Centre for Growth and Business Cycle Research
University of Manchester, United Kingdom

Macroeconomics for Growth and Poverty Reduction

Manchester, June 7-11, 2010

1. Background

Recent assessments of the status of the Millennium Development Goals (MDGs) in poor countries by multilateral institutions and other informed observers have revealed that progress in achieving them has been mixed and slow. While some have urged greater emphasis on redistribution policies for improving living standards, others have emphasized the need to accelerate the rate of economic growth.

In that perspective, some have advocated a “big push” in public investment in education, health and infrastructure, financed (in countries where the ability to raise resources through domestic taxation or borrowing is limited) by foreign aid. A key issue that arises therefore in low-income countries is how to assess quantitatively the impact of a public investment program (PIP), financed by aid or domestic resources, on growth, poverty, and the MDGs in general. This assessment is an essential step to building a coherent medium-term strategy for growth and human development. For middle-income countries, a similar challenge arises, with foreign borrowing being the main source of external finance.

During the past few years the Centre for Growth and Business Cycle Research (CGBCR) at the University of Manchester has led a research agenda focusing on a number of issues associated with growth, poverty reduction, and human development in low- and middle-income countries. Professor Pierre-Richard Agénor, co-Director of the Centre for Growth and Business Cycle Research (CGBCR) at the University of Manchester, has devoted much of his recent research to understanding the causes of poverty traps, the role of public capital in growth, the macroeconomic effects of foreign aid (most notably on fiscal policy and the real exchange rate), and the dynamic trade-offs that national authorities face in allocating public investment between core infrastructure, education, and health. Much of this research has led to important theoretical contributions in leading professional journals. In addition, in joint work with various collaborators (in institutions like the World Bank, the Inter-American Development Bank, and UNDP) Professor Agénor has also developed two complementary classes of applied macroeconomic models aimed at evaluating the impact of alternative policies on growth and the MDGs. Professor Keith Blackburn, also co-Director of CGBCR, has explored with various collaborators the role of corruption and governance on growth. His work has brought new insight, in particular, on the implications of governance (or lack thereof) for the benefits of financial openness.

2. Objectives of the Course

The purpose of the CGBCR course is twofold. First, it aims to strengthen analytical and practical understanding of the recent research on the macroeconomics of growth and poverty reduction (or, more broadly, human development) in low- and middle-income countries, and its implications for the design and formulation of growth strategies. Presentations will focus, in particular, on the sources of growth (with a comprehensive and critical review of the evidence for low-income countries), the causes of poverty traps, and linkages between foreign aid, the level and composition of public investment, and growth.

Second, the course aims to familiarize participants with two classes of quantitative macroeconomic models developed by Professor Agénor and his various collaborators, IMMPA and SPAHD models. The common point of departure of these models is that in designing strategies for growth, poverty reduction, and human development, national authorities may face important dynamic trade-offs in allocating public investment between infrastructure, education, and health. Capturing these trade-offs involves accounting for a series of important micro-macro linkages in the design of quantitative macroeconomic models.

The SPAHD framework, in particular, incorporates key linkages between aid, public investment, and growth in a one-good setting that has proved to be highly tractable in several low-income countries. It also highlights the interplay between supply and demand effects of foreign assistance, and identifies a number of channels through which various components of government investment affect an economy's supply side. As a result, it is well-suited for helping policymakers and their advisors to elaborate consistent quantitative assessments of the impact of various policies on major economic indicators—such as GDP growth, private consumption, the government budget, the real exchange rate, and external trade—and human development indicators such as poverty, malnutrition, infant mortality, life expectancy, and access to safe water.

In addition, because of the one-sector, one-household nature of SPAHD models, data requirements for building them are fairly limited compared to more elaborate models. Although by construction they cannot address directly distributional issues, SPAHD models have proved to be very valuable learning tools in a context where human resources are scarce to begin with and technical capacity must be built gradually.

Presentations will dwell on the experience of several low-income countries, most notably Burundi, Ethiopia, Haiti, Madagascar, and Niger, as well as middle-income countries such as Brazil and Morocco. They will also offer general guidelines for using SPAHD and IMMPA models to quantify medium-term strategies for growth, poverty reduction, and human development in developing countries.

3. Description and Contents

The course will take place over five days and will consist of ten sessions.

- **Session 1**. Sources of Growth I: The Role of Savings, Investment, and Human Capital
- **Session 2**. Sources of Growth II: The Role of Governance, Corruption, and Institutions
- **Session 3**. Public Capital, Composition of Public Spending, and Growth
- **Session 4**. Causes of Poverty and Low-Growth Traps
- **Session 5**. Sources of Growth in Low-Income Countries: Overview of the Evidence
- **Session 6**. Micro-Macro Linkages for Poverty Analysis
- **Session 7**. Macroeconomic Policies and the Poor: Transmission Channels and the Role of the Labor Market
- **Session 8**. Macro Models for Growth and Poverty Analysis I: Structure of SPAHD Models and Impact of Foreign Aid
- **Session 9**. Macro Models for Growth and Poverty Analysis II: Linking Public Investment Programs with SPAHD Models
- **Session 10**. Macro Models for Growth and Poverty Analysis III: Structure of IMMPA Models

Sessions 1 and 2 will focus on the sources of economic growth. They will provide an assessment of the role of savings investment, and human capital (first session) as well as the role of governance, corruption, and institutions (second session) in the growth process. The presentations will be mostly analytical and will set the stage for Sessions 3 to 5.

Session 3 will review the mechanisms through which the level and composition of public investment (disaggregated into infrastructure, education, and health) and other categories of "productive" spending (such as maintenance and security) affect growth. Particular focus will be on the externalities associated with public infrastructure, in terms of education and health outcomes. Optimal allocation rules for government spending will also be reviewed and their practical implications will be discussed.

Session 4 will provide an analytical overview of recent research on poverty and low-growth traps. Various causes of poverty traps will be identified and discussed, including geography and climate, inadequate human capital, lack of public capital, high fertility, and poor governance. The role of public infrastructure as a source of a "Big Push" will also be examined.

Session 5 will provide a comprehensive and critical review of the empirical evidence on the sources of growth in low-income countries. Methodological issues will also be identified and policy implications will be drawn.

Session 6 will discuss analytical issues associated with modeling micro-macro linkages in the context of poverty reduction and human development strategies. It will discuss, in particular, the appropriate disaggregation of the production structure, the degree of heterogeneity among households, the structure of the labor market, and the composition of public expenditure. It will identify also various principles for incorporating micro-macro linkages in macroeconomic models designed to quantify growth and poverty reduction strategies.

Session 7 will review various channels, both direct and indirect, through which macroeconomic policies affect the poor in developing countries. Direct channels include public sector layoffs and freezes on the wage bill; cuts in government expenditure on transfers and subsidies; and increases in public sector prices such as fees on utilities and user charges. Indirect channels include changes in aggregate demand, output, and employment in the private sector; changes in the rate of economic growth; changes in inflation and expenditure deflators for the poor; changes in the real exchange rate; macroeconomic volatility; and distributional effects.

Session 8 will present the structure of SPAHD models, which capture the links between foreign aid, the level and composition of public investment, economic growth, poverty reduction, and other indicators of human development (such as malnutrition, infant mortality, access to safe water, and other MDGs) in a one-sector, one-household setting. The policy discussions will focus on the implications of these models regarding the impact of foreign aid on the economy, most notably on the real exchange rate and the structure of foreign trade. The session will also review the various channels through which foreign assistance affects the economy, including Dutch disease effects (with a distinction between short- and longer-term effects), and the impact of foreign assistance on the government budget (through tax effort, recurrent expenditure, and the level of public investment).

Session 9 will present a "bottom up" approach to linking public investment program (PIPs) with SPAHD macro models. The methodology involves, first, preparing, from detailed microeconomic data, medium- to long-term estimates of gross capital outlays (disaggregated into education, infrastructure, and health), associated spending on goods and services, wages and salaries, and user fees, all at constant prices. Second, the PIP is integrated into the SPAHD macro framework, which is used to calculate either domestic financing needs, aid requirements (grants), or foreign borrowing needs. The session will use an illustrative Public Investment Program to present the methodology. Experiments will involve calculating aid requirements for alternative assumptions regarding not only domestic and foreign borrowing, but also different scenarios regarding the capacity to generate tax revenues. The impact on the MDGs will be systematically analyzed.

Session 10 will present the "real" version of IMMPA models, called Mini-IMMPA. A distinguishing feature of IMMPA models is their detailed specification of the labor market. They account for alternative sources of labor market segmentation, differences in wage formation across various labor categories, inter-sectoral wage rigidity, feedback effects between relative prices and wage decisions by price-setting firms or trade unions, and unemployment. All of these features have important implications for understanding the impact of policy and exogenous shocks on employment and poverty in the short run, as well as growth and human development outcomes in the longer run. Illustrative applications will involve assessing the effects of tax reform and changes in the minimum wage.

4. Organization

The course will take place during the period June 7-June 11, 2010 and will be held at the University of Manchester, United Kingdom. It will be delivered by Professor Pierre-Richard Agénor, Professor Keith Blackburn, as well as other faculty members of the School of Social Sciences at the University of Manchester.

Pierre-Richard Agénor is Hallsworth Professor of International Economics and Development Economics in the School of Social Sciences at the University of Manchester, and co-Director of the School's Centre for Growth and Business Cycle Research. Professor Agénor is an economist with a distinguished worldwide reputation. He is widely regarded as one of the leading contributors to the analytical and operational research on the macroeconomics of growth, poverty reduction, and human development, and is currently pursuing a research agenda on poverty and low-growth traps in developing countries, with particular emphasis on the role of foreign aid, public capital, governance, and volatility.

Keith Blackburn is Professor of Macroeconomics in the School of Social Sciences at the University of Manchester, and co-Director of the School's Centre for Growth and Business Cycle Research. Much of his research in recent years has focused on growth and development, with a particular emphasis on the role of corruption.

PowerPoint files will be used for each presentation and will be circulated in handout form to all participants. Participants will also receive a CD-ROM containing the core background papers for each session, all training documents used and referred to during the course, as well as more general references on some relevant topics in macroeconomics for developing countries.

5. Target Audience, Fees, and Information

The target audience consists of economists involved in the design of growth, poverty reduction, and human development strategies in low- and middle-income countries, as well as staff members of international organizations (such as the World Bank, the United Nations Development Program, the International Monetary Fund, and the African Development Bank) and representatives of bilateral donor agencies.

Tuition fees are 1,780 British pounds per participant and include accommodation, breakfast, and lunch. Participants must cover their travel and other subsistence costs.

Accommodation, breakfast and lunches will be provided during the duration of the course at the Manchester Business School (MBS). Details about MBS can be found at

http://www.mbs.ac.uk/services/conference-facilities.htm/
Phone: 44 (0) 1 61 275-6304 **Fax**: 44 (0) 1 61 275-6304

For preliminary registration, please contact Noemie Rouault, at

noemie.rouault@manchester.ac.uk

IMPORTANT NOTE: For non-EU members, obtaining a visa to travel to the United Kingdom can be a lengthy process. We therefore urge would-be participants to contact the UK Embassy in their respective country as soon as their plans for attending the course are finalized. The University of Manchester cannot provide direct assistance on these matters, except by mailing a formal invitation letter, once registration is finalized.