

The primary
objectives of
economic policy

Arthur Silve

Introduction

GDP and growth
GDP, GNP, GNI
decompositions
accounting
ST cycles

Redistribution

poverty
inequalities
inclusive growth

Development

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The primary objectives of economic policy

Growth, poverty, inequalities, development

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Paris School of Economics
Sciences Po

2013

General purpose of the workshop. . .

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- Typically, a country eligible to budget support according to the macroeconomic criteria is a vulnerable country where the authorities are aware of the vulnerabilities and trying to address them.
- When writing the “supplementary document to the action fiche and payment dossier”, the following steps are required:
 - 1 identify key macroeconomic challenges
 - 2 explore the policy answer to these challenges
 - 3 assess the adequacy of the answer
 - 4 formulate a recommendation based on this adequacy

... a workshop which addresses only part of the analysis

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This workshop is part of a wider training offering

- inclusive and sustainable growth (“MACRO 2”)
- domestic revenue mobilization
- Medium-term public finance framework,

designed to address two categories of concerns

- introduce or refresh macroeconomic notions for development practioners
- operational issue of budget support eligibility



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Purpose of this sequence

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The introduction of the “supplementary document to the action fiche and payment dossier” should include

- Key structural indicators
 - economic status
 - sources of growth
 - absolute poverty / inequality – inclusiveness of the growth process
 - quality of institutions and business environment
 - openness (for later)
- and relations with the IMF

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- GDP, GNP, GNI
- decompositions
- accounting
- ST cycles

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- poverty
- inequalities
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4 Development

- economic indicators
- social and political indicators

Income as one dimension of development

x: HDI, and y: GDP/cap in PPP, in Africa

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GDP and growth

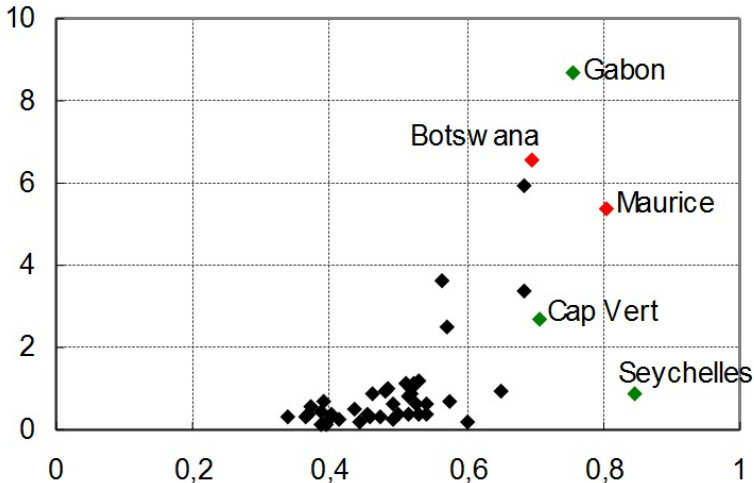
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The Gross Domestic Product

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Defined as the

- market value
- of all final goods and services produced
- on the national territory
- during one year (generally calendar).



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GNP, GNI

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GNP

- goods and services produced thanks to labor and assets supplied by a country's residents
- more pragmatically: GDP + income earned on factors abroad - income earned by non-residents located in the country

GNI

- GNP - indirect business taxes (VAT) < GNP
- very close to GNP in its evolution. Since ESA 95 (consistent with SNA 93), the preference goes to GNI

The magics of compounding: growth

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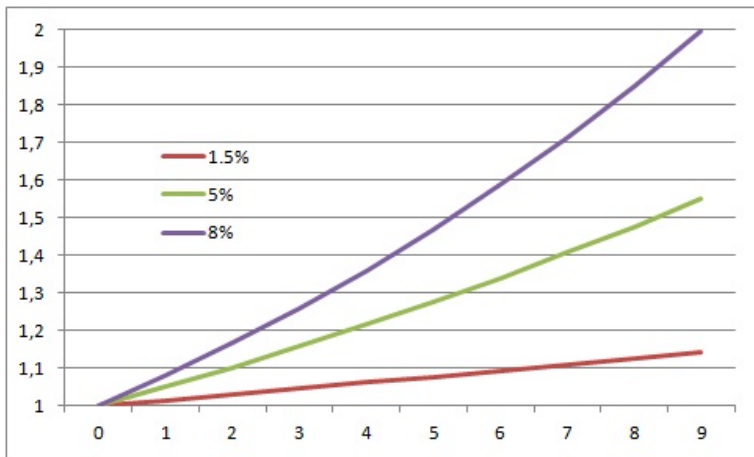
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The magics of compounding: growth

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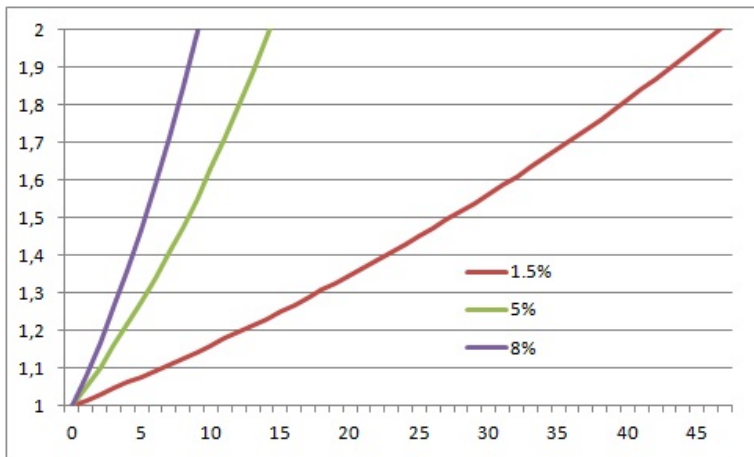
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Decomposition by sectors

The example of Mauritius: sector contributions to growth

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$$GDP = \sum GDP_{sect}$$



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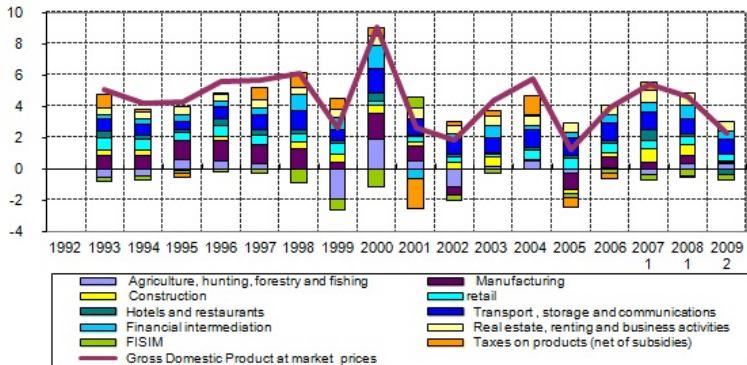
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$$GDP = \sum GDP_{sect}$$

This provides the following decomposition of GDP growth:





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A case-study: Mauritania

Sectoral decomposition of GDP – data from WB WDI until further notice

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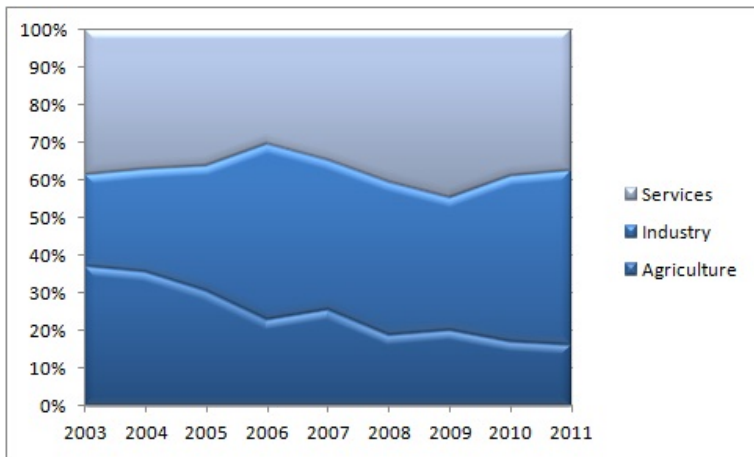
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Sectoral contributions to growth

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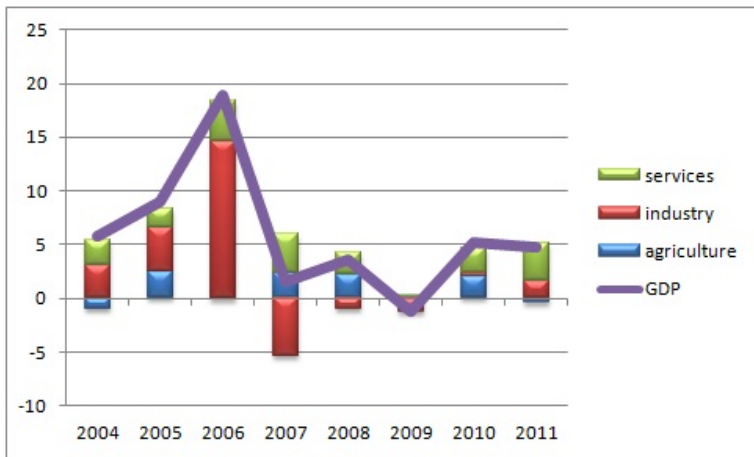
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Another case-study: Madagascar

Sectoral decomposition of GDP

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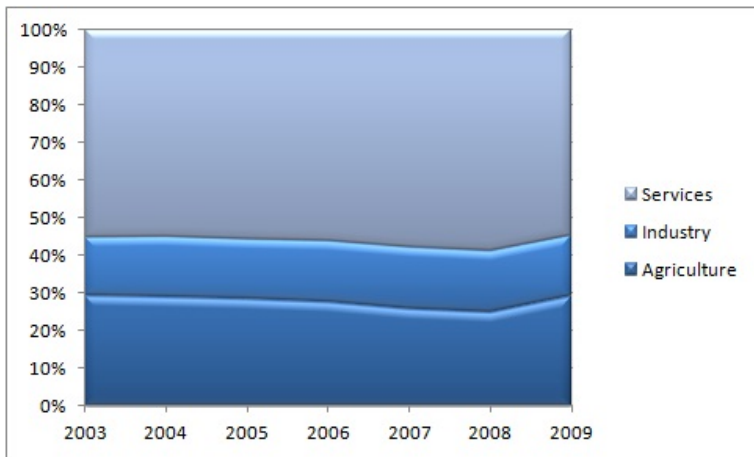
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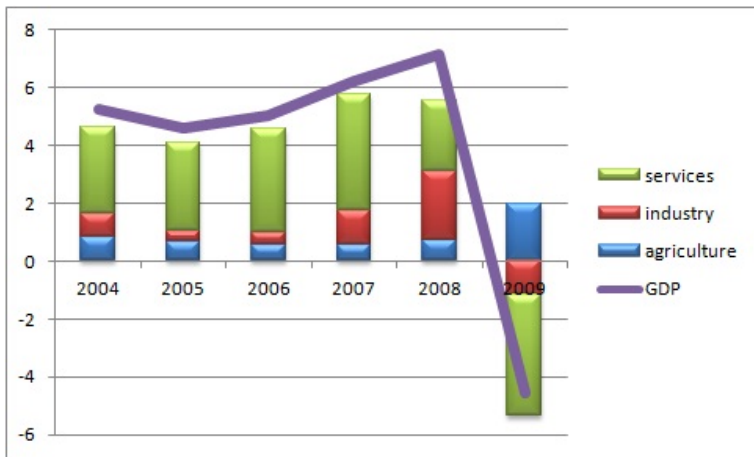
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Yet another case-study: El Salvador

Sectoral decomposition of GDP

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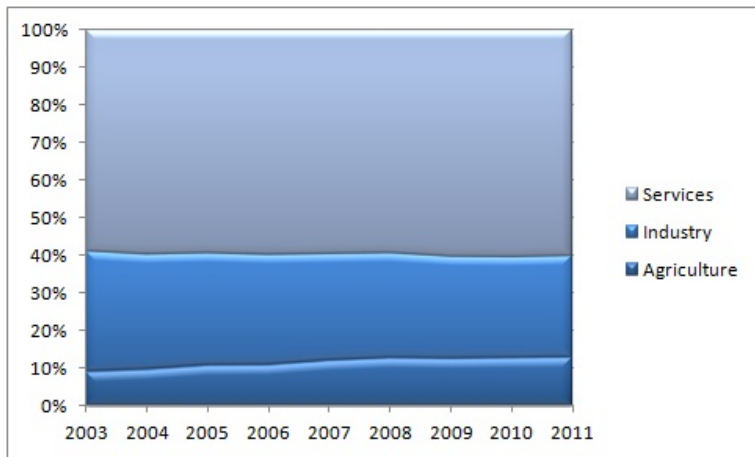
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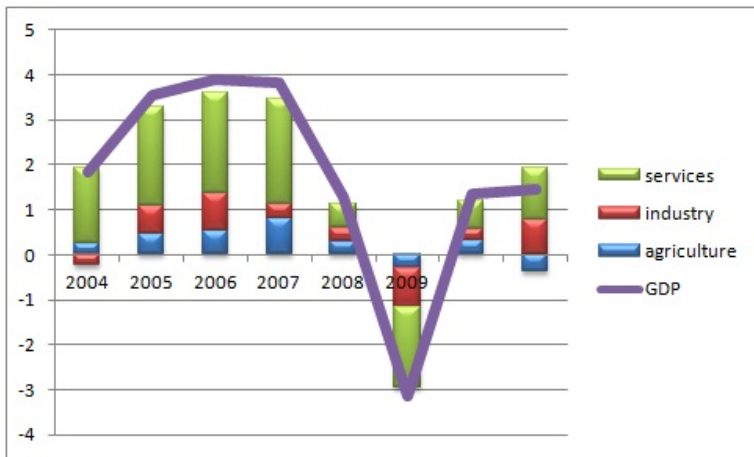
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Decomposition by expenditures

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$$\begin{aligned} Y &= C + I + X - M \\ &= C_{pub} + C_{priv} + I_{pub} + I_{priv} + \Delta S + X - M \end{aligned}$$



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Decomposition by expenditures

Back to Mauritius

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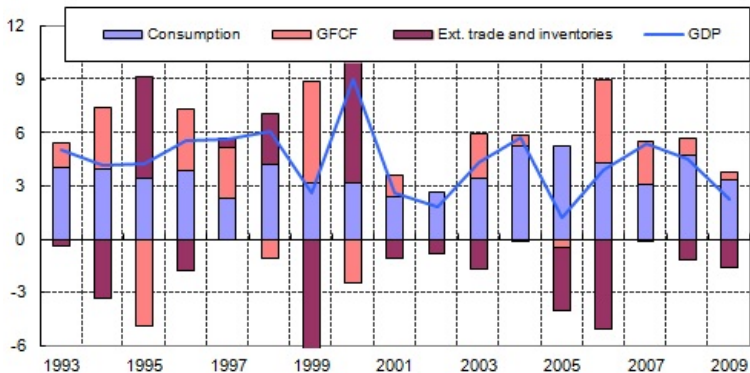
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$$Y = C + I + X - M$$
$$= C_{pub} + C_{priv} + I_{pub} + I_{priv} + \Delta S + X - M$$





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A case study: Mauritania

Decomposition of growth by expenditures

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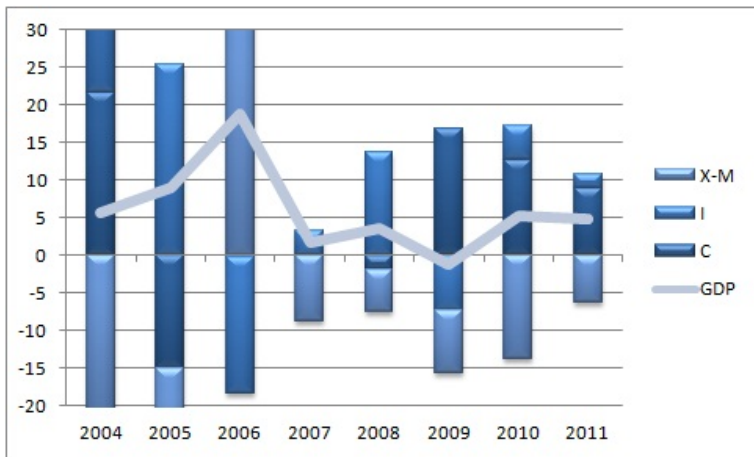
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Another case study: Madagascar

Decomposition of growth by expenditures

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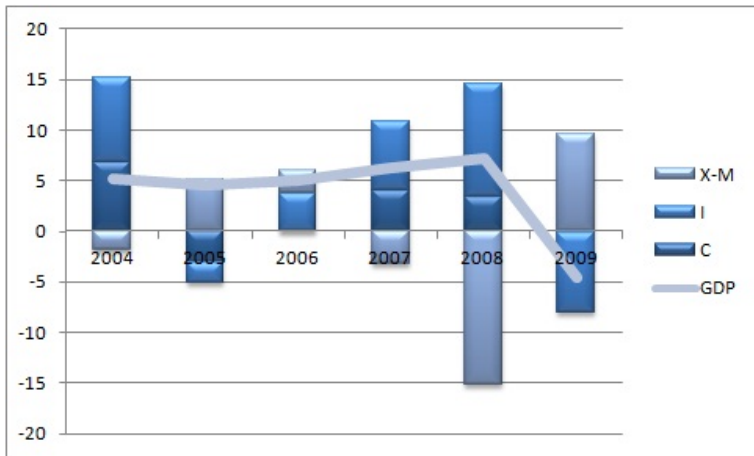
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Yet another case study: El Salvador

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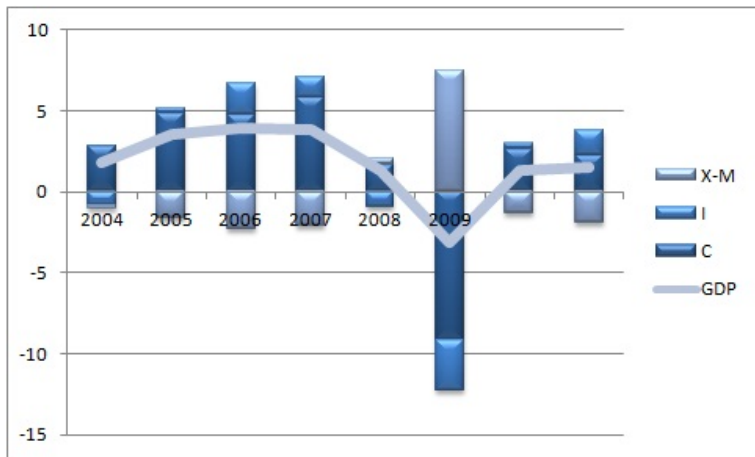
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Investment and LT growth

GFCF as % of GDP

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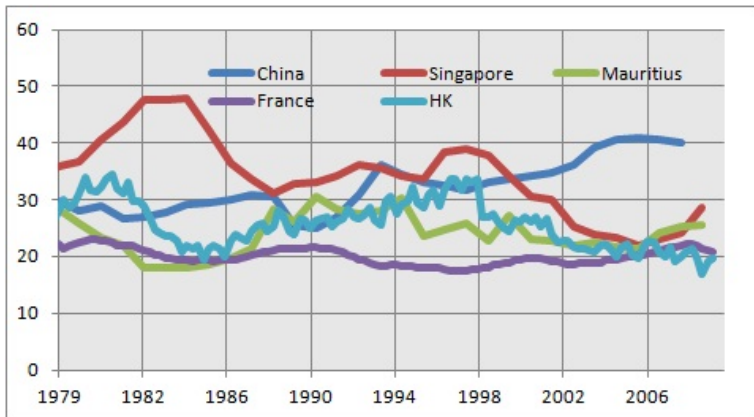
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Decomposition by income

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GDP is considered as the sum of incomes distributed to various institutional sectors:

- labor force: wages
- capital: profits, after tax
- public sector: taxes on production and imports minus subsidies

$$Y = AK^{\alpha}L^{1-\alpha}$$

In per capita terms and log-linearized:

$$y = \ln A + \alpha k$$

	GDP Growth	Capital	Labour	TFP
1980-90	6.3	3.0	2.0	1.3
1991-00	5.6	2.5	2.1	1.0
2001-07	4.1	2.5	0.9	0.7
1980-07	5.3	2.6	1.7	1.0



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ST cycles: overheating and its correction

Mauritius again – data comes from the Mauritian INS

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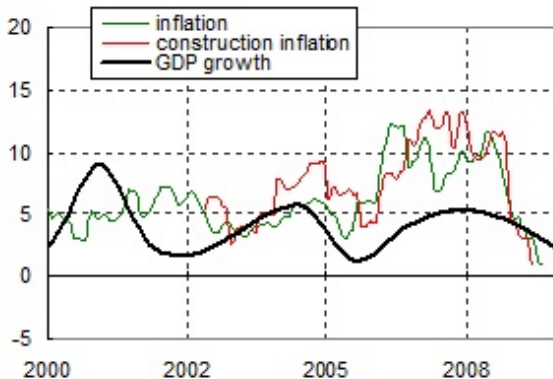
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- Nominal vs. real growth
- Beyond the nominal effect, productive sector inertia





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- An objective *per se* for the policymaker
- With very different realities across societies
 - income redistribution
 - land reform, universal health, free education etc.
 - focus on poverty reduction
 - employment
 - financial access. . .



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Measures of poverty

Absolute poverty as % of the population – data from the UN

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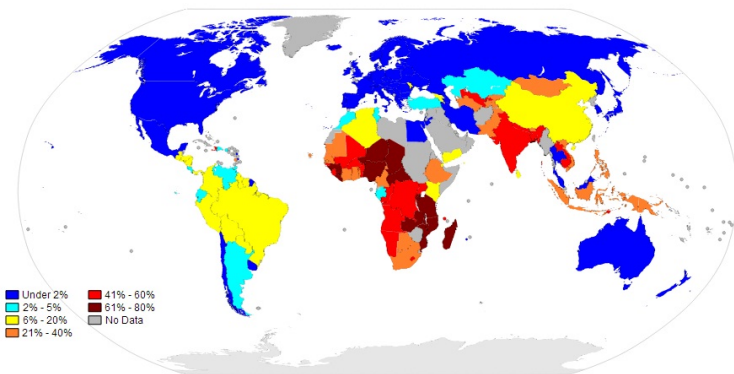
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- Absolute poverty
- Relative poverty
- poverty headcount
- poverty gap
- etc.



Various measures of poverty

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	poverty line	headcount	poverty gap
DRC	38	88%	53%
Mexico	192	18%	38%
South Africa	38	14%	2%
Switzerland	1148	9%	39%
Denmark	955	5%	24%



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Multidimensional poverty

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- The HDI as a composite index of poverty
- The MDGs as disaggregated dimensions of poverty
- A philosophical tradition which dates back to Perroux, Sen



Income inequalities

Lorenz curves – data from the WB

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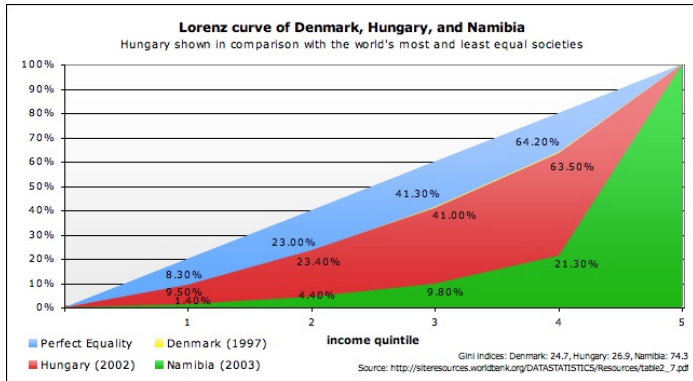
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- Lorenz curve
- Deciles / quintiles
- The Gini coefficient





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Income inequalities

Gini coefficient – data from the CIA World factbook

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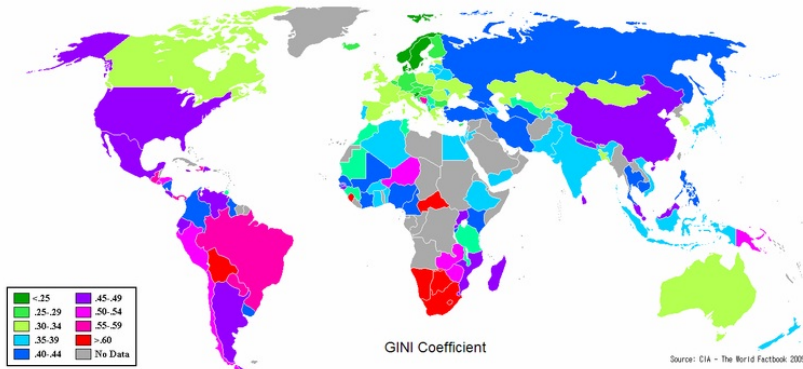
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- Lorenz curve
- Deciles / quintiles
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Other dimensions of inequalities

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Income inequalities may offer only a partial picture

- inequalities in terms of human capital
- access to administrative services
- inequalities in access to public infrastructure
- health and education services

The pace and the pattern of growth

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- Absolute and relative “pro-poor growth” often based on redistribution schemes
- “Inclusive growth” entails productivity increases and new employment opportunities
 - sustainable growth \implies broad-based across sectors
 - inclusive \implies equality of opportunity (access to markets, resources and unbiased regulatory environment)

The challenge of inclusive growth in resource-rich countries

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- Dutch disease
 - mineral extraction generates little formal employment
 - diversification hindered because of competitiveness issues
- conflict
- rent-seeking behavior, corruption, and institutional failure

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Measuring economic development

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Common indicators of economic development

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Common indicators of economic development

- GDP or GNP per capita at purchasing-power parity
- Income per capita according to the Atlas method (World Bank)

Common indicators of inequality and poverty

Measuring economic development

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Common indicators of economic development

- GDP or GNP per capita at purchasing-power parity
- Income per capita according to the Atlas method (World Bank)

Common indicators of inequality and poverty

- Gini index
- Poverty headcount
- Poverty gap

Measuring social and political development

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Common indicators of the quality of governance

Measuring social and political development

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Common indicators of the quality of governance

- Worldwide Governance Indicators (World Bank)

Measuring social and political development

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Common indicators of the quality of governance

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- Global Competitiveness Index (World Economic Forum)

Measuring social and political development

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Common indicators of the quality of governance

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- Doing Business (World Bank)

Common indicators of social development

Measuring social and political development

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Common indicators of the quality of governance

- Worldwide Governance Indicators (World Bank)
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- Doing Business (World Bank)

Common indicators of social development

- Human Development Index (UNDP)

Human Development Index 2011

darker countries have a higher HDI – data from the UN

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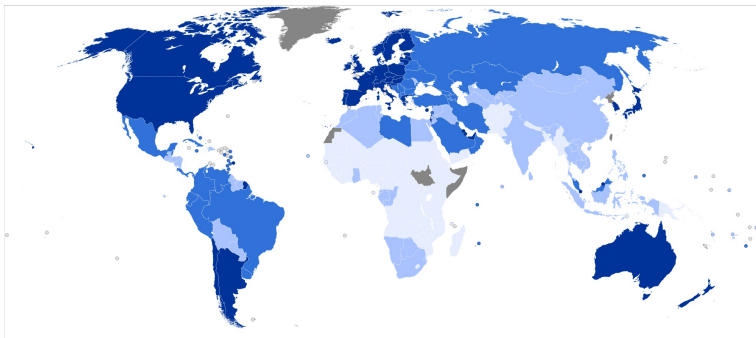
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HDI and GDP/cap in PPP in Africa

The primary
objectives of
economic policy

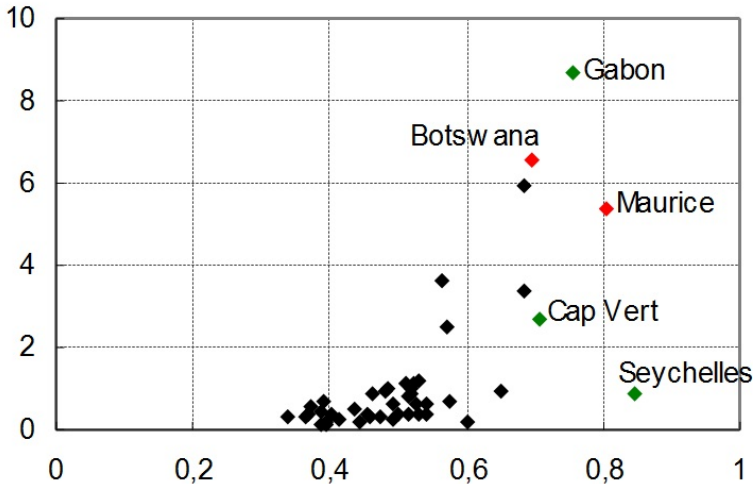
Arthur Silve

Introduction

GDP and growth
GDP, GNP, GNI
decompositions
accounting
ST cycles

Redistribution
poverty
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Development
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Operational conclusion

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The introduction of the “supplementary document to the action fiche and payment dossier” should include

- Key structural indicators
 - income per capita and WB classification
 - sources of growth (sectors and expenditures) – diversification (distinction between 'tradables' and non-tradables)
 - absolute poverty / inequality, unemployment (esp. youth), (urbanization and infrastructure provision)
 - quality of institutions and business environment – competitiveness
 - trade (and financial) openness
- and relations with the IMF (as well as the World Bank and other donors)
 - programme with the IMF and past history
 - last IMF staff report under article IV, main board conclusions