

Macroeconomic Policies for Poverty Reduction:
Drawing lessons from the Washington Consensus –
Post-Washington Consensus Debate
(with special Reference to Pakistan and South Asia)

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[Presentation at UN – ILO Expert Group Meeting on
“Poverty Eradication”, 20-22 June 2011, Geneva]

5 Key Issues

- ❖ Understanding poverty dynamics not just poverty levels.
- ❖ Macroeconomic dynamics for poverty alleviation:
 - Economic Growth → Labour Market
 - Employment and DW Generation
 - Poverty
- ❖ Understanding Macroeconomic - Poverty Dynamics in Pakistan and South Asia: Key Policy Lessons
- ❖ “Washington Consensus” : strengths and shortcomings
- ❖ A proposed new “Geneva Consensus”

Measuring Poverty

- ❖ MDG Goal on Halving poverty by 2015:
Concentrating Global Attention on Reducing Poverty
- ❖ Yet Poverty Estimates and Movement mired in debate that distract attention.
 - Poverty Line: National vs. Global Benchmarks
 - Shifting Goal Post: US\$1 to US\$1.25 and now to US\$2
 - Bunching of households around the poverty line:
Small improvements result in major shifts
 - Chronic vs. Transitory Poverty
 - Lack of rigour in estimating impact of economic/
financial crisis, price shocks and disasters on poverty
(e.g. Food inflation)

KEY NEXUS

Economic Growth → labour market → Employment and DW → Poverty reduction

- ❖ Welcome UN – ILO and ECOSOC initiative to explicitly establish critical link between poverty, employment and DW
- ❖ Political and social crisis is essentially lack of remunerative job creation in many developing countries especially for young people (“Arab Spring” or “Rising / Simmering Talibanisation”)
- ❖ Lack of productive and remunerative employment generation (‘Job Crisis’) key factor in explaining persistence of poverty in most parts of the world.

South Asia: Growth – Employment – Wages – Poverty Nexus

India, Bangladesh: Post – 2001: Economic Growth ↑
Sri Lanka - real wages ↑ - poverty ↓

Pakistan : 2001-2007: Economic Growth ↑
- real wages ↑ - poverty ↓

: 2007-2011: Economic Growth ↓
- real wages ↓ - Poverty ↑

South Asia: Highest Concentration of World Poverty

Yet today South Asia with over 40 percent of the world's poor (less than US\$1.25) and two-thirds of world's undernourished children has the highest concentration of poverty and hunger in the world.

South Asia: Impact of the Financial Crisis

GDP Growth Rates

| Country | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Bangladesh | 6.3 | 6.0 | 6.6 | 6.4 | 6.2 | 5.9 | 5.5 | 6.0 |
| India | 8.5 | 7.5 | 9.5 | 9.6 | 9.3 | 6.8 | 8.0 | 8.6 |
| Pakistan | 7.5 | 9.0 | 5.8 | 6.8 | 3.7 | 1.7 | 3.8 | 2.4 |
| Sri Lanka | 5.4 | 6.2 | 7.7 | 6.8 | 6.0 | 3.5 | 8.0 | 8.0 |

Source: Economic Survey of Pakistan, 2011; Economic Survey of India, 2009; Bangladesh Economic Review, 2011; Economic Survey of Sri Lanka, 2009; ESCAP, Economic and Social Survey of Asia and the Pacific, 2011.

Fiscal Deficit as Percent of GDP

(%)

| Country | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Bangladesh | -3.2 | -3.3 | -3.2 | -3.2 | -5.1 | -4.1 | -5.0 | -4.8 |
| India | -8.5 | -7.5 | -6.5 | -5.4 | -4.1 | -8.5 | -9.5 | -7.3* |
| Pakistan | -2.4 | -3.3 | -4.3 | -4.3 | -7.6 | -5.3 | -6.3 | -4.0* |
| Sri Lanka | -7.9 | -8.4 | --8.0 | -7.7 | -6.8 | -10.0 | -7.6 | – |

Source: Ibid.

Annual Average inflation Rates

(%)

| Country | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|-------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Bangladesh | 5.8 | 6.5 | 7.2 | 7.2 | 9.9 | 7.0 | 6.5 | 6.0 |
| India (WPI) | 5.5 | 6.4 | 4.3 | 6.5 | 4.8 | 8.0 | 3.6 | 9.4* |
| Pakistan | 4.6 | 9.3 | 7.9 | 7.8 | 12.0 | 20.8 | 11.7 | 14.1 |
| Sri Lanka | 9.0 | 11.0 | 10.0 | 15.8 | 22.6 | 5.0 | 6.0 | n.a. |

Source: Ibid

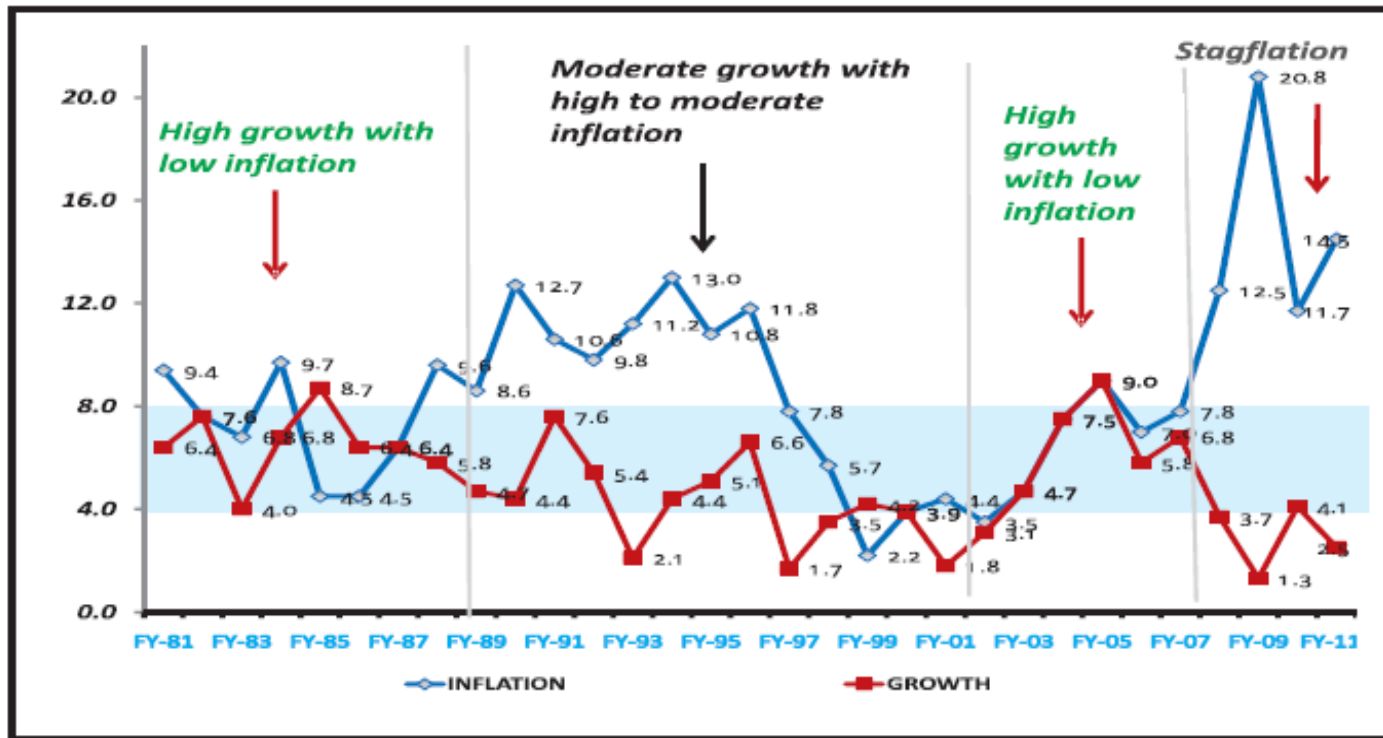
Current Account Balance (as Percent of GDP)

(%)

| Country | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Bangladesh | 0.3 | -0.9 | 1.3 | 1.4 | 0.8 | 0.8 | 0.2 | -0.1 |
| India | 2.3 | -0.4 | -1.2 | -1.0 | -1.3 | -2.3 | -2.8 | n.a. |
| Pakistan | +1.3 | -1.6 | -4.4 | -5.1 | -8.7 | -5.7 | -2.2 | +0.4 |
| Sri Lanka | -3.1 | -2.7 | -5.3 | -4.5 | -9.8 | -0.5 | -3.7 | — |

Source: Ibid

Pakistan: Macro Economic Performance



South Asia: Economic Impact of Global Financial Crisis on Macroeconomic performance – Selected lessons

- ❖ Overall: South Asia (excluding Pakistan) was able to deflect successfully the Financial Crisis

- ❖ Main Reasons:
 - Strong Macro Fundamentals/Stability (Bangladesh/India)
 - Provided room for Fiscal Stimulus (India)
 - Lack of integration with global financial system
 - Greater reliance on domestic consumption than exports
 - Healthy foreign exchange reserves
 - High growth in remittances

Source: Rashid Amjad and Musleh ud Din: *Economic and Social Impact of Global Financial Crisis – Implications for macroeconomic and Development Policies in South Asia*, PIDE-ADB-SANEI study, PIDE Monograph Series (2010).

Policy Responses/Safety Nets to Financial Crisis

Bangladesh: Cash subsidies to key exports; rural employment and road maintenance programmes.

India: Fiscal stimulus (1.5% of GDP); coordinate monetary/fiscal response NREGP; Rural Self-Employment Programme.

Sri Lanka (costs of civil Strife/Rehabilitation): moderate Fiscal Stimulus (0.3% of GDP; face of high inflation monetary policy tightened; exchange rate depreciation.

Pakistan: IMF Stand-by Agreement; Economic Stabilization; Benazir Direct Income Support Programme (Rs.1000 to 3.5 million families to be raised to 7.5 million families).

Source: Ibid

Economic Growth in South Asia: Key Factors

- ❖ Macroeconomic stability key to stimulating economic growth
- ❖ Growth in Total Factor Productivity
- ❖ Improved HDI
- ❖ Competitiveness in Export markets
- ❖ Remittances

Role of Labour Markets: South Asia

- ❖ Well functioning and efficient labour market attract both domestic and foreign investment.
- ❖ Employment-elasticity and Poverty-elasticity in relation to GDP determined in large measure by structure / rigidities in labour markets.
- ❖ Stringent labour laws no longer identified by businessmen as constraint to investment (electricity, corruption, skilled labour seen as major constraints).
- ❖ Combine labour flexibility for employers with security for workers.
- ❖ Need to build efficient, equitable and rights based labour markets

Where Jobs Have been Generated: South Asia

- ❖ Non-farm sector (livestock)
- ❖ Non-Agriculture Rural (Construction, Services)
- ❖ Service Sector
- ❖ Manufacturing Limited (mainly SMEs/Micro/Informal)
- ❖ Key Issue is not just more employment but better jobs (DW) Indicators:
 - Real Wages
 - Upward labour mobility
(vulnerable/secluded groups)
 - Social Protection (very limited)
 - Conditions of work
 - Rights at work

“Washington Consensus” (Getting Prices Right)

- ❖ Macro Stability
- ❖ De-regulation
- ❖ Liberalization
- ❖ Privatization

South Asia: Economic Reform Agenda

- ❖ Reforms broadly in line with “Washington Consensus”
- ❖ Some countries tailored reforms to national priorities rather than be driven by the “Washington Consensus” orthodoxy.
- ❖ India vs. Pakistan
 - Capital Controls
 - Exchange rates

“Washington Consensus”: Key Questions

- ❖ Would employment / poverty outcomes have been different if South Asian policy makers followed different set of policies?

South Asia: Where policies/implementation could be better

- ❖ Better integration of fiscal/monetary policies
- ❖ Ignoring agriculture (forgot people have to eat)
- ❖ Investment in human development
- ❖ More emphasis on improving functioning of labour market rather than sole obsession with relaxing labour regulatory framework (hire and fire)
- ❖ Better targeted social protection / safety nets
- ❖ Environmental degradation

Post-Financial Crisis: “Washington Consensus”

- ❖ Little change in basic economic policy (liberalization, privatization de-regulation) of South Asian governments or BWI after the Financial Crisis

- ❖ But two major changes; clear shift in emphasis towards:
 - Employment generation (“More and better Jobs”)
 - Social protection and safety nets

Towards a “Geneva Consensus” : Productive Employment and Decent Work for Poverty Reduction and Sustainable Development

Key Pillars

- ❖ Macroeconomic stability for Economic Growth
- ❖ Ensuring growth penetrates sectors where the poor are concentrated (e.g. informal)
 - Creating employment opportunities for young women and men
- ❖ Increase investment in Human Development
- ❖ Social Protection/Safety nets/Direct Income Support for vulnerable and excluded groups.
- ❖ Protecting the environment

“Investing in People – Not just investing in Markets”



THANKS