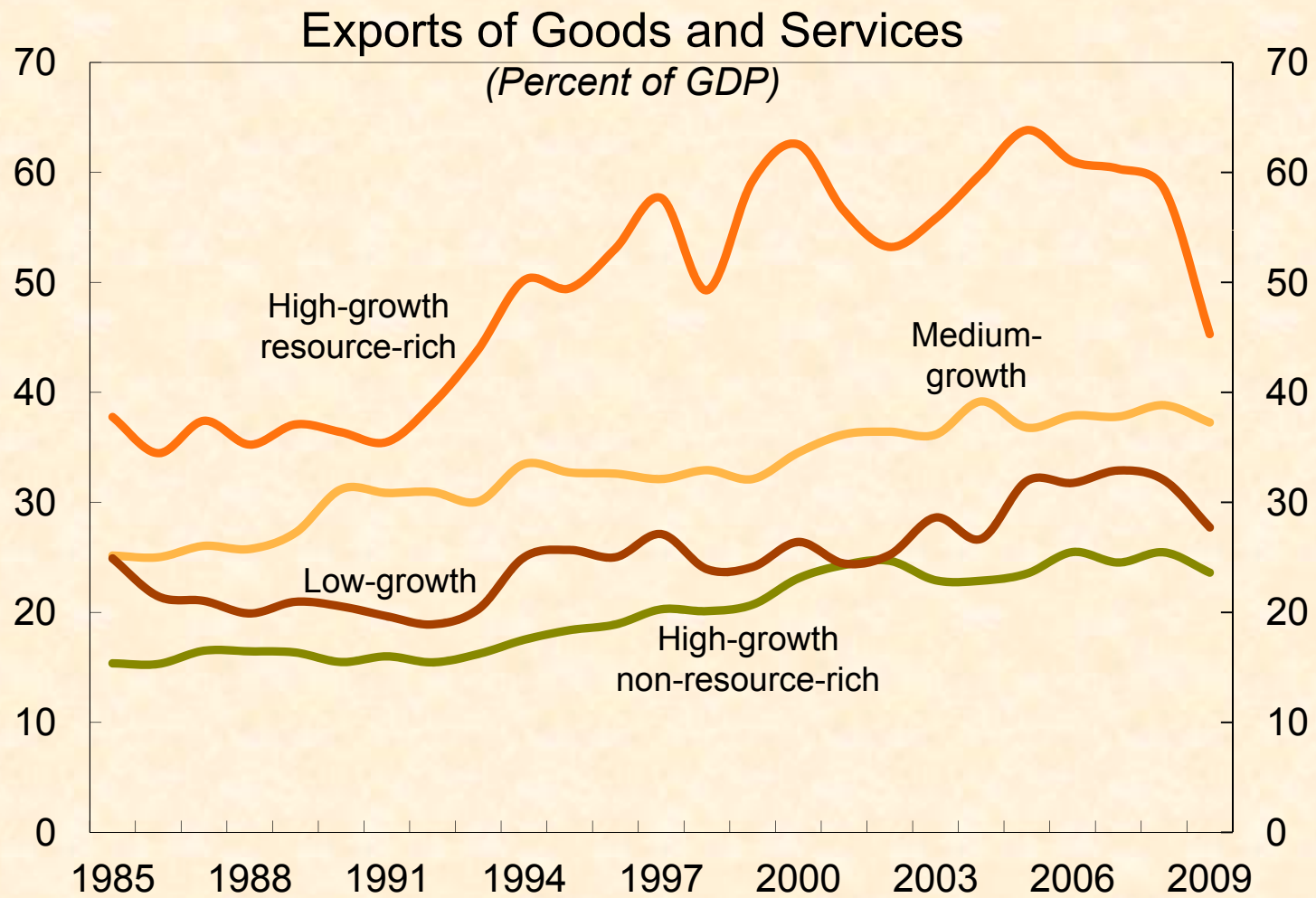
Sources: Chen and Ravallion (2007), and IMF, staff calculations.

Challenges(2): Public Investment



Source: IMF, African Department database.

Challenges (3): Exports



Now some challenges (4): Employment? Good jobs?

- Data?
- The lamppost

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 - **Is low inflation a source of constraint on access to finance?**
 - **Cliffs and loss functions**
 - **Better understanding of how to do monetary policy in LICs?**
- **Some issues in macro/development interactions**
 - **Debt sustainability**
 - **Public investment, social protection, and other goals**
 - **Exchange rates**
- **What do we know about employment creating growth, and what macro has to do with it? (No answer here)**

The MMF

- Inflation targets too low?
- Fiscal policy too rooted in debt sustainability?
- Cliffs and loss functions
- Aids, irrigation, fertilizer, social safety floors, public investment, . . .
- Wages, public investment, and competitiveness—A Senegal parable

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A Story

(from Rodrik 2008)

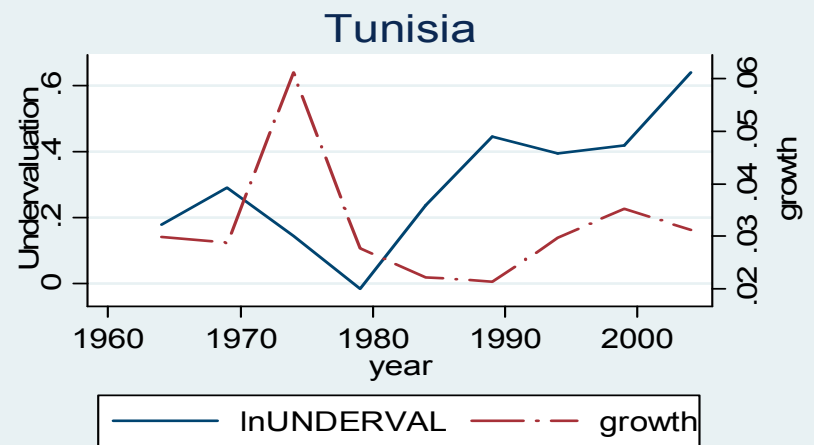
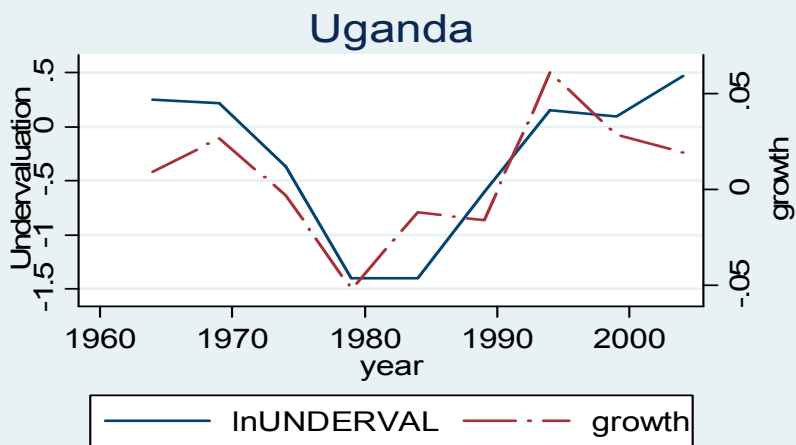
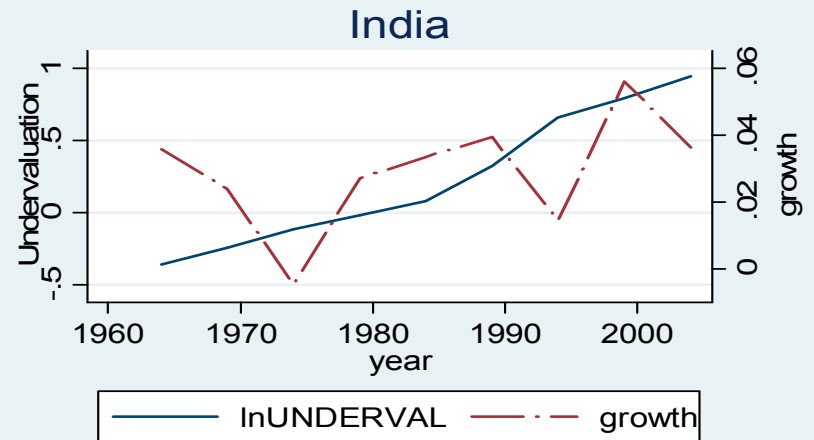
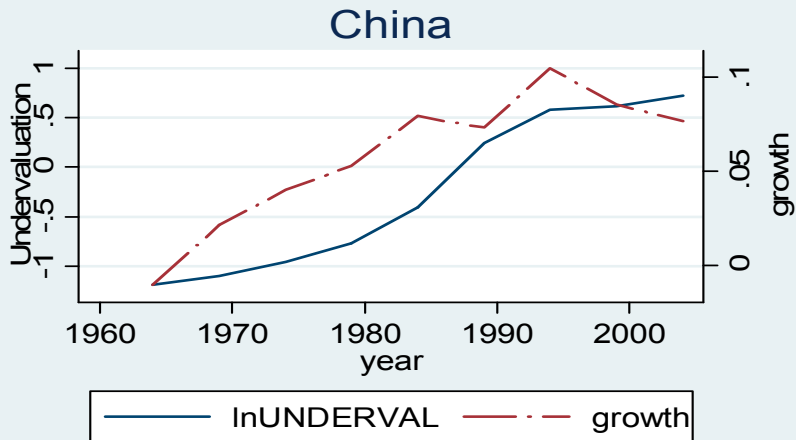
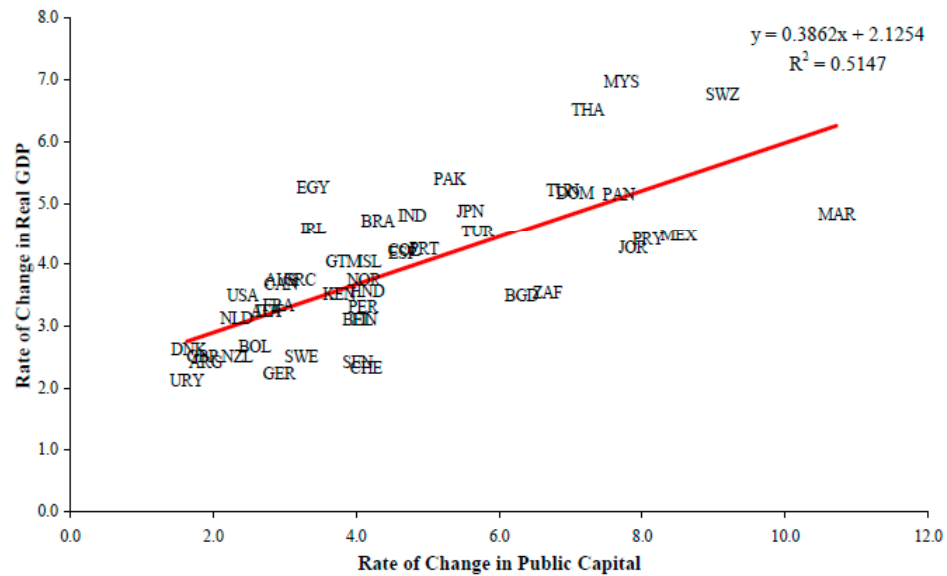
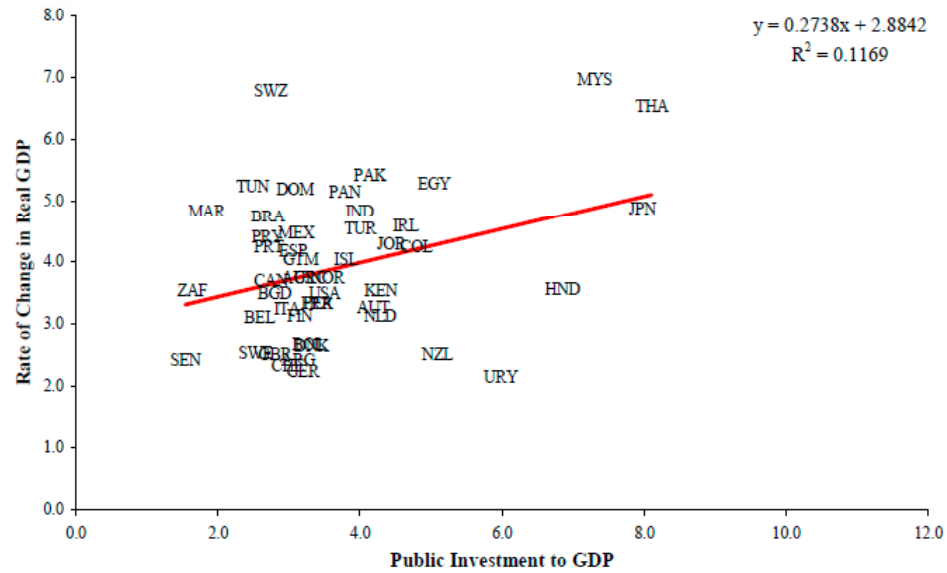


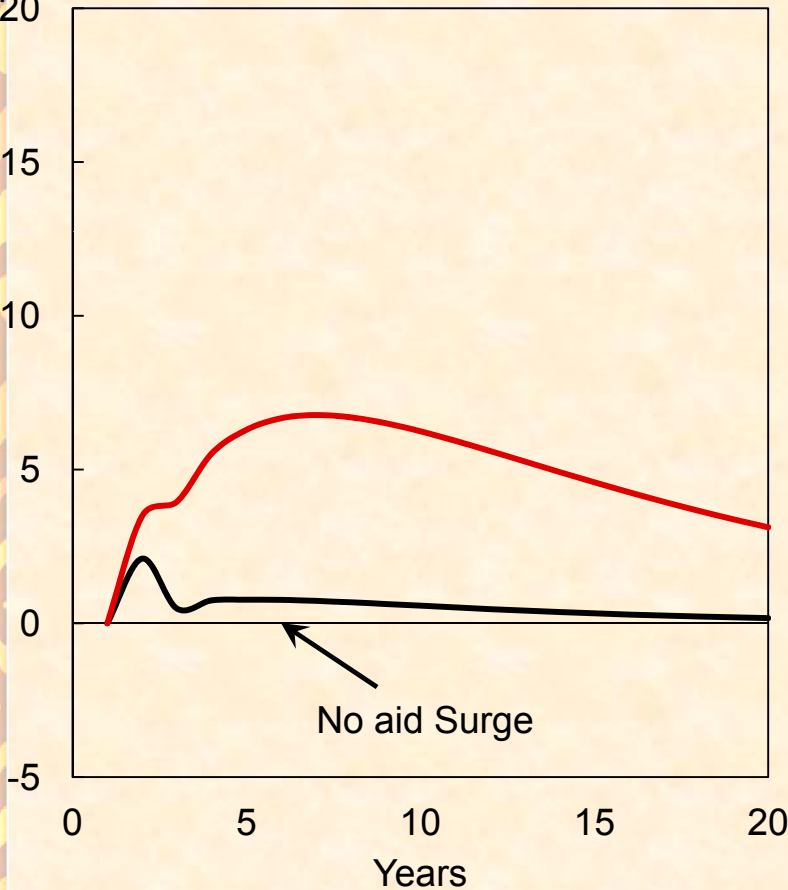
Figure 1. Long-Term Real GDP Growth, Public Investment and Public Capital Growth Rates, 1960–2000



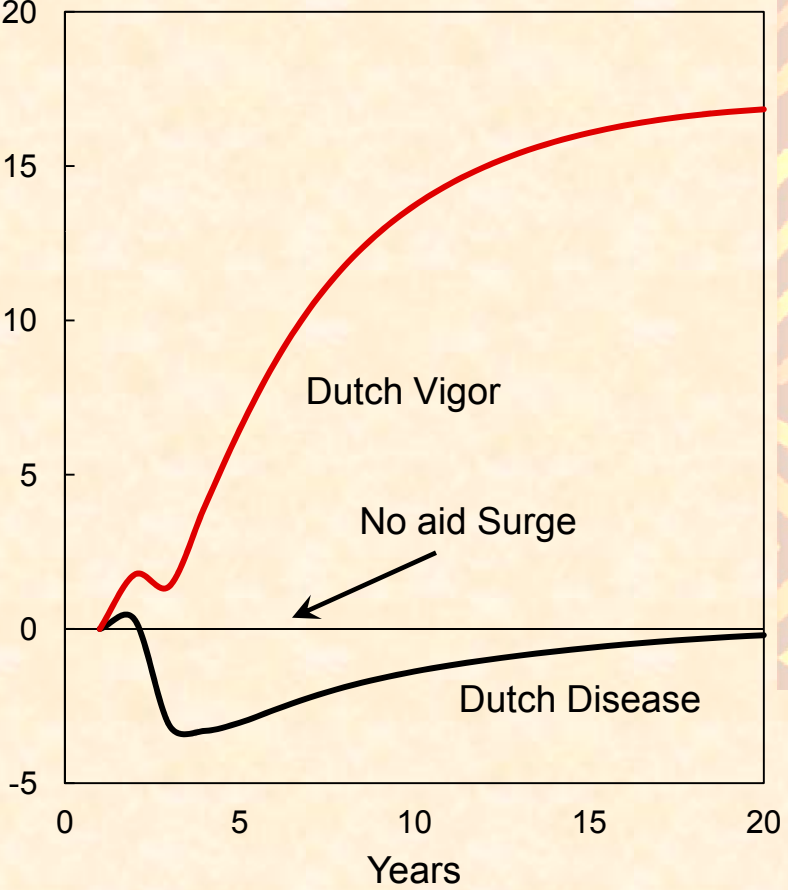
Some trade-offs

(Real GDP, percent deviations from baseline due to 6 percent of GDP aid surge)

Moderate Externalities



Strong Externalities

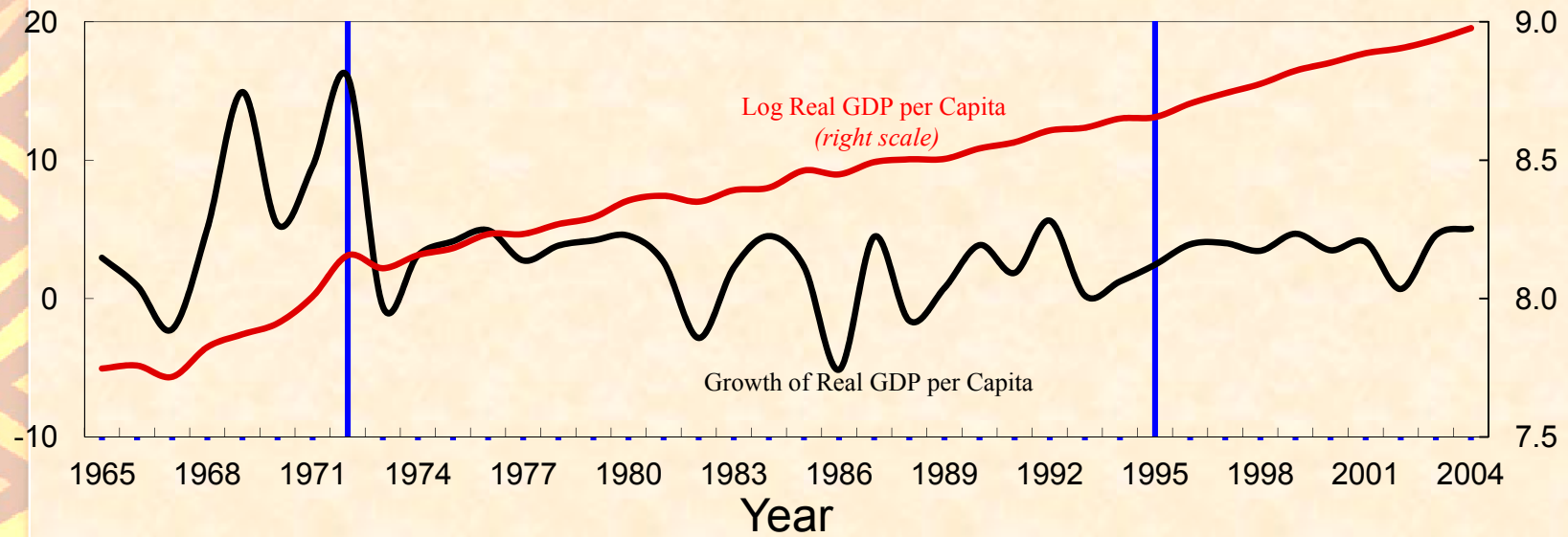
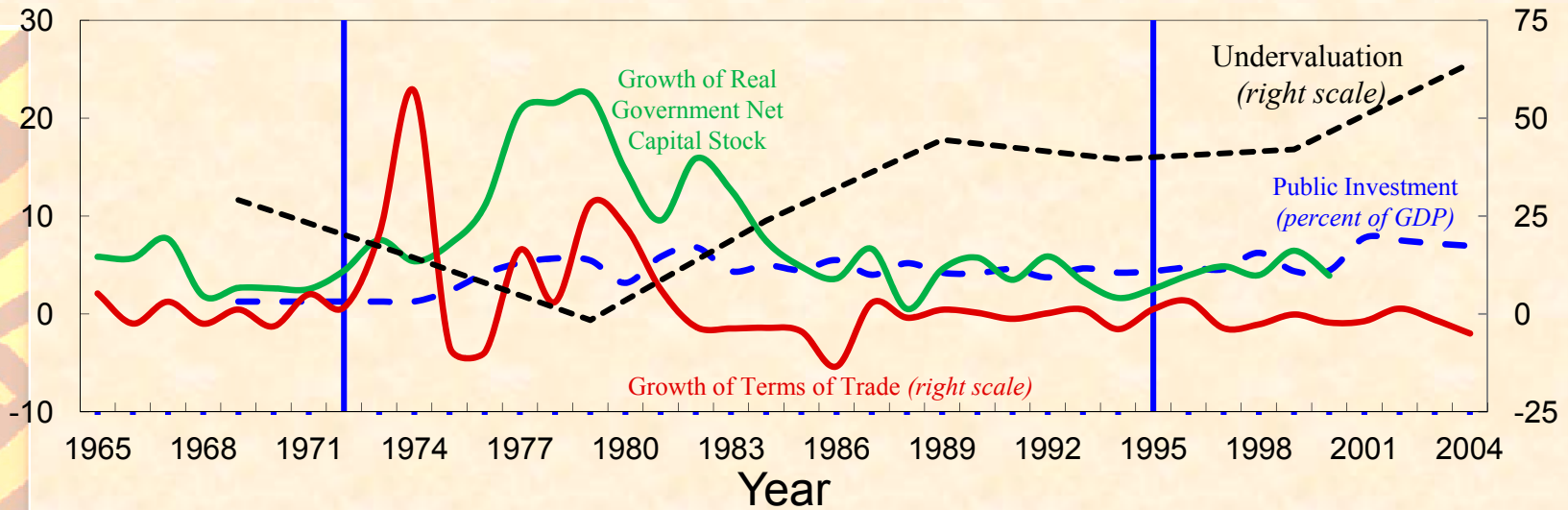


— Low Efficiency — High Efficiency

— Low Efficiency — High Efficiency

Source: Fund staff model simulations.

Tunisia



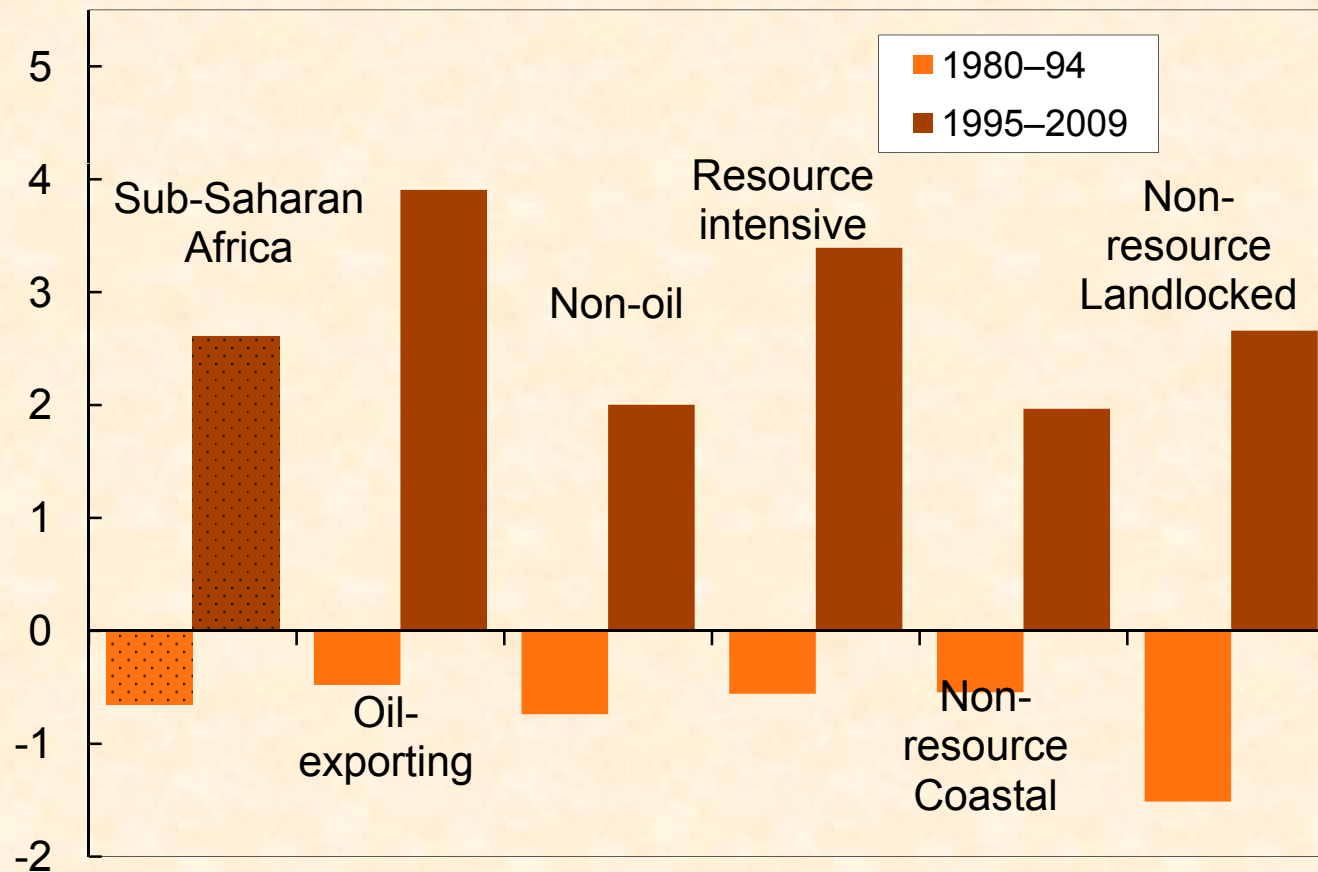
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Thank You

What is not driving growth (1): Endowment and geography

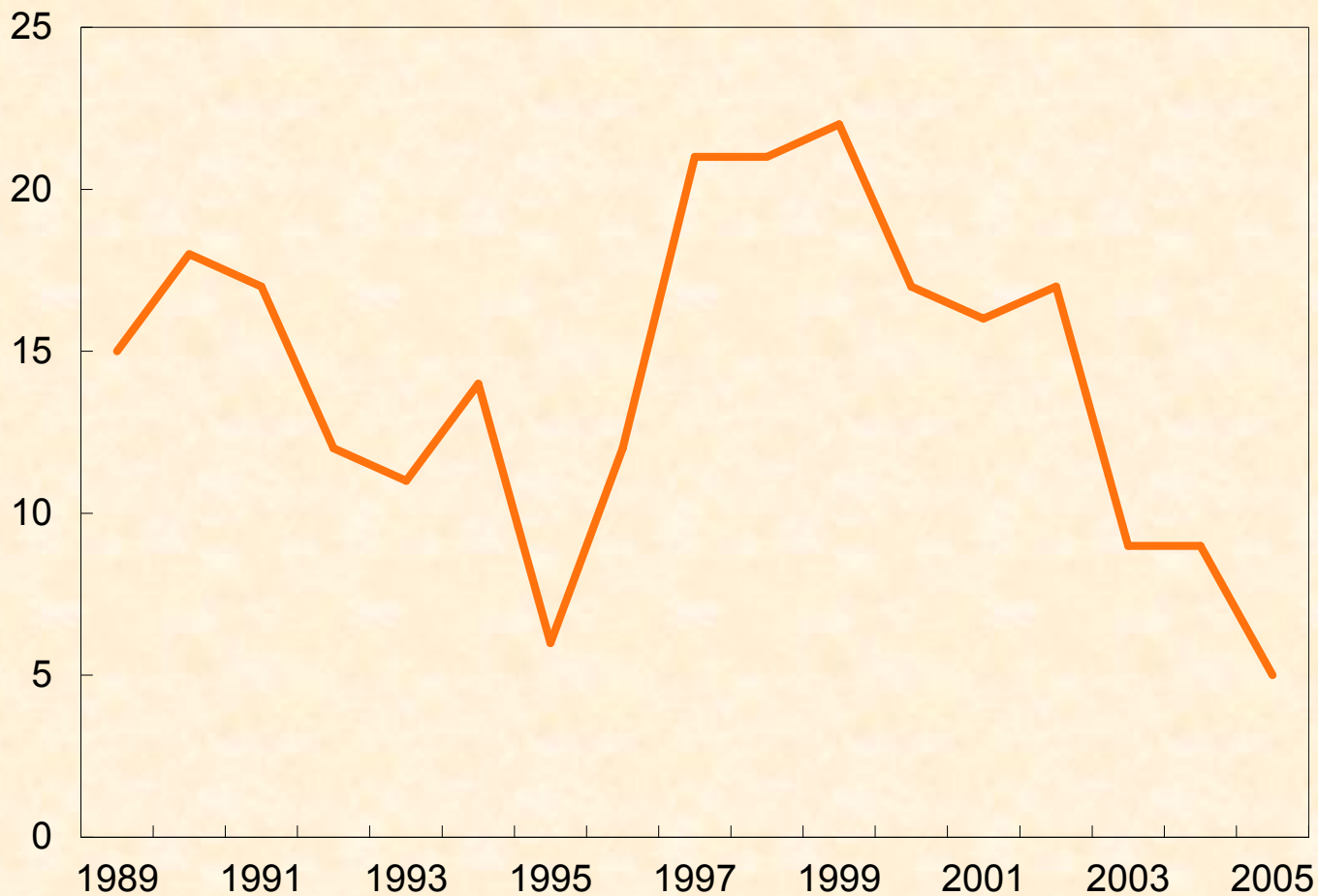
Sub-Saharan Africa Real GDP per Capita Growth
(Annual Percent)



Source: IMF, *World Economic Outlook*

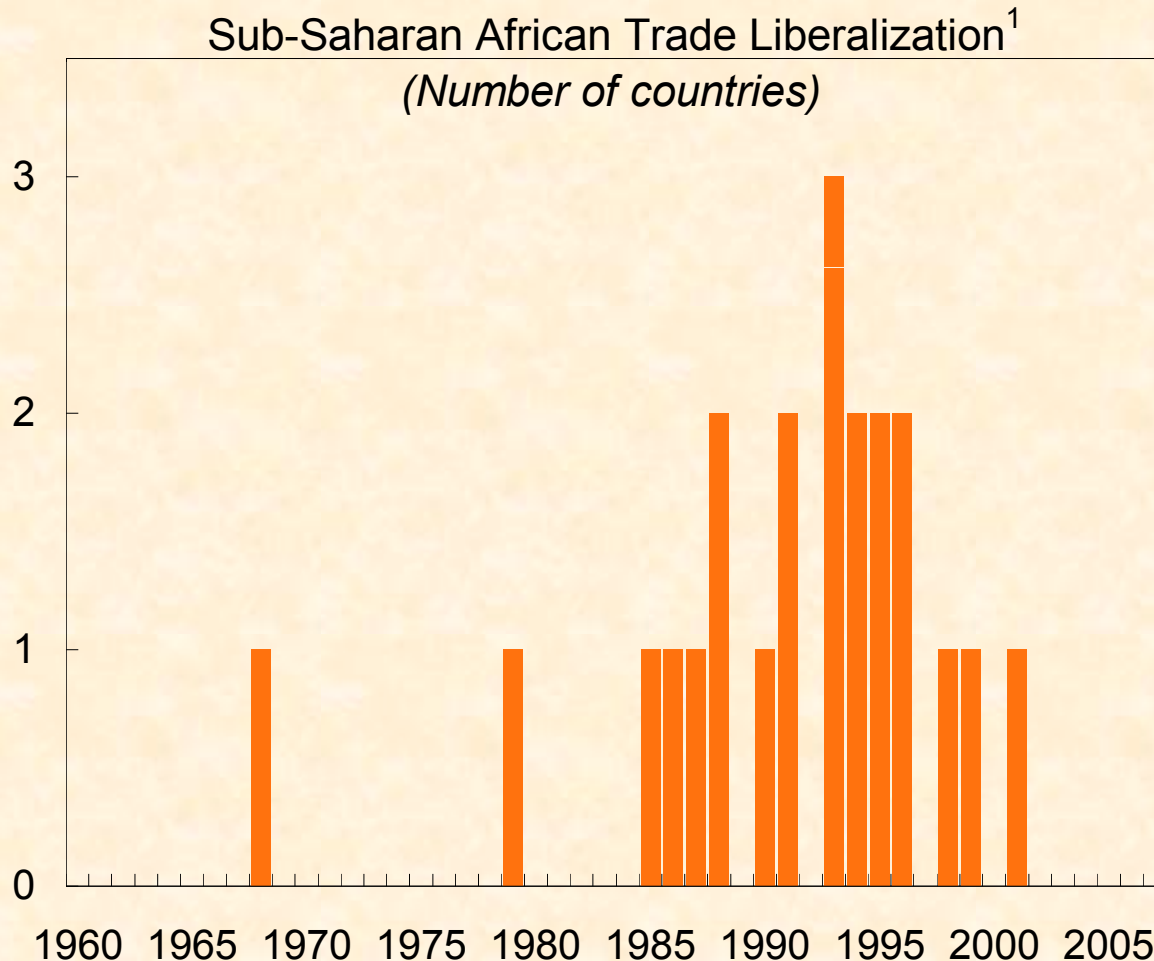
What has helped (1): Avoid Major Policy Disasters, e.g. conflicts

Number of Conflicts in Sub-Saharan Africa, 1989–2005



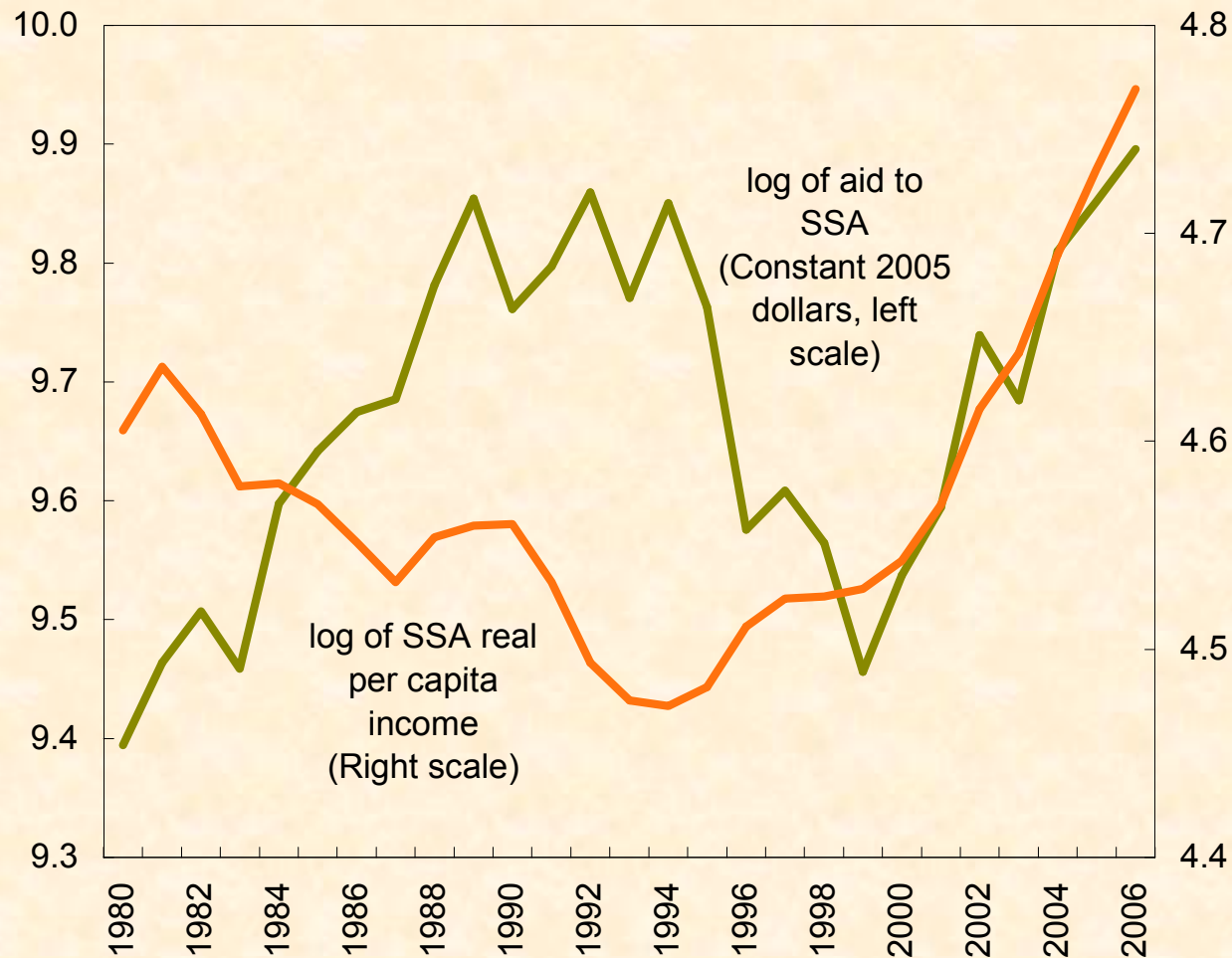
Source: Uppsala University, Uppsala Conflict Data Program.

What has helped (3): Structural Reform--Liberalized Trade



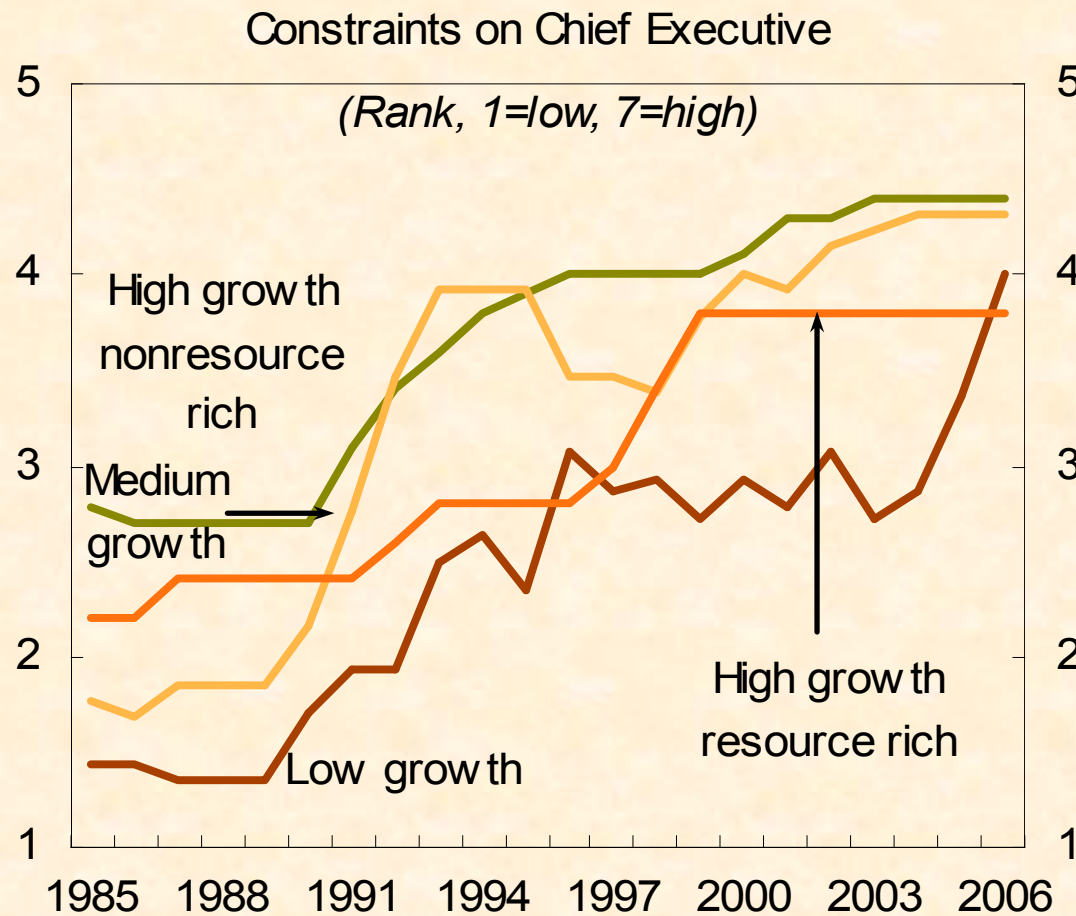
¹ Six of the high growers liberalized trade during the 1990's
Sources: Wacziarg and Welch (2008); and UNCTAD.

What has helped (4): Rising Aid Inflows



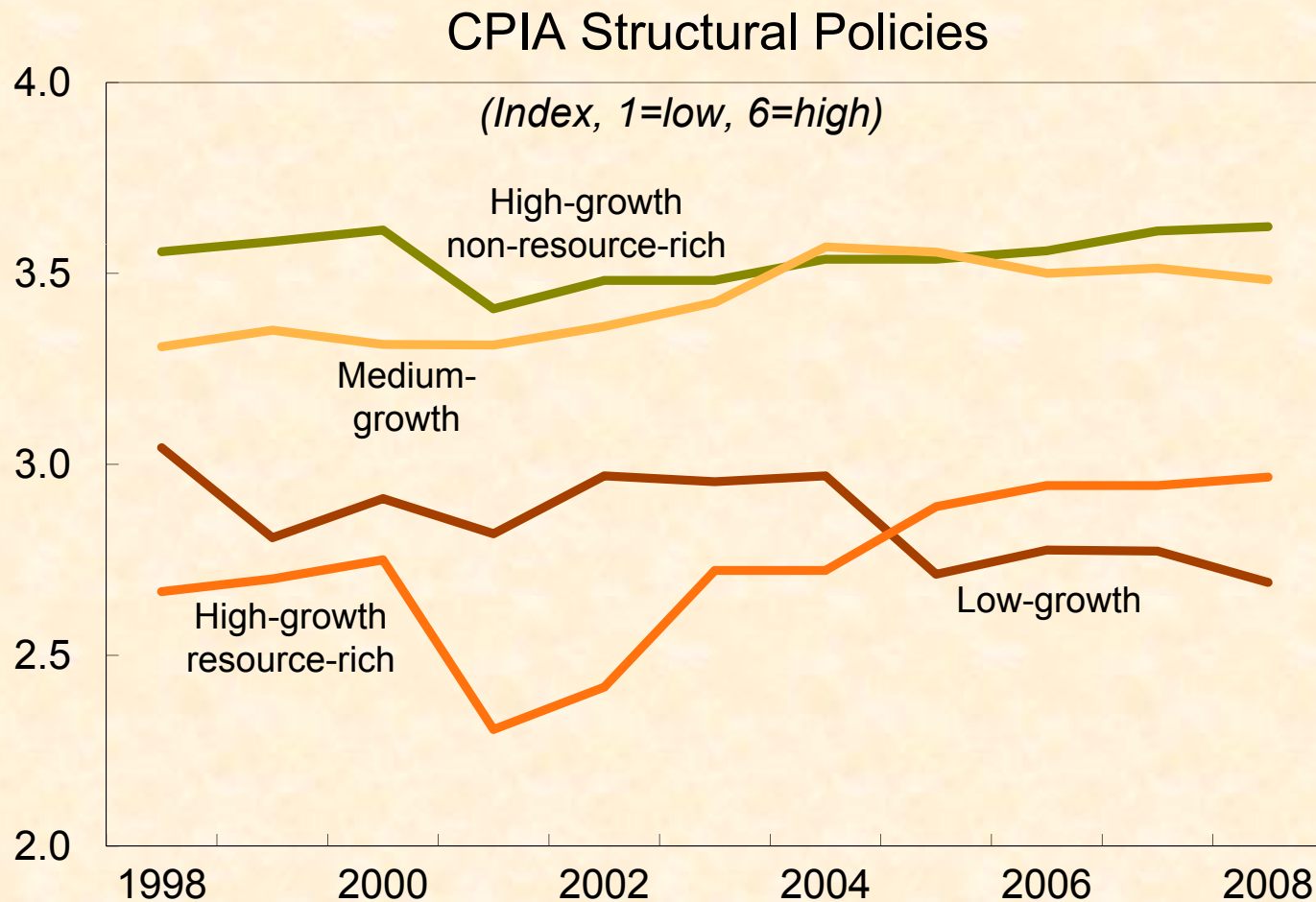
Sources: Roodman (2006), and IMF, staff calculations.

What has helped (5): Political/structural reform

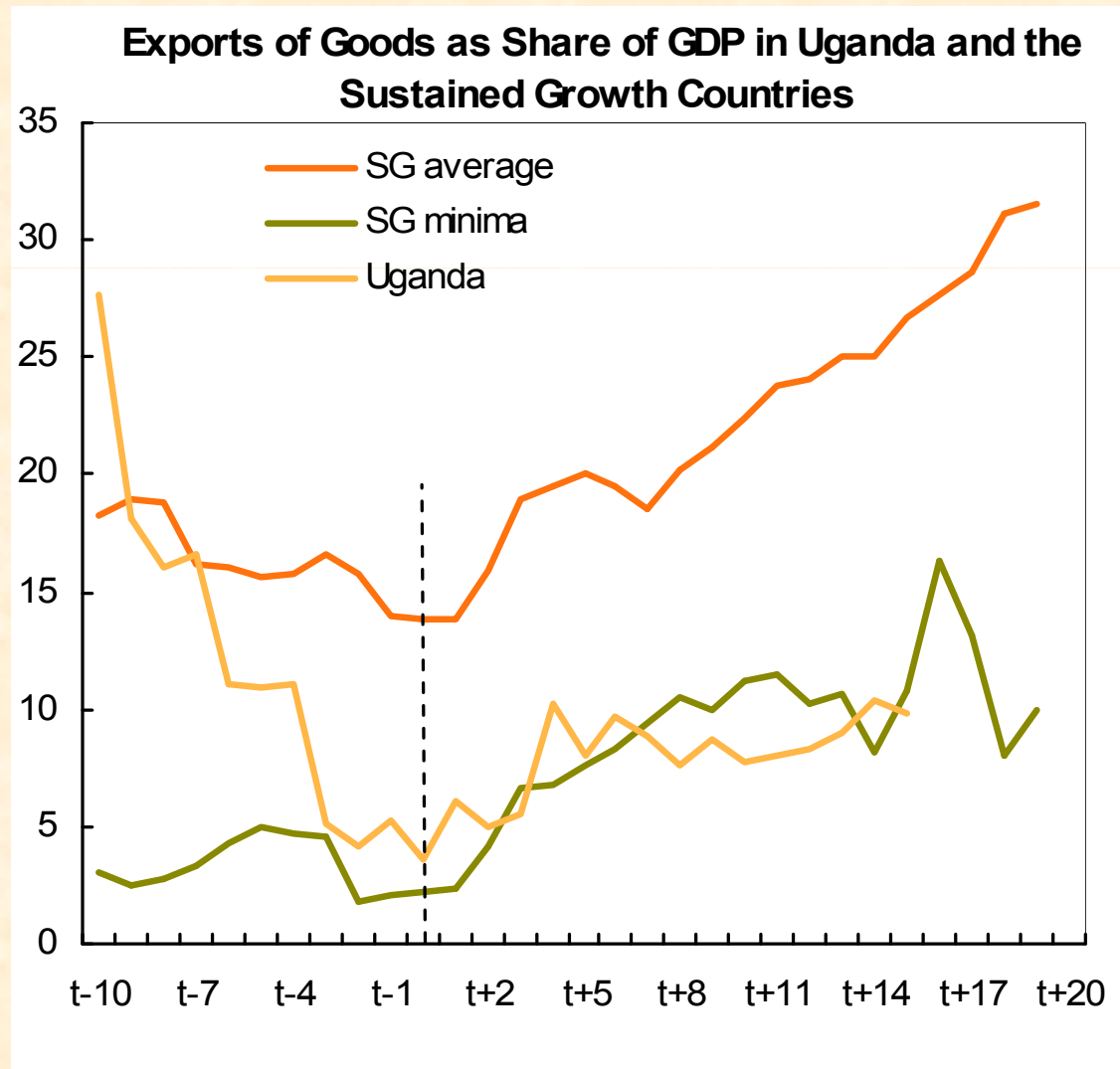


Source: Center for Systemic Peace, Polity IV dataset.

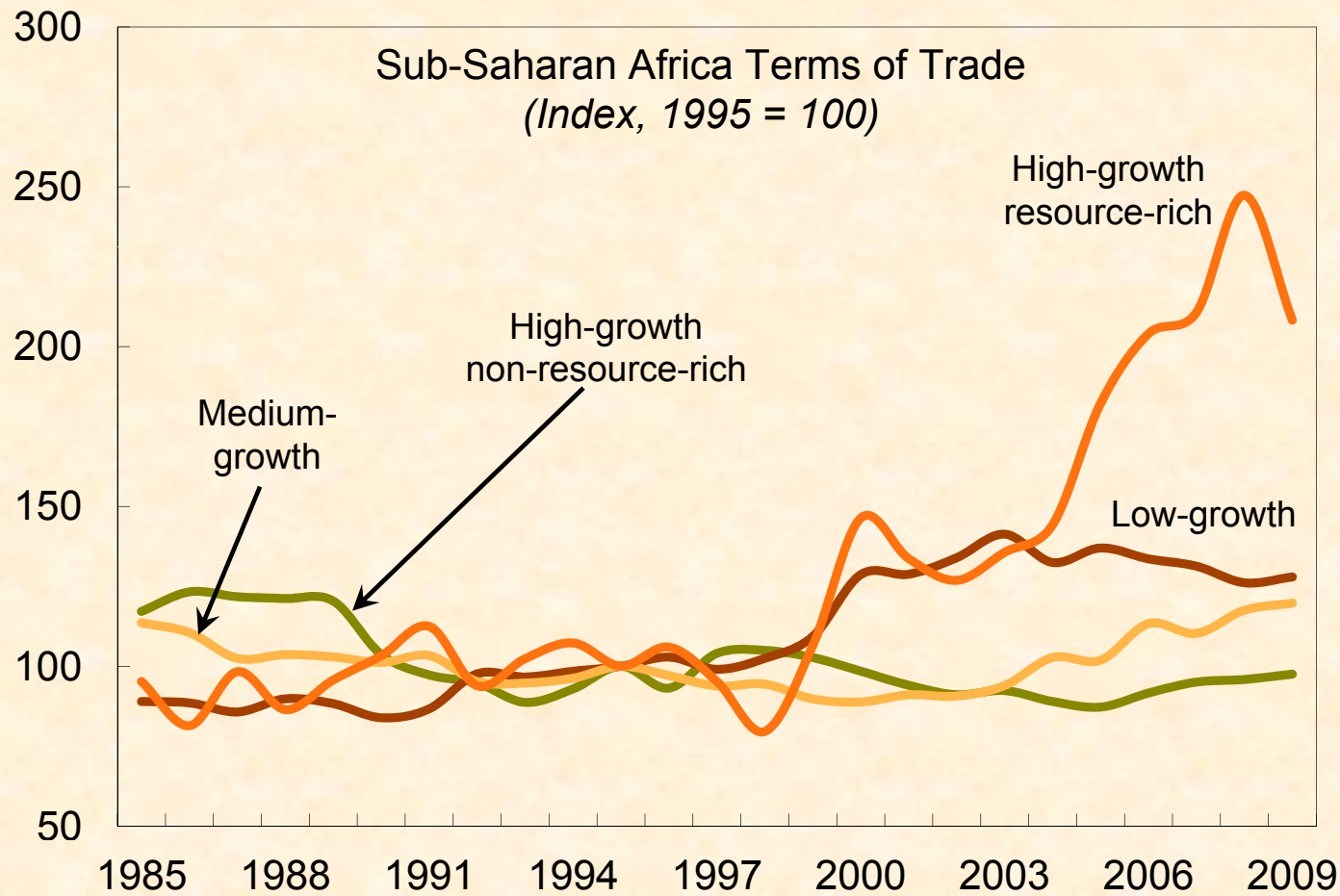
Challenges (2): Economic/structural Policies



Growth of Exports: Uganda



What is not driving growth (3): Terms of Trade



Source: IMF, *World Economic Outlook*