2nd African Decent Work Symposium 2010

"Building a Social Protection Floor with the Global Jobs Pact"

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Information Note B - Panel 1: Exploring the elements of an employment-oriented macroeconomic framework for Africa

Context

The African region experienced a growth revival in the 2000s after the ‘lost decades’ of the 1980s and much of the 1990s. Such a growth revival was also associated with a significant reduction in both inflation and inflation volatility - although growth volatility in the 2000s did not decline relative to the 1990s. These declines in inflation and inflation volatility have been associated with substantial improvements in fiscal and current account balances between the 1990s and 2000s.

One could argue that such a record owes much to the mainstream macroeconomic framework (MMF) that was so dominant in the pre-crisis period. Two key nominal targets have characterized the operational design of the MMF: (a) the attainment of low single digit inflation and (b) prudential limits on public debt to GDP ratios supported by low fiscal deficits (usually below 5% of GDP). The primary rationale is that stability and predictability in these targets engenders and sustains market confidence enabling the private sector to undertake critical savings and investment decisions that play a key role in growth and employment creation.

Concerns about attaining the targets on inflation, debts and deficits have shaped the design of fiscal and monetary policies in Africa and the utilization of aid inflows in public expenditure programmes, as a 2007 study from the IMF’s Independent Evaluation Office for 29 PRGF (poverty reduction and growth facility) countries in Sub-Saharan Africa has confirmed. This has certainly contributed to improved macroeconomic imbalances, but this improvement did not translate into large enough growth and employment dividends in the region that could reverse the deleterious consequences of the ‘lost decades’ of the 1980s and 1990s. Indeed, for the sample of 29 Sub-Saharan African (SSA) countries with access to PRGFs, per capita incomes in the mid-2000s was still lower than they were in 1980, while aggregate poverty remained roughly constant over the last twenty years. This has compounded the challenge of meeting the MDGs by 2015.

In light of these somber statistics and in the aftermath of the Global Recession of 2008-2009, it is perhaps not surprising that rethinking in macroeconomics in the post-crisis period is underway, most notably within the IMF. There is a greater appreciation of the limits of the mainstream macroeconomic framework. Furthermore, the historic collaboration between the ILO and the IMF at the recently concluded Oslo Conference of 13 September, 2010 has created the opportunity for the ILO to bring back the agenda of ‘full and productive employment and decent work for all’ at the core of the global policy agenda. This will require revisiting key elements of the MMF that will enable current goals and targets to be more closely aligned with contemporary labour market and employment challenges in Africa. More specifically, elements of an employment-oriented framework would need to revisit the dominant practices in monetary, fiscal and exchange rate regimes. Such a framework would also need to recognize that macroeconomic policies should be complemented by sustained efforts at economic diversification and by efforts to strengthen labour market institutions that can usher in wage and productivity-led growth.

Objectives of the panel

The session will

- Reflect on the benefits and costs of the mainstream macroeconomic framework by focusing on the following thematic areas (1) monetary policy and inflation targeting

(2) fiscal policy and debt sustainability (3) exchange rate regimes and capital account management

- Suggest, based on cross-country evidence and country-specific experiences, a menu of policy options that might enable policy-makers to preserve the benefits of the mainstream macroeconomic framework while reducing its costs and unintended consequences

- Propose that the transition to an employment-oriented macroeconomic framework will require the political will among governments in the region to engage in pro-active policy experimentation.

Key messages

The global policy discourse on macroeconomics and development is poised at a critical juncture. On the one hand, one can detect much-needed re-thinking in macroeconomic policy in the wake of the global financial crisis. On the other hand, the commitment to fiscal consolidation in many OECD countries to bring back public finances – wrecked by recession-induced declines in revenues and sharply increased spending commitments – to prudent levels have re-ignited the debate on the relationship between macroeconomic policies, growth, employment and poverty reduction.

The key message is that the juxtaposition of the consequences of the global recession and the historic collaboration between the ILO and the IMF has created the opportunity to rethink how one can engender an enabling macroeconomic framework to support more and better jobs in Africa.

Possible/leading questions for the debate

- What are the challenges that lie ahead in promoting, rather than simply monitoring, MDG target 1B as a way of rethinking macroeconomics for the post-crisis era?

- How can one overcome such challenges using a pragmatic policy agenda that can be adapted to country-specific circumstances?

- What needs to change for monetary, exchange rate and fiscal policies to more effectively support the process of employment creation and poverty reduction?

- How to strengthen quantitative and qualitative employment targets within National Development Strategies?