MACROECONOMIC POLICY COHERENCE FOR SDG 2030

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Macroeconomic policy coherence is a significant core strategy in the implementation of the SDG 2030 Agenda.

The focus is to capture how macroeconomic policy making – monetary, fiscal and structural reforms – can be improved in Asia Pacific so as to contribute to the 2030 SDG Agenda.

To identify the significant constraints of the macro policy making in the region and build the capacity of the policy makers through some specific tools to understand how macro policies relate to the SDG 2030.
I. Effectiveness of monetary policy in achieving SDGs (prices, unemployment and assets) in the region and the transition to inflation targeting framework

II. Efficacy of fiscal policy, whether it is sufficiently geared or targeted to achieving the SDGs or “fiscal rules” needs to be restructured to address the SDGs.

III. Can structural policies – regulatory policies - fill the gaps left by monetary and fiscal policies to achieve the SDG agenda.

IV. Discuss the plausibility of matrices to link 17 SDG Goals to macroeconomic policy tools as economic growth does not translate into SDG attainment, and highlight specific policy tools.
What Not: Not calibrated on the assumption whether monetary policy stance is a countercyclical policy tool or not and its linkages to output gaps and SDGs.

What we attempted: focused on different targets (prices, unemployment, assets) that the Asia Pacific region has been applying in the monetary policy stance and collated the evidences on Central Bank’s perspectives and tools of monetary policy in the region.
Monetary Policy Transition in Asia

- Ex-post to global financial crisis, emerging market economies in Asia have increasingly adopted the monetary policy strategies to establish price stability.
- The countries have adopted inflation targeting approaches to peg their policy rates based on the nominal anchor.
- Inflation targeting has been accepted by the advanced countries as the superior framework of monetary policy in Asia.
Inflation targeting, is usually misunderstood as just targeting the rate of inflation as an objective of economic policy.

In reality, inflation targeting includes five processes.

- Nominal Anchor: setting a numerical target range for the rate of (price) inflation, usually Central Bank in co-ordination with the Government.
- Incorporating Inflationary Expectations: the use of monetary policy as the key policy instrument to achieve the target, incorporating inflation expectations.
- Operational Independence: operation of monetary policy in the hands of an “independent” Central Bank, or an agreement between Central Bank and the Government for a MPC?
- Goal Independence: Four, the sole aim of monetary policy is price stability? Economic growth ignored.
- Rule-based IT framework: follows the principle of “constrained discretion” or a, monetary rule, more often Taylor’s rule.
“Eclectic” Approaches of Monetary Policy in Asia Pacific

- “Eclectic approaches” with respect to multiple goals, indicators and instruments with a comprehensive monetary policy reaction function.

- The monetary policy transition in Asia was strictly not from “discretion to rules”, rather it is somewhere in between “rules” and “discretion”. How can this policy transition be articulated with respect to SDG commitments?

- Can inflation stability and SDG commitments mutually reinforcing? Or the monetary policy has to go beyond inflation targeting framework to meet the SDG commitments?

- High frequency interventions by the monetary policy authorities in the FOREX markets and aiming for financial stability to price stability.
Empirical Issues in Monetary Policy to target SDGs

- MPCs – Operational Independence Versus Goal Independence
- “status quo” in policy rates and “overcautious” MPC?
- Interest rate or credit channel – the strongest (country specific evidences)
- Output Gap and Inflationary Expectations, “unobserved” variables.
- Inflation, not strictly a monetary phenomenon in many countries in Asia, with “supplyside” shocks including food and oil inflation.
- IT framework not enough to focus on “balance sheet cleansing” (India’s twin balance sheet problems and recapitalization move)
The “First-mover advantage” in macro policy framework and SDGs

- SDG commitments within a macro policy framework is closely related to question “who moves first? Fiscal policy maker or central bank governor?"
- The empirical evidence is mixed in the region about the policy assertion that “fiscal rule is required for monetary rule”.
- Restraining the fiscal authorities from engaging in excessive deficits financing is a pre-requisite to align fiscal policy with monetary policy to contain inflation, where the monetary policy moves first and dominates, forcing fiscal policy to align with monetary policy through fiscal legislations. This leads to Central Bank Independence (CBI) & usually referred to as “Unpleasant Fiscal Arithmetic (UFA)”. An UFA is a pre-requisite for SDG commitments or fiscal dominance?
Fiscal consolidation - fiscal deficit to GDP ratio is restricted to 3 per cent of GDP (directly derived from the Maastricht Treaty of EU Articulation of the debt-GDP threshold.

Given the rule-based fiscal dynamics – the transition in the fiscal policy from discretion to rules - attaining SDGs would be the major challenge?

Most countries, including China, Indonesia, the Republic of Korea and the Russian Federation, had wider fiscal deficits or narrower surpluses and slower economic growth in the period 2014-2016 compared with the period 2011-2013, while India and Pakistan had higher economic growth and smaller fiscal deficits (UN ESCAP, 2017)
The impact of fiscal consolidation on sustainable development goals - one-to-one correlation of fiscal policy and human development index (Chakraborty, 2008).

If we move a step ahead to incorporate gender inequalities, the link further worsens (Chakraborty et al, 2017).

$r > g$ (real interest rates greater than growth of the economy) is the point where debt becomes unsustainable.

Free lunch: Though debt-GDP ratio is above 100, can $r < g$ provide leverage to for human development financing?
Impact of deficits on economic growth has been captured in two ways, one through the link between fiscal stance and output gap to arrive at whether fiscal policy is countercyclical (Tanzi, 2016), which is a short run fiscal consolidation exercise and the other link through analyzing the impact of deficit on crucial macroeconomic variables like rate of interest, private corporate investment etc.

It is often debated that rule-based fiscal consolidation measures have provided strong macroeconomic fundamentals. However this argument is correct only if there is significant macroeconomic channels operating from fiscal deficit to other fundamental variables like rate of interest, “crowd out” private investment, rate of inflation and capital flows. https://us.sagepub.com/en-us/nam/author/lekha-s-chakraborty

Empirical evidence is mixed, if deficit causes rise in real interest rates and there is strong fiscal-monetary linkages in the region (Chakraborty, 2016). http://www.nipfp.org.in/blog/category/book-review/
A transparent and equitable tax system is a pre-requisite for adequate revenue mobilization to meet SDGs.

The Panama Papers released in April 2016 revealed 214,488 offshore tax havens, created through tax avoidance.

Reforms are required to track illicit financial flows and flaws in the global financial architecture.

A global governance arrangement and regulatory framework is required to make sure that foreign investment promotes equality and sustainability as well as economic growth across geopolitical entities.

GST is expected to bring transparency into the system as tax invoices are required to redeem tax credit and this in turn is expected to prevent tax avoidance, and avoid cascading effects of multiple taxation at various levels of inputs.
There is a growing recognition towards domestic resource mobilization and fiscal self-reliance to achieve SDGs.

The fiscal consolidation through enhanced tax buoyancy is better than cuts in public expenditure.

A few countries have introduced innovative taxes, for instance carbon tax, which could be an additional source of financing SDGs.

Natural resource taxation, linking mining revenue to human development. Cashing in Oil?
Public Expenditure Benefit Incidence analysis can capture the effectiveness of public spending.

Monitoring outcomes of public expenditure is equally significant as designing public expenditure policies.

The public expenditure benefit incidence analysis (BIA) across categories of gender, geography and social groups can capture the distributional impacts of public spending.

Benefit incidence is computed by combining information about the unit costs of providing the publicly-provided good with information on the use of these goods.
Higher budgetary allocation per se does not ensure higher spending.

There can be budget forecast errors or unspent money which in turn affects the outcomes. Capturing this deviation or errors between budget estimates and actual spending is called fiscal marksmanship analysis.

The analysis can provide whether this deviation or errors are random, variations or happened through the bias of macro policy maker.

Economic agents use all available information to form rational expectations according to the theory of efficient markets. Fiscal marksmanship is the accuracy of budgetary forecasting.
Analysis revealed that neither revenue nor expenditure forecasts in India uphold rational expectations (Chakraborty and Sinha, 2008).

It was also revealed that capital budget revealed more forecast errors than revenue budget (Chakraborty and Sinha, 2008; Nitin and Roy, 2016).

If the proportion of error due to random variation is significantly higher, it reflects that these errors have beyond the control of the forecaster or the macro policy maker.

From SDG perspective, sectoral fiscal marksmanship analysis is highly relevant and a matter for future macroeconomic policy research in the region.
Fiscal reforms to promote efficient fiscal management and fiscal sustainability.

These initiatives include a Fiscal Councils, Medium Term Fiscal Framework (MTFF), accrual accounting, and outcome budgets. These fiscal reforms aims to improve the performance, efficiency and the prioritization of public spending by converging national and line ministry’s outcomes with programs and budgetary resources through integrating planning, budgeting and auditing.

Are SDGs integrated in this processes in Asia Pacific?
Randomized experiments to analyse whether feminization of governance alters public expenditure decisions favouring women’s preferences and needs (MIT study).

Empirical evidence found that women leaders of village councils invest more in infrastructure that is relevant to the needs of rural women (like drinking water, fuel, and roads) and that village women are more likely to participate in the policymaking process if the leader of their village council is a woman.

Inferences that placing women in local level governance can change the expenditure decisions of the local bodies and, in turn, change the types of public-good investments at the local level to correspond more to the revealed preferences (voice) by women.
Asymmetric Federalism: Integrating SDGs in IGFT

- In any asymmetric fiscal federalism, SDG commitments cannot be confined just to the national governments.
- There is a growing recognition to the role of intergovernmental fiscal transfers (IGFT) in selectively integrating SDGs – for instance, climate change and disaster management.
- Empirical evidences are relatively a few attempts to translate the financial devolution commitments into SDG commitments.
  - For instance, Fourteenth Finance Commission in India has incorporated climate change variable as one of the criteria for devolution of funds.
Normative framework and methodology to analyse the fiscal policy for SDGs

- Bottom-Up Planning process for SDGs: Sen’s Capability Approach provides an advanced analytical framework to build a normative framework and methodology to analyse the fiscal policy for SDGs.

- In terms of Sen’s capability approach, there are three crucial layers, which need interpretation in the context of SDGs. These crucial layers are capabilities, functioning and commodities.

- The first step is to propose a list of basic capabilities relate to 17 SDGs. The second step would be to gather relevant information on the *functioning*, that are observable data. The third step is to estimate the optimal *commodity space*, especially the fiscal policy stance in terms of SDGs.
Economic growth is cyclical and structural.

Structural policies are defined as the macroeconomic policies framed to impact on the total factor productivity (TFP) of the country, incorporating the regulatory policies. These policies comprises of innovation policies, price and energy policies, regulations and labour policies.

From SDG perspective, structural policies include policies relate to public enterprises, financial sector regulation, labor market rules and regulations, the social safety net, and institutions, which in turn helps to trigger economic growth.

Examples: Power Debt dynamics for energy efficiency, DMF for human development.
The SDGs were officially adopted by the member nations at the UN Summit in New York in September 2015.

The SDGs are ambitious than expiring MDGs as “leave no one behind” is the strategy adopted by the SDGs, by focusing on five key elements: people, planet, peace, prosperity and partnership. There are 17 SDGs and 169 targets.

Two global meetings need special mention in this context. One is the Addis Ababa Action Agenda on sustainable financing strategy and second the UN Climate Summit in Paris on a global agreement on climate change commitments.
The SDGs are more ambitious than MDGs and hold a view that development needs to be economically, socially and environmentally sustainable.

The commitment to SDGs by each country at two levels – internal and external. The internal commitments at national level aims to create enabling macroeconomic environment and robust sustainable growth.

The external commitment is stability in trade and financial flows and co-operation among countries to ensure a coherent macroeconomic policy framework. Such international commitments are required for stable financial safety.

At the national level, governments must attempt to boost investor confidence, strengthening public finances, social inclusion and environmental regeneration.
Specific Policy Tools for SDGs

- Climate responsive Budgeting
- Gender Budgeting
- Universal Basic Income
- Financial Inclusion through digital infrastructure in public finance
- Fiscal policy as “employer of last resort”
- Energy policies
- Intergovernmental fiscal mechanisms for SDGs
Conclusion

Broadly the policymakers have articulated a plethora of legislative climate, regulatory mechanisms and economic environment exist to implement SDGs at national and sub-national levels in several countries. However, the most significant, and often overlooked, are about the macro policy tools that they have to complement these broad approaches.

What are the macro instruments in the Asia Pacific region that are often used to regulate activity, mobilise revenue, promote gender equality and environmental management, provide cash transfers to vulnerable groups and provide employment?

As there is no policy analysis, a normative analysis of what “ought to be” macro policies is attempted through social outcome matrices linked to economic growth. As all 17 matrices is beyond the scope, gender budgeting (Goal 5) is studied in depth.
General Discussion

- Scope of monetary policy in achieving SDGs
- Scope of fiscal policy – tax, expenditure, IGFT and deficit rules in address the SDGs.
- Scope of structural policies – regulatory policies to achieve the SDG agenda.

Country-Specific Matrices

- Can you trace a few country-specific macro policies/tools designed for selected 17 SDG Goals? Use country-specific matrix for any 5 SDG goals minimum.

- Row 1: Name of the Country
- Row 2: Specific SDG goal
- Row 3: Fiscal policy addressing the specified goal
- Row 4: Monetary policy addressing the specified goal
Thank You
Part II

MACROECONOMIC POLICIES FOR SDG GOAL 5
The Global Context

- 2015 Financing for Development (Addis Ababa): Transformative financing for attaining SDG 2030

- Gender Budgeting: Fiscal articulation for redressing gender inequality or ex-post matrices.

- SHD paradigm of UN Conference of 1990s (‘People-mattered’ budget initiatives) with Climate change, gender equality, democratic governance and poverty eradication goals
The Focus

Macroeconomic Content of Gender Budgeting
Macroeconomic Content of GB

- Role of State in gender budgeting
  - to activate the signaling
  - and/or involved in sustainable process to achieve efficiency and equity.

- Effectiveness of gender budgeting on human development outcomes
The average value of each of the component variables in HDI is substituted by “equally distributed equivalent achievements”.

\[ X_{ede} = \left[ n_f \left( \frac{1}{X_f} \right) + n_m \left( \frac{1}{X_m} \right) \right]^{-1} \]

where \( X_f \) and \( X_m \) are the values of the variable for females and males, and \( n_f \) and \( n_m \) are the population shares of females and males. \( X_{ede} \) is a ‘gender-equity-sensitive indicator’ (GESI).

Thus, GDI is computed as

\[ GDI = \frac{L_{ede} + \left( \frac{2}{3} \times A_{ede} + \frac{1}{3} \times E_{ede} \right) + Y_{ede}}{3}. \]
Derivation of these indexes is premised on the notion that, ceteris paribus, societies have an aversion to gender inequality.

The difference between the GDI and HDI for a country reflects not only the magnitude of the gender gap but also the penalty that applies to this gap.

This penalty is calculated by constructing the so-called *equally distributed equivalent achievement* (EDEA), which is defined as the level of achievement that, if attained equally by women and men, would be judged to be exactly as valuable socially as the actually observed achievement. (Stotsky 2006, 2016)
Global best practice leaders of gender budgeting like Australia and India

Comparatively rich fiscal data


Within Government initiatives successful – Australia, India, Korea, Nepal
Phases: Policy Decisions & Financing Gender Development

- Phase 1: Modeling GRB
- Phase 2: Institutional Mechanisms and Analytical matrix
- Phase 3: Capacity Building
- Phase 4: Accountability Mechanisms
Gender Diagnosis and Incidence

- Gender diagnosis.
- Analysing Union budgets ex-post through a gender lens.
- Public Expenditure Benefit Incidence analysis.
- Report/presentation for Standing Committee/Parliamentarians
GDP and System of National Accounts

- SNA Economic Activities
- UNSD SNA 1993 decision to extend the Production Boundary
- Non-SNA
‘Hard to Price’ Categories in SNA

- Lifting the veil of statistical invisibility of ‘Hard to Price’ categories. This has significant implications in terms of macro policies for SHD.

- Allocation and efficiency of non-market time is more significant for economic growth and welfare.
### Time spent on Care Economy

(hours per week)

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<thead>
<tr>
<th>States</th>
<th>females</th>
<th>male</th>
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<tbody>
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<td>Haryana</td>
<td>31.06</td>
<td>1.99</td>
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<tr>
<td>Madhya Pradesh</td>
<td>35.79</td>
<td>4.43</td>
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<td>Gujarat</td>
<td>39.08</td>
<td>3.19</td>
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<tr>
<td>Orissa</td>
<td>35.7</td>
<td>4.47</td>
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<tr>
<td>Tamil Nadu</td>
<td>30.46</td>
<td>3.19</td>
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<tr>
<td>Meghalaya</td>
<td>34.52</td>
<td>7.16</td>
</tr>
<tr>
<td>Combined States</td>
<td>34.63</td>
<td>3.65</td>
</tr>
</tbody>
</table>
## Satellite Accounts of Non-market Care Economy

<table>
<thead>
<tr>
<th>States</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Haryana</td>
<td>2.48</td>
<td>27.28</td>
<td>29.76</td>
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<tr>
<td>Madhya Pradesh</td>
<td>6.31</td>
<td>40.99</td>
<td>47.30</td>
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<tr>
<td>Gujarat</td>
<td>2.55</td>
<td>26.07</td>
<td>28.62</td>
</tr>
<tr>
<td>Orissa</td>
<td>4.48</td>
<td>34.72</td>
<td>39.20</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>3.52</td>
<td>22.80</td>
<td>26.31</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>11.58</td>
<td>38.35</td>
<td>49.93</td>
</tr>
</tbody>
</table>
Institutional Mechanisms

- Governance Issues of GRB
- Fiscal Rules & “Classification of Budgetary Transactions”.
- FinMin approval of GRB recommendations.
- Plausibility of a GRB page in Expenditure Budget
Institutional Entry Points

- Gender Budgeting Secretariat at MoF
- Interdepartmental Standing Committee on Gender Budgeting.
- Formulate Matrices for gender-disaggregated data
- Periodic gender-disaggregated BIA
- Monitoring Output than Input.
Ex-post GRB: Analytical matrix to Classify Public Expenditure

**ANALYTICAL MATRIX**

- **Category i.** Specifically targeted expenditure
- **Category ii.** Public Expenditure with pro-SHD allocation
- **Category iii.** Mainstream expenditure that make SHD impacts.
GRB Specifications

- Focus on Intergovernmental Transfers
- Institutional Mechanism at subnational levels
- Categorization of Budget through a gender lens (Using Analytical Matrix)
- Fiscal Marksmanship Analysis:
  - Any deviation between Budgeted and Actuals?
- Linking to Performance Budgeting
- Identifying Complementary Fiscal Policies
- Capacity Building at local level
Public Policy and Sustainable Development: Any Link?

- Determining environmental quality in a fiscal federalism.
- Public Expenditure tagging decisions on SHD.
- Econometric Model verifications of the link.
- Intergovernmental Fiscal transfers for SHD?
- Governance and SHD
Ministry of Finance in the lead role to incorporate gender budgeting in Budget Circulars, Expenditure Budgets, and the Outcome Budget.

Integrate gender budgeting within the existing “classification of budget transactions”. India and Korea

Making gender budgeting mandatory through fiscal legislations (National Finance Act)
Gender Budget Statements in vogue
Transparency and Accountability initiatives
GBS – to articulate how much they spend on women;
GBS helped to mainstream gender budgeting in the prima facie gender neutral ministries
DATA PAUCITY

- GBS led to building up sex disaggregated data at sectoral level
- Valuing Care economy_time use statistics
- Monitoring Outcomes _ Outcome Indicators
- GB as “Good Governance”. Indicators
Challenges

- Making GB legally mandatory
- One-time exercises, and outside govt
- Institutional Structures
- Capacity Building of GBCs
- One-size fits all exercises
- Exploring the fiscal decentralisation frameworks
- Integrating gender in fiscal transfers