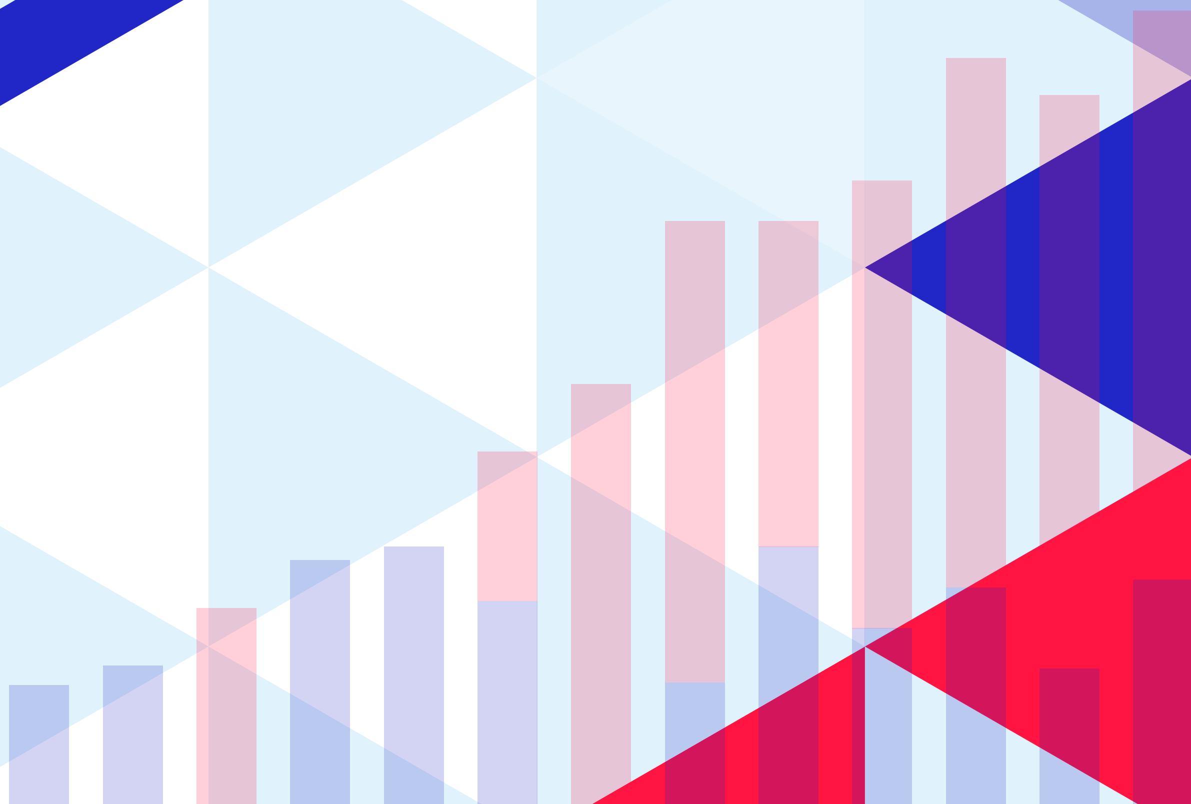
Macroeconomic diagnostics for decent jobs, social protection and just transitions

A practitioner's guide



Macroeconomic diagnostics for decent jobs, social protection and just transitions

A practitioner's guide

Yan Islam, Luca Fedi and Sher Verick

Copyright

© International Labour Organization 2024.
First published 2024.

Attribution 4.0 International (CC BY 4.0)

This work is licensed under the Creative Commons Attribution 4.0 International. To view a copy of this licence, please visit https://creativecommons.org/licences/by/4.0/. The user is allowed to reuse, share (copy and redistribute), adapt (remix, transform and build upon the original work) as detailed in the licence. The user must clearly credit the ILO as the source of the material and indicate if changes were made to the original content. Use of the emblem, name and logo of the ILO is not permitted in connection with translations, adaptations or other derivative works.

Attribution – The user must indicate if changes were made and must cite the work as follows: Islam, Yan, Fedi, Luca and Verick, Sher, *Macroeconomic diagnostics for jobs, social protection and just transitions: A practitioners' guide,* Geneva: International Labour Office, 2024. © ILO.

Translations – In case of a translation of this work, the following disclaimer must be added along with the attribution: *This is a translation of a copyrighted work of the International Labour Organization (ILO). This translation has not been prepared, reviewed or endorsed by the ILO and should not be considered an official ILO translation. The ILO disclaims all responsibility for its content and accuracy. Responsibility rests solely with the author(s) of the translation.*

Adaptations – In case of an adaptation of this work, the following disclaimer must be added along with the attribution: *This is an adaptation of a copyrighted work of the International Labour Organization (ILO). This adaptation has not been prepared, reviewed or endorsed by the ILO and should not be considered an official ILO adaptation. The ILO disclaims all responsibility for its content and accuracy. Responsibility rests solely with the author(s) of the adaptation.*

Third-party materials – This Creative Commons licence does not apply to non-ILO copyright materials included in this publication. If the material is attributed to a third party, the user of such material is solely responsible for clearing the rights with the rights holder and for any claims of infringement.

Any dispute arising under this licence that cannot be settled amicably shall be referred to arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL). The parties shall be bound by any arbitration award rendered as a result of such arbitration as the final adjudication of such a dispute.

Queries on rights and licensing should be addressed to the ILO Publishing Unit (Rights and Licensing) at rights@ilo.org. Information on ILO publications and digital products can be found at: www.ilo.org/publns.

ISBN w (web PDF)

The designations employed in ILO publications and databases, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the ILO concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers or boundaries.

The opinions and views expressed in this publication are those of the author(s) and do not necessarily reflect the opinions, views or policies of the ILO.

Reference to names of firms and commercial products and processes does not imply their endorsement by the ILO, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

Contents

- Acknowledgements iv
- Glossary v
- Thematic index x
- Abbreviations xi
- Introduction xiii
- 1 CONTEXT 1
  - 1.1. Macroeconomic policies in higher-income countries 2
  - 1.2. Macroeconomic policies in low- and middle-income countries 11
  - 1.3. Macroeconomics and labour markets 16
- 2 POLICY DIAGNOSTICS AND DIALOGUE: KEY ISSUES 21
  - 2.1. External balancing 22
  - 2.2. Internal balancing 24
  - 2.3. Macroeconomic policy for structural transformation and just transitions 35
- 3 POLICY DIAGNOSTICS AND DIALOGUE IN PRACTICE 43
  - 3.1. Overarching questions and guiding principles 44
  - 3.2. Main steps and diagnostic inputs and outputs 45
- References 52

List of figures

▶ Figure B1. Monthly movements in policy rates of selected central banks, 2007–23 (percentage) 5

▶ Figure 1. Inflation rate in the eurozone, 2010–20 (percentage) 6

▶ Figure 2. Real GDP growth in the eurozone, 2010–20 (percentage) 6

▶ Figure 3. Unemployment rate in the eurozone, 2011–20 (percentage) 6

▶ Figure 4. Ten-year government bond yields in the United States and southern Europe, 2008–19 (percentage) 7

▶ Figure 5. Public debt in southern Europe, 2007–19 (percentage of GDP) [the earliest year seems to be 2007, not 2008] 7

▶ Figure 6. Youth unemployment in southern Europe, 2007–19 (percentage) [again, the earliest year seems to be 2007, not 2008] 7

▶ Figure 7. Public investment as a share of total gross fixed capital formation, United States and European Union, 2002–19 (percentage) 8

▶ Figure 8. Interest, inflation and unemployment rates in the United States, January 2020–December 2023 (percentage) 9

▶ Figure 9. Real policy rate of interest in the United States, 1960–2023 (percentage) 10

▶ Figure 10. Evolution of policy rates in selected economies, 1980–2023 (percentage) 10

▶ Figure 11. GDP per capita, world and developing countries by region, 1960–2022 (in 2010 US dollars) 13

▶ Figure 12. GDP per capita in developing regions, 1970–2022 (current US dollars) 14

▶ Figure 13. Employment by formality status, world (high-income countries) and by region, 2023 (percentage) 17

▶ Figure 14. Relationship between annual GDP growth (%) and trade deficit (% of GDP) in China, 1970–96 23

▶ Figure 15. Monetary policy regimes in member countries of the International Monetary Fund and selected territories, 2022 25

▶ Figure 16. US public debt (% of GDP) and ten-year government bond yields (%), 1966–2023 28

▶ Figure 17. Productivity growth, advanced versus other economies, 1981–2018 (percentage) 29

▶ Figure 18. GDP growth and debt, annual average (2002-2022) for 62 developing countries 30

▶ Figure 19. Financing gap for achieving universal social protection coverage and essential healthcare in selected countries, 2022 (percentage of GDP) 34

▶ Figure B2. Structural change as measured by sectoral shares of employment, by country income group, 2000–21 (percentage of total employment) 37

▶ Figure 20. Annual clean energy investment, selected economies, 2022 (billion US$) 40

▶ Figure 21. Annual sales of electric vehicles, selected economies, 2016–23 (million units) 41

List of tables and boxes

- Box 1. The zero lower bound and monetary policy 5
- Box 2. Gender-responsive macroeconomics and labour markets as gendered structures 18
- Box 3. Monetary policy governance 26
- Box 4. Fiscal rules 31
- Box 5. Slow structural change in low- and lower-middle-income countries 37
- Box 6. Formalization and macroeconomic policy 39
- Box 7. Fuel subsidy reform 40
- Box 8. The triple bottom line: Economic, social and environmental results 42

Acknowledgements

This guide was prepared by **Yan Islam**, Professor Adjunct at the Griffith Asia Institute, Australia, and former Branch Chief, ILO, Geneva together with **Luca Fedi** and **Sher Verick**, from the ILO Employment Policy, Job Creation and Livelihoods Department.

Céline Peyron Bista (ILO Social Protection Department), **David Kucera** (ILO EMPLOYMENT), **Kee Beom Kim** (ILO EMPLOYMENT), **Valeria Esquivel** (ILO EMPLOYMENT), **Christina Behrendt** (ILO Social Protection Department), **Camilla Roman** (ILO Green Jobs Programme) and **Marek Harsdorff** (ILO Green Jobs Programme) contributed to and advised on successive drafts of the text. Research assistance was provided by **Dibyaudh Das** (ILO EMPLOYMENT). The authors are also grateful to **Sangheon Lee**, Director of the ILO EMPLOYMENT, and **Shahra Razavi**, Director of the ILO Social Protection Department, for their guidance and suggestions.

▶ Glossary

Asia, rise of	The spectacularly high and sustained economic growth achieved by some Asian countries especially since the 1990s, and the ensuing increased global influence of Asia as a whole. This rise is commonly described as being driven by rapid industrialization; significant involvement of the State in the economy and in the provision of social services and social protection; technological advancement; and integration into global value chains.
Automatic stabilizers	Economic policies and programmes that automatically adjust to counteract economic fluctuations without the need for ad hoc policy measures. Examples include unemployment benefits and other types of social protection spending. Social transfers "automatically" increase during economic downturns as more people become unemployed or suffer losses in revenue, and recede during periods of economic expansion.
Balance of payments (constraints)	Restrictions on a country's ability to transact with the rest of the world, often due to a shortage of foreign exchange reserves. This may occur because of long periods of deficit (or surplus) resulting from a structural imbalance between receipts from exports and tourism and outflows from imports. These constraints can limit the ability to import goods and services and hurt economic growth. It is broadly accepted that an overpriced currency plays a major role in balance-of-payments crises and persistent foreign currency shortages.
Bargaining power (workers, employers)	The relative ability of workers and employers to influence the terms and conditions of employment, including wages, working hours and work conditions. The assumption that workers enjoy equal bargaining power with firms underpins both classical and new Keynesian theory. The relative bargaining power of workers and employers is strongly influenced by the economic cycle (extent of unemployment and underemployment), gender and social inequality, as well as by the institutional context and social dialogue traditions (the legal and regulatory framework within which social dialogue and collective bargaining take place). See also: monopsony.
Capital account	The part of a country's balance of payments that records all transactions made between entities in the country and entities in the rest of the world. These transactions consist of imports and exports of goods, services, capital and transfer payments, such as foreign aid and remittances. The capital account keeps track of the net change in a country's assets and liabilities during a year, and it also indicates whether the country is a net importer or net exporter of capital.
Central bank mandate (dual/ hierarchical)	The objectives set for a central bank in its foundational documents. The mandate may be dual – focusing equally on inflation control and achieving full employment – or hierarchical, that is, prioritizing one objective (typically price stability) over others.

Countercyclical and procyclical policies	Fiscal policy is countercyclical when government expenditure is increased and/or taxes are cut during economic downturns, in an effort to stimulate aggregate demand and forestall recessionary spirals. It is the key policy innovation formulated by Keynes and allowed the United States and Europe to overcome the Great Depression of the 1930s. Its key principles remain valid and continue to be applied in response to business cycle contractions. Procyclical policies, conversely, amplify economic cycles, such as cutting spending during downturns or increasing it during booms. See also: fiscal stimulus.
Crowding-out effect	The theory that government borrowing and spending reduce private sector investment because the government's demand for credit increases interest rates. It relies on the assumption that the total amount of investments in an economy is equal to the amount of savings that households and firms can set aside, ignoring output multipliers or returns on investment from public spending. This theory is not backed up by empirical evidence, and the research field has largely dried out, notably in view of the secular decline in interest rates coinciding with continuous rise of public debts.
Currency over/ undervaluation, real and real effective exchange rates	Measures of the value of a currency compared to the value of another currency or a basket of currencies. The real exchange rate is calculated by adjusting the nominal rate to reflect inflation differentials, while the real effective exchange rate takes relative trade balances into account. An increase in the real effective rate is an indication that a country's exports are becoming more expensive, and that its imports are becoming cheaper. Currency overvaluation is widely eschewed, as it has an adverse effect on competitiveness and trade balances.
Debt sustainability analyses	Such analyses are aimed at determining a continuum in which a country can meet its current and future debt obligations without requiring debt relief or accumulating arrears. They take account of economic growth, interest rates and the composition of the debt (long/short term, in national or foreign currency). Debt sustainability may be more broadly conceived as a judgement on the soundness of a country's growth and development strategy, and on the role played by public revenues and expenditures in that strategy.
Debt thresholds	Usually expressed as ratios of government debt to annual gross domestic product (GDP) and associated with stages of development (country income groups), debt thresholds are used as benchmarks for debt management policy. Evidence on the relationship between debt-to-GDP ratios and economic performance remains inconclusive.
Deindustrialization ("early", "premature")	The relative decline in manufacturing activity, in terms of output or employment, in the economy of a country or region. Since the Industrial Revolution of the late 1700s, a key trend may be observed in all parts of the world consisting in the transfer of capital and labour from agriculture towards manufacturing and services, thereby enabling increases in productivity and per capita incomes. "Early" or "premature" deindustrialization occurs when manufacturing activity ceases to increase or begins to recede at lower per capita incomes than has been historically observed for other countries or regions. See also: Structural transformation.

Employment impact assessments/ analyses	Ex ante or ex post estimation of the direct, indirect and induced effects of specific policies or investments on employment and related outcomes.
Fiscal stimulus	Government policy to increase public spending and/or reduce taxes so as to stimulate economic activity during downturns, with a view to boosting demand, reducing unemployment and counteracting economic slowdowns.
Freedom of association, social dialogue and collective bargaining, wage-setting mechanisms	Freedom of association is the right of workers and employers to form and join organizations of their own choosing. It is a fundamental principle in international labour standards and a human right. Freedom of association is the foundation for effective social dialogue and collective bargaining, which allow freely chosen representatives of workers and employers at the national, sectoral or enterprise level to negotiate wages, working hours and other employment terms, thereby preventing conflicts and facilitating the equitable sharing of economic proceeds between labour and capital.
Global financial crisis	Refers to the financial crisis that began in 2007–08 with the default of over-leveraged major financial institutions in the United States following a downturn in the domestic housing market. These disruptions quickly spread to other major financial institutions in the US and throughout the world. Access to credit and financial services was compromised, while saving and corporate capital valuations spiralled downwards, causing a financial crisis to turn into a full-blown economic and social crisis.
Hysteresis	In economics, the effect whereby short-term economic contractions associated with high unemployment, income loss and enterprise closures cause delayed and weakened recovery and lower long-term output potential through losses in productive capacity, skills and employability.
Industrial/sectoral policy	Selective government intervention that attempts to stimulate specific economic sectors (or activities) in view of their expected potential for economic growth, employment, greening or other objectives, in a way that would not occur in the absence of such intervention. Industrial/sectoral policy can take many forms, including currency and interest rate measures, preferential financing or financial guarantees, fiscal incentives and technical assistance.
Inflation indexation	Pensions, wages and other earnings and dues may be indexed to the official inflation rate as measured by a national statistical office, with adjustments typically being made on an annual basis. This mechanism is intended to protect the real value of social transfers or earnings over time.
Inflation targeting	A monetary policy strategy whereby the central bank defines an explicit inflation rate target that it commits to achieving, typically by using interest rate adjustments.
Informal employment	Work for pay or profit that is not effectively covered by formal arrangements such as commercial laws, procedures for the reporting of economic activities, income taxation, labour legislation, and social security laws and regulations providing protection against the economic and personal risks associated with carrying out the activities in question (see ILO 2023a).

Labour income share (labour share)	The proportion of national income allocated to wages and compensation for workers, as distinct from the capital share (profits and rents).
Macroeconomic policies (fiscal and monetary policies)	Macroeconomic policies include government and central bank actions aimed at influencing economic growth, prices, employment and other equilibria. The two main branches of macroeconomic policy are: (a) fiscal policies, which are concerned with government spending and taxation; and (b) monetary policies, which are about controlling money, the currency and interest rates.
Misallocation of capital	Capital may be considered as misallocated when financial resources are not invested in higher-productivity activities or activities with a higher return on investment, leading to suboptimal economic growth.
Monopsony	A market condition in which there is only one buyer, or one major actor on the demand side, who can therefore set or significantly influence market prices. In relation to the labour market, "monopsony" or "monopsonist power" refers to the ability of employers to exercise a dominant influence over wages and other employment terms.
Multipliers	In macroeconomics, coefficients that measure the impact of changes in fiscal and monetary policies on overall economic activity. The fiscal multiplier estimates the effect of changes in government spending or taxation on GDP. The fiscal multiplier is greater than 1 when increases in government spending generate an increase in overall economic output by more than 1.
Non-accelerating inflation rate of unemployment (NAIRU), natural rate of unemployment	In monetarist economic theory, the lowest level of unemployment for which inflation remains stable. The theory posits that when unemployment is above the natural rate, demand can potentially be increased to bring it to the natural rate, but attempting to lower it even further will merely cause inflation to accelerate. Estimates of the NAIRU for the United States and other countries have evolved over time and are subject to debate. See also: Phillips curve.
Phillips curve	The Phillips curve is an economic model that illustrates a relationship between the rate of unemployment and the inflation rate. It suggests that lower unemployment rates are associated with higher inflation rates, and vice versa. This relationship was initially observed and formulated by economist A.W. Phillips in the late 1950s, who drew on historical data for wages and unemployment in the United Kingdom.
Productive capacities	Refers to the stock of physical capital, infrastructure, skills and human capacity that a country possesses to produce goods and services, both for domestic consumption and for the global market.
Quantitative easing	A monetary policy programme, introduced by central banks following the global financial crisis, to stimulate the economy when the interest rate is already at or close to zero. It involves the central bank purchasing long-term securities, such as government bonds, from the open market, thereby sustaining asset prices and injecting liquidity into the financial system. See also: Zero lower bound.

Structural adjustment programmes, supply-side structural policies	Structural adjustment programmes (SAPs) are economic reform programmes that the International Monetary Fund (IMF) and the World Bank began to promote in the early 1980s, in which financial support was tied to a set of conditionalities centred on economic liberalization and a reduction of the size of the State, including through cuts to public subsidies and services, the privatization of state-owned enterprises and the liberalization of trade and investment. The effects of SAPs on economic growth as well as on social welfare have since been widely criticized and their blueprint abandoned by the IMF and the World Bank.
Structural transformation	The gradual transfer of capital and labour between sectors in an economy. Historically, economic and social development is associated with the transfer of capital and labour from low-productivity subsistence agriculture towards manufacturing and service activities, thereby raising overall productivity and per capita incomes.
Taxation (progressive/ regressive)	Tax systems where the tax rate increases (progressive) or decreases (regressive) as the taxable amount increases, affecting the income distribution.
Trade deficit	A situation where a country's imports of goods and services exceed its exports, resulting in a negative balance of trade.
Wage and price flexibility, wage–price spirals, wage suppression	Concepts related to how wages and prices adjust to changes in the economy. Wage–price spirals refer to a situation where rising wages lead to higher prices, which in turn lead to higher wages. Wage suppression refers to policies or practices that keep wages from rising to match inflation or productivity gains.
Zero lower bound	A situation where nominal interest rates are at or near zero, limiting the central bank's ability to further stimulate the economy through traditional interest rate cuts. Unconventional monetary policy measures, such as quantitative easing, have been used to provide additional economic stimulus in such cases.

Thematic index

Asia, rise of, 3, 13, 14, 35

automatic stabilizers, 35, 48

balance of payments, 21, 22, 46

bargaining power (of workers and employers), 5, 6, 17

capital account, 21, 49

central bank mandate, 25, 40, 46

collective bargaining, 18, 19, 27, 48

countercyclical policies, 4, 14, 28, 36

crowding-out effect, 27, 29

currency over/undervaluation, 22, 46

debt sustainability analyses, 30, 31, 47

debt thresholds, 16, 30

deindustrialization, early or premature, 36

employment impact assessments, 33

fiscal stimulus, 9, 15, 20, 38

freedom of association, 18, 48

global financial crisis, 3, 5, 6, 7, 9, 15, 35

hysteresis, 9, 43

industrial policy, 11, 14, 29, 38, 48

inflation indexation, 27

inflation targeting, 5, 7, 16, 23, 24, 27, 46

informal employment, 16, 18, 20, 27, 33, 48

labour income share, 17, 19

macroeconomic policy

fiscal policy, 3, 5, 7, 11, 19, 21, 30, 31, 34, 40, 42, 47, 50

monetary policy, 3, 5, 6, 9, 15, 21, 23, 24, 46, 49

macroeconomic policy (general), 1, 3, 16, 20, 35, 36, 43, 44

misallocation of capital, 29

monopsony, 6, 17, 19

multipliers, 28, 35

natural rate of unemployment, 4, 17

non-accelerating inflation rate of unemployment, 17

Phillips curve, 3, 4, 26

price flexibility, 3, 5, 16, 19

procyclical policies, 15, 47

productive capacities, 29, 35, 38, 42, 43, 50

quantitative easing, 6, 8, 9

real effective exchange rate, 22

real exchange rate, 22, 46

sectoral policy, 15

social dialogue, 44, 48

structural adjustment programmes, 3, 12

structural transformation, 12, 33, 36, 38, 41, 43, 44

supply-side (structural) policies, 4, 5, 17

taxation (progressive/regressive), 32, 33, 34

trade deficit, 23

wage flexibility, 3, 5, 16, 19

wage suppression, 6, 17

wage–price spirals, 5, 19

wage-setting mechanisms, 18

zero lower bound, 6, 8

Abbreviations

ECB	European Central Bank
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
IMF	International Monetary Fund
NAIRU	non-accelerating inflation rate of unemployment
OECD	Organisation for Economic Co-operation and Development
SAP	structural adjustment programme
SDG	Sustainable Development Goal
UNCTAD	United Nations Conference on Trade and Development

Introduction

The way countries manage their currency, interest rates or fiscal deficit – in other words, their macroeconomic policy *choices* – is decisive for social, employment and just transition outcomes, and pre-determine considerations of fiscal space for social, labour market and just transition policies. Macroeconomic policies have to contend with multiple constraints, and indeed to address long-term vulnerabilities, but they are ultimately a matter of choice. Beyond a mere dichotomy of orthodox versus heterodox, a large variety of macroeconomic agendas are pursued around the world. Despite their diversity across time and space, macro policies are nonetheless influenced and informed by global economic thinking and by how ideas stand the test of major challenges and crises. Since the 1980s and 1990s, they have arguably evolved away from a concentration on fiscal and monetary "stability" as the sufficient or first-order condition for growth and social development. While macroeconomic policymakers have become less "insular" on the whole, their focus in many places continues to be on narrowly defined monetary, financial and fiscal challenges. Macroeconomic policies need to support broad transformative change and enable sectoral, social and labour market policies as part of a comprehensive development strategy.

Seeking to support efforts to implement such a transformative agenda, this guide offers in Part 1 a non-technical, but evidence-based, overview of the empirical and intellectual developments that have shaped macroeconomic policy choices in high-income and developing countries over the past few decades. The emphasis is on a taut examination of the global and country-specific practice of macroeconomic policy, rather than a detailed exposition of arcane academic debates about the pros and cons of different macroeconomic models, although reference will be made to pertinent sources so that the interested reader can follow up on the most recent scholarly discourse.

This overview of contemporary macroeconomic thought and practice underpins Parts 2 and 3 of the guide, which offer guidance for practitioners involved in facilitating evidencebased policy dialogues at the country level. Decisions by central banks to change interest rates or devalue the currency, by finance ministries to cut or expand the deficit, have major consequences for jobs, social protection and the transition to a "green" economy. Conversely, structural and social transformations – including the expansion of (greener) productive capacities, the promotion of decent employment, social protection and essential services – are critical to those macroeconomic capacities that allow countries to temper and recover faster from economic, climatic and other shocks. Engaging with central banks, finance ministries and international financial institutions is therefore essential in order to advance the decent work, social protection and just transition agendas. Equally important is engagement with labour, social and sectoral ministries, and with business and worker representatives, when it comes to understanding macroeconomic trade-offs and devising and implementing policies.

Policy engagement in turn has certain prerequisites: a working knowledge of macroeconomic theory and a clear appreciation of viable policy alternatives among a broader circle of stakeholders; and a process that enables such a broader participation. While the ILO and other specialized agencies in the United Nations system need to support such engagement, they are clearly not the only players. This guide should be seen as complementing other work and resources of the International Monetary Fund (IMF), the World Bank and regional development banks. The output of the policy diagnostics conducted with the help of this guide may therefore also serve as input for other initiatives, such as integrated national financing frameworks, or be used in identifying fiscal space for labour, social protection or care services.

The present guide has been developed at a critical juncture in the evolution of the global development agenda. The Sustainable Development Goals (SDGs) adopted in 2015 have created an internationally agreed framework for progress, but its pace has been uneven across countries and progress towards achieving the SDGs that focus on social outcomes, in particular, is lagging. Accordingly, the United Nations Global Accelerator on Jobs and Social Protection for Just Transitions[1] was launched in September 2021 to help countries create 400 million jobs worldwide and extend social protection to the 4 billion excluded people across the planet. The Global Accelerator promotes a concerted approach in order to fast-track the achievement of social goals internationally and at the country level. This guide is intended to support national efforts to that end.

1 See the Global Accelerator website, https://unglobalaccelerator.org.

1

CONTEXT

Contemporary macroeconomic policy in both advanced and developing economies can be apprehended by tracing the evolution of macroeconomic agendas over the past few decades. This first part of the guide describes how macroeconomics has changed over time from a “Keynesian consensus” as part of a “neoclassical synthesis” in the 1960s to a field encompassing alternative intellectual traditions in the 1970s and 1980s, notably “monetarism” and “new classical economics”. These schools of thought questioned the government’s role in tempering business cycles. Since then, an influential cohort of economists, known as “New Keynesians”, have sought to reach an accommodation with the critics of the Keynesian consensus. They argue that governments have a key part to play in mitigating the adverse effects of business cycles through a combination of monetary and fiscal policies, while recognizing that in the long run, under conditions of wage and price flexibility, it is the private sector that drives growth. In such circumstances, the government’s role is to “create the conditions” for private sector-led growth by implementing structural and labour market reforms. The rise of Asia (and disappointment elsewhere in the developing world), and recent economic crises have lent weight to approaches that are more proactive about managing the short term and, at the same time, more committed to economic and social transformation for the longer term.

▶ 1.1 Macroeconomic policies in higher-income countries

A number of epochal events have put macroeconomic theories to the test and shaped recent policy debates, including the oil price shocks of the 1970s, the Latin American debt crisis of the 1980s, the structural adjustment programmes of the 1980s and 1990s, the Asian financial crisis of 1997, the “transition recession” of the mid-1990s in Eastern Europe and Central Asia, the global financial crisis of 2008–09, the sovereign debt crisis in southern Europe in 2010 and the recession induced by the COVID-19 crisis in 2020. These debates have distinctive features that are best analysed from the specific perspectives of advanced economies on the one hand, and emerging and developing economies on the other.

Keynesian economics, thus named after its founder John Maynard **Keynes**, was widely regarded as the dominant macroeconomic paradigm in advanced economies during the 1960s. Engendered during the Depression era of the 1930s, the ideas of Keynes led to a framework in which policy activism, entailing a combination of fiscal and monetary policy, could effectively temper business cycles. **Expansionary policies** (increase in government expenditure and tax cuts, expansion of credit and money supply) were needed to stave off recessions, while contractionary policies (decrease in government expenditure and tax hikes, contraction of credit and money supply) were required to control inflation. There was a predilection among Keynesian economists of the 1960s to use fiscal policy, rather than monetary policy, as an anti-recession tool. They also believed in a trade-off between inflation and unemployment based on the empirically driven **Phillips curve**.

The adverse supply shocks arising from the oil price shocks of 1973 and 1979 ushered in a turbulent era of stagflation and led to the breakdown of the Bretton Woods system. This in turn caused the demise of Keynesian macroeconomics at least *as practised* in the 1960s in the United States of America and other high-income countries.

Critics, inspired by Milton Friedman, questioned the empirical validity of the Phillips curve, which was only stable if the expectations of the private sector were stable. In a volatile, inflationary environment, such expectations were unsettled, rendering it difficult, if not impossible, to engage in countercyclical policy to temper business cycles. More importantly, Friedman and his allies championed the intellectual movement of **monetarism**, which held that changes in money supply were the prime movers of changes in nominal gross domestic product (GDP) and price levels. Hence, a heavy reliance on fiscal policy was unwarranted (Jahan and Papageorgiou 2014).

Friedman and his followers also argued that policies to manage aggregate demand were ineffective in the long run in a competitive labour market. Labour demand equates with labour supply at the prevailing real wage rate, thus causing the economy to settle at the “natural rate of unemployment” (corresponding to full employment). Changes to the “natural rate” could only be made by supply-side, structural policies.

In addition, monetarists advocated the notion of a “policy rule” to enshrine the importance of macroeconomic stability, rather than the discretionary measures to manage business cycles that were the hallmark of Keynesian economics. The late Margaret Thatcher – Prime Minister of the United Kingdom during the 1980s and one of the first politicians to champion the cause of monetarism – highlighted the pivotal role of policy rules in the following manner:

“An economy will work best when it is built on a framework of clear and predictable rules on which individuals and companies can depend when making their own plans. Government’s primary economic task is to frame and enforce such rules.” (Thatcher 1991)

These rules were premised on the simple proposition that the government should commit itself to allowing the money supply to grow at the rate of economic growth.

Monetarism enjoyed a transient period of ascendency. The predictable link between money supply and nominal GDP, which appeared to hold in the 1960s and 1970s, broke down in the subsequent decade, making it difficult to put the monetarist policy rule into practice.

However, the attention given to monetary policy swayed the then Chair of the US Federal Reserve, Paul Volcker, to engage in drastic monetary contraction to control inflation, which had reached double-digit figures during the oil crisis of the mid-1970s. Inflation eventually fell sharply but at the cost of a brutal and double-dip recession, with unemployment in the United States reaching 10 per cent in the early 1980s (Matthews 2022). One could also argue that the "Volcker recession" contributed to the debt crisis in Latin America (see section 1.1. below).

A more radical, market-oriented current in economics soon overtook monetarism. Led by, among others, the recently deceased Nobel laureate Robert Lucas Jr., this school of thought came to be known as **new classical macroeconomics** (see Lucas 1972; Kydland and Prescott 1982). Adherents of this movement posited that the economy, anchored in perfectly competitive markets, was typically in a full-employment equilibrium. Deviations from that equilibrium were mild and shortlived. Thus, there was no role for aggregate demand management policies even in the short run. Business cycles were caused by "real" shocks (hence the term "real business cycle") emanating from autonomous changes in technology and exogenous shifts in the preferences of forwardlooking, perfectly rational economic agents. Such economic agents could pre-empt fiscal and monetary policy actions by correctly anticipating their long-term consequences.

New classical macroeconomics failed to withstand empirical scrutiny. It was simply not credible to suggest that a global phenomenon such as the Great Depression was the product of "real" shocks, and that the mass unemployment of that era reflected a greater collective preference for leisure over work and represented a mild and short-lived correction. The actions forward-looking agents undertook to nullify the consequences of countercyclical policy could not be empirically substantiated.

The empirical deficiencies of new classical macroeconomics created an opening for the emergence and consolidation of **New-Keynesian economics** (see Gordon 1990; Galí 2018). Adherents of this school of thought believed that policy activism was necessary to manage business cycles in the short run, even if they emanated from real shocks and even if the economy was populated by rational and forward-looking agents.

It turns out that the New-Keynesian economists made the crucial assumption of nominal price and wage rigidities to rescue the core idea of policy activism. Such an assumption entailed the notion of imperfect competition in product markets. This was juxtaposed with nominal wage rigidity in the labour market driven by institutional forces, such as union power and minimum wage legislation, along with the presence of benevolent firms paying above-market "efficiency wages" as an incentive for workers to strive for higher productivity. In the long run, the economy would settle at a full-employment equilibrium with price stability, but in the short run, nominal rigidities impeded the self-correcting mechanisms whereby a market economy returns to full employment.

New-Keynesian economics soon became the "new consensus", at least in advanced economies. It laid the "microfoundations", so to speak, for post-Keynesian macroeconomics and led to the development of complex **DSCGE** ("dynamic, stochastic, computable, general equilibrium") models as the frame of reference for policymakers in central banks and finance ministries. There was a crucial accommodation with new classical macroeconomics because of the acceptance of rational expectations and real business cycles as core analytical tools.

New-Keynesian economists also inherited the legacy of monetarism by attaching primacy to monetary policy for short-run stabilization through inflation targeting, while assigning to fiscal policy the task of managing debts and deficits. In the 2000s and up to the global financial crisis of 2008, a much-vaunted "new neoclassical synthesis" was credited with contributing to the "Great Moderation" in the advanced economies, a period characterized by low inflation and reduced economic volatility (Bean 2010).

The intellectual rapprochement between the New Keynesians and their new classical counterparts came at a cost. It meant acceptance of the idea that macroeconomic policy activism was a "secondbest" option. The "first-best" option is to induce **wage and price flexibility** through appropriate structural policies, including labour market reforms.

A related consequence of this Faustian bargain with the new classicals was that it injected an implicit "anti-worker bias" into macroeconomic policy. This is epitomized by the notion that workers enjoy equal bargaining power with firms and can successfully seek and realize wage increases to compensate for, anticipate or outstrip inflation hikes. This in turn forces firms in monopolistic industries to pass on the higher wage costs in the form of higher prices so that they can protect their markup margins. The consequence is a wage–price spiral that sustains inflation. However, as will be shown further down, the depiction of wage rigidity and the notion of workers having equal bargaining power are at variance with evidence from both rich and poor countries, indicating that employer monopsony in the labour market is quite common. Wage suppression is observed much more often than wage-driven inflation spirals.

The "new neoclassical synthesis" was challenged by the **global financial crisis** in 2008 and the global recession that followed. This first recorded global recession since the Great Depression had by and large not been foreseen, and New-Keynesian policy precepts failed to "restore confidence" in the operation of forward-looking rational agents in financial markets. Monetary policy came to be severely constrained by the "zero lower bound" (also known as the "liquidity trap" in traditional Keynesian economics – see box 1). The result was that policymakers in the systemically important countries reverted to Keynesianstyle stimulus policy based on the coupling of fiscal and monetary measures, including massive "quantitative easing" programmes. This prevented a recession from becoming a prolonged depression, exactly as Keynes would have predicted.

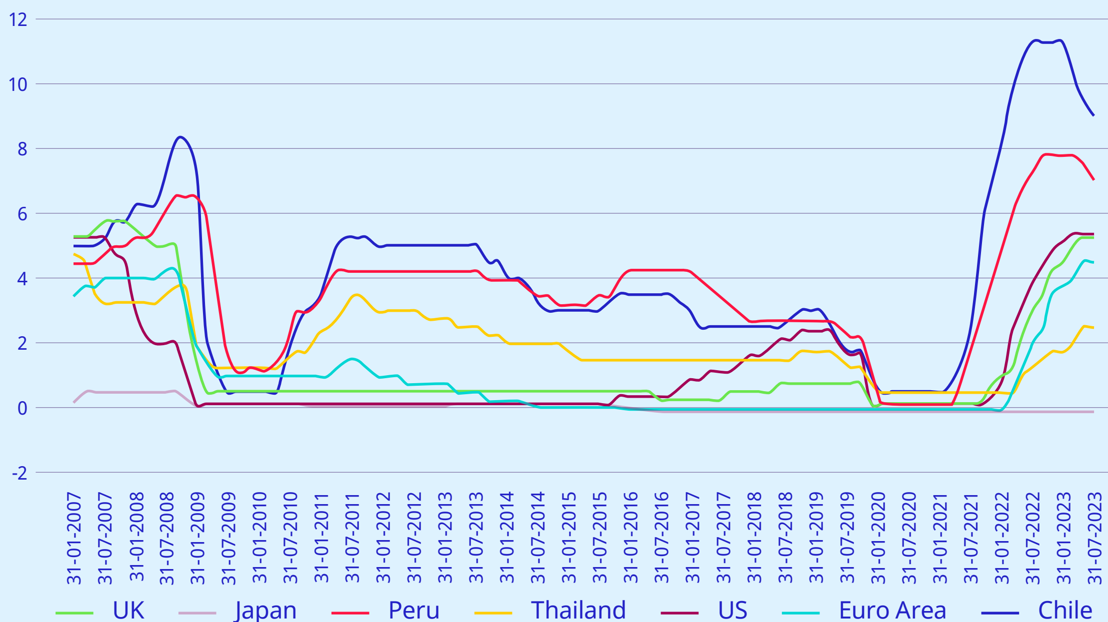
▶ Box 1. The zero lower bound and monetary policy

The **zero lower bound**, or the **liquidity trap**, occurs when the nominal policy interest rate becomes zero or close to zero (as recent developments have shown, it can even become negative). This means that the scope for monetary authorities to cut interest rates, or use other conventional monetary policy tools, any further to stimulate an economy during a recession or periods of slow growth becomes severely constrained. In such circumstances, central banks have resorted in recent years to unconventional monetary policy tools, most notably quantitative easing.

The evolution of the policy rate in selected central banks in both advanced and emerging economies (the eurozone, Japan, the United Kingdom and the United States; Chile, Peru and Thailand) is shown in figure B1. Extended periods when the policy rate was zero (or close to zero) are quite evident, and in one case at least (Japan), the rate has been persistently negative.

Source: ILO 2012.

▶ Figure B1. Monthly movements in policy rates of selected central banks, 2007–23 (percentage)



Source: Derived from data series on policy rates in BIS (n.d.).

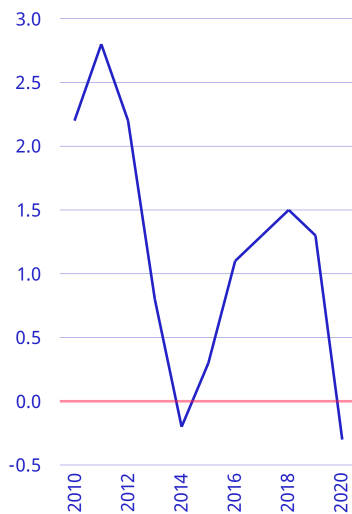
In the wake of the global financial crisis, a short-lived "rethinking macroeconomic policy" movement was led by Olivier Blanchard, a former Chief Economist of the IMF, involving the key proposal that the inflation target in advanced economies should be raised to 4 per cent. It was additionally suggested that much more emphasis be given to fiscal policy in fighting recessions (Blanchard, Dell'Ariccia and Mauro 2010).

That Keynesian moment did not last long. By 2010, policymakers in rich countries were clamouring for an exit. **The sovereign debt crisis in southern Europe** marked a return by eurozone authorities to stability-first austerity policies. The most badly affected country, Greece, had to swallow the bitter pill of large budget cuts to restore the "conditions for growth". Concerned that inflation was going to exceed its target of 2 per cent for a prolonged period, the European Central Bank (ECB) raised its benchmark rate by 250 basis points (from 1 per cent) in April 2011 and again by 250 basis points in July of that year.[2]

2 All data on policy rates reported here are from BIS, September 2023 update.

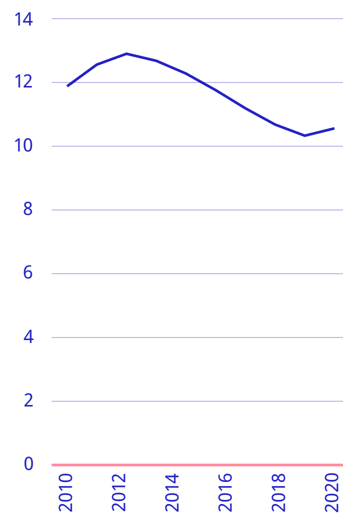
In retrospect, there is broad consensus that the ECB's decision to raise policy rates to contain inflation turned out to be inappropriate (Saraceno 2015). Admittedly, the inflation rate rose above the target rate in 2011, but then receded and languished for a long period well below the target rate (averaging 1.1 per cent between 2011 and 2020, with episodes of outright deflation, as can be seen in figure 1). The unemployment rate rose to 12.1 per cent in 2011 and remained in the double digits until 2016 (figure 3). Growth was anaemic, with two years of recession and an average growth rate of 1.3 per cent (figure 2).

▶ Figure 1. Inflation rate in the eurozone, 2010–20 (percentage)



▶ Figure 2. Real GDP growth in the eurozone, 2010–20 (percentage)

▶ Figure 3. Unemployment rate in the eurozone, 2011–20 (percentage)

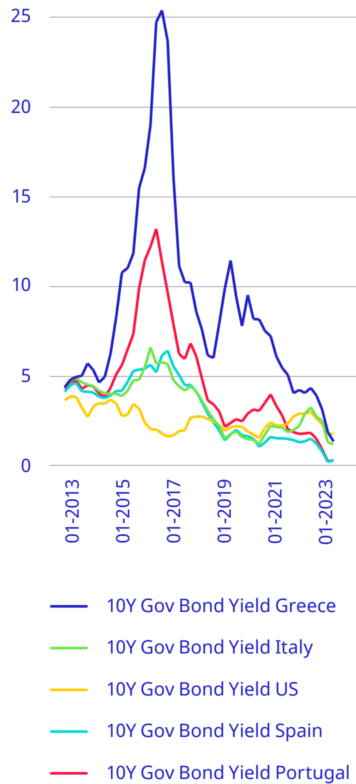


Source for figures 1–3: Derived from IMF DataMapper, https://www.imf.org/external/datamapper/datasets.

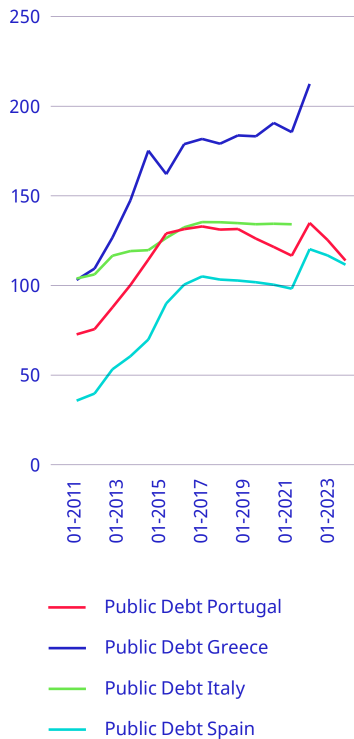
If we look at southern European countries, it becomes clear that the textbook austerity policy imposed on Greece did not outperform – in terms of debt-to-GDP ratio or cost of borrowing – the alternative policies followed in Portugal (see ILO 2018) or Italy at a much lower social cost (figures 4–6). Youth unemployment in Greece reached almost 60 per cent in 2014, about 20 percentage points higher than (the already very high levels seen) in Portugal and Italy[3].

3 Spain also witnessed Greek-level youth unemployment rates but on account of a widespread domestic real estate collapse that compounded the sovereign debt crisis.

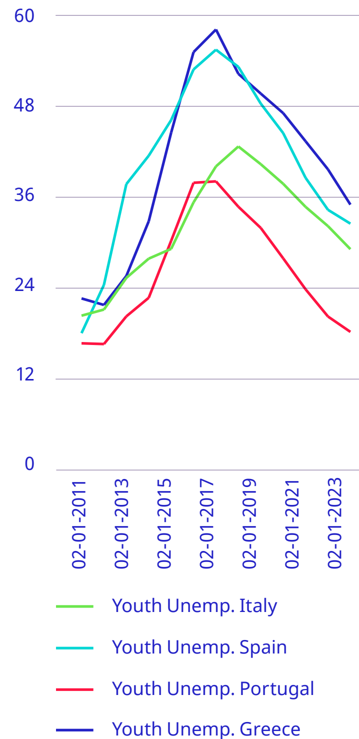
▶ **Figure 4. Ten-year government bond yields in the United States and southern Europe, 2008–19 (percentage)**



▶ **Figure 5. Public debt in southern Europe, 2007–19 (percentage of GDP)**



▶ **Figure 6. Youth unemployment in southern Europe, 2007–19 (percentage)**

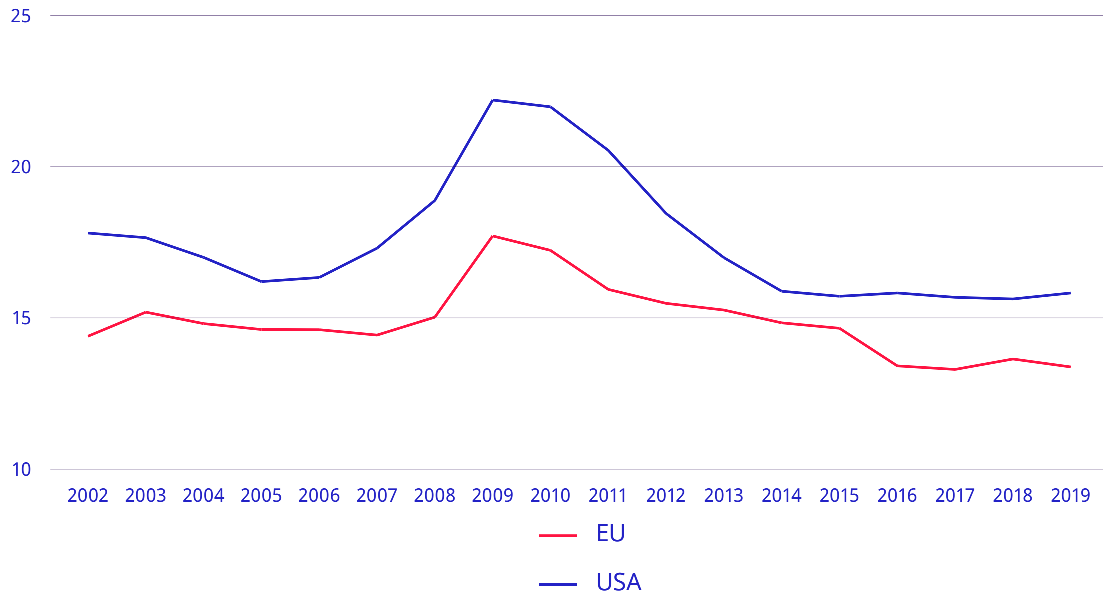


Source for figures 4–6: Data from IMF and OECD.

The ECB did not persist with its contractionary policy for long. By November 2011 it had lowered the policy rate by 500 basis points, setting the stage for a progressive move to the zero lower bound that persisted until mid-2022. A milestone in the Bank's new policy framework was created with former ECB President Mario Draghi's famous "whatever it takes" remarks in July 2012. Subsequently, a quantitative easing programme was launched by the ECB in 2014, lasting until 2022 (ECB, n.d.). These policy shifts are broadly credited with dispelling the concerns over the very existence of the euro, and with alleviating the southern European crisis by substantially reducing borrowing costs.

The ECB was also calling for more fiscal activism from governments in the eurozone, in particular from the German Government. These calls were by and large not heeded sufficiently, and restrictive fiscal adjustments led to a continued decline in public investment after 2009 (see figure 7). Fiscal austerity is widely considered to be responsible for the lacklustre growth, high unemployment and ultra-low inflation that prevailed in the European Union (EU) bloc of countries for a long time (Saraceno 2015).

▶ **Figure 7. Public investment as a share of total gross fixed capital formation, United States and European Union, 2002–19 (percentage)**



Source: Data from OECD.

When the **COVID-19 pandemic** struck in 2020, the global economy went into the steepest recession since the Second World War. Governments in the area covered by the Organisation for Economic Co-operation and Development (OECD) readily abandoned their commitments to inflation and fiscal targets. Historically unprecedented **fiscal stimulus** packages, combined with equally unprecedented expansionary monetary policy through quantitative easing, were enacted to protect jobs and livelihoods. This was a reprise of the Keynesian policies witnessed during the global financial crisis, but on a much larger scale and with labour market policies playing a central role, in the form of job retention schemes in developed countries and of income replacement for the self-employed in developing countries. At one point, about 50 million workers in the OECD countries were participating in job retention schemes of some sort (OECD 2020).

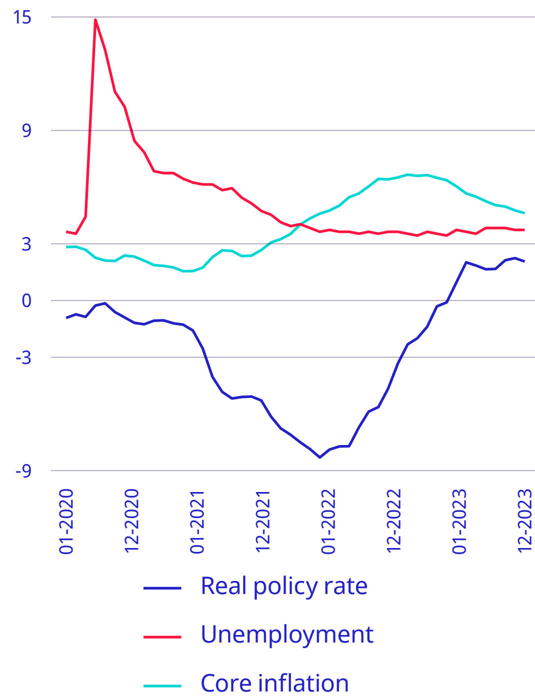
Proactive in the short term

This is where one sees elements of convergence towards a new take on macroeconomic policy, namely the abandonment of stability-first paradigms in favour of a more balanced and proactive engagement (Blanchard, Dell'Ariccia and Mauro 2013; IMF 2013; Blanchard et al. 2015; Summers 2016; Yellen 2016 – as cited in Parisotto and Ray 2017). There is clear agreement among policymakers in systemically important, large economies that, when faced with a major economic shock, the government should take decisive action using a combination of fiscal and monetary tools. Recessions have long-lasting effects on output ("**hysteresis**"): doing nothing entails not only unnecessary social pain but also lasting economic costs.

Supply-side constraints to production and trade due to the COVID-19 pandemic and then the energy shock caused by the war in Ukraine and the sanctions on the Russian Federation sparked – in a context of highly liquid financial markets following quantitative easing in the United States and the EU countries – a rapid rise in energy prices over the period 2022–23. The role of demand-side pressures has also been cited as driving the post-pandemic rise in prices, especially in the United States, which experienced a rapid economic recovery. Inflation, which had ceased to be a concern since the 1980s, came back centre stage.

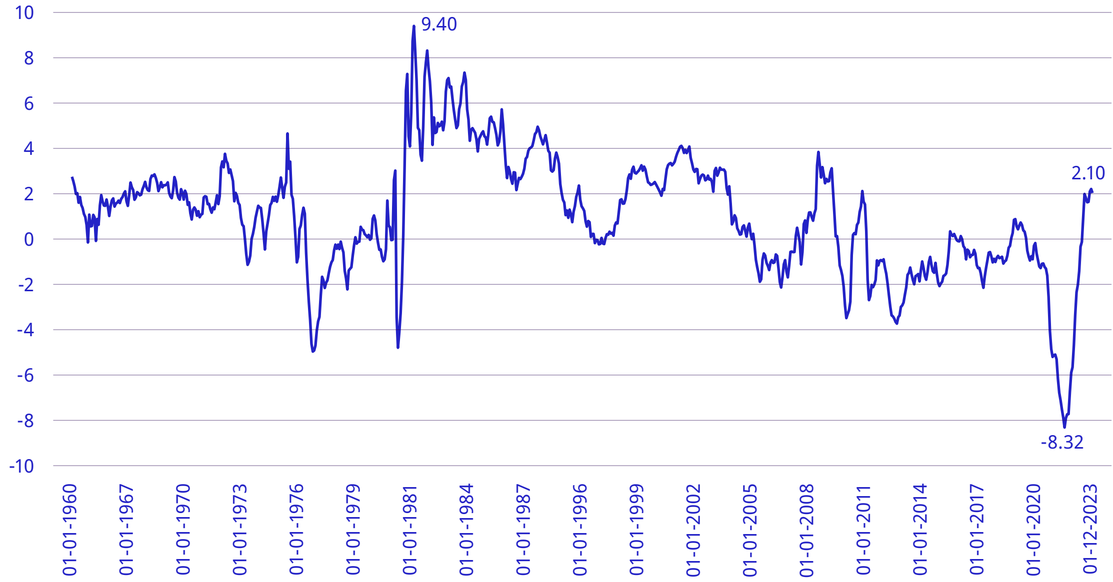
On the monetary side, central bankers are not responding the way they would have 40 years ago. When the pandemic hit, *real* policy rates (the nominal policy rates minus inflation rates) were allowed to slide deep into negative territory (figure 8). As inflation rose, interest rates were hiked up in their sharpest rise since the 1980s. In absolute or real terms however, rates did not approach the levels enforced the last time inflation was seriously eroding US and European incomes (see figures 9 and 10). The policy narrative of central bankers in the United States and the EU is about carefully balancing inflation and employment levels, thereby signalling their intention to stave off price hikes while not undermining economic activity. It appears by early 2024 that such a balancing act has indeed made it possible to ease inflation pressures without hurting employment, as core inflation in the United States came down to 2.9 per cent in January 2024 amid historically low unemployment (below 4 per cent since 2022) (Powell 2024).

▶ Figure 8. Interest, inflation and unemployment rates in the United States, January 2020–December 2023 (percentage)



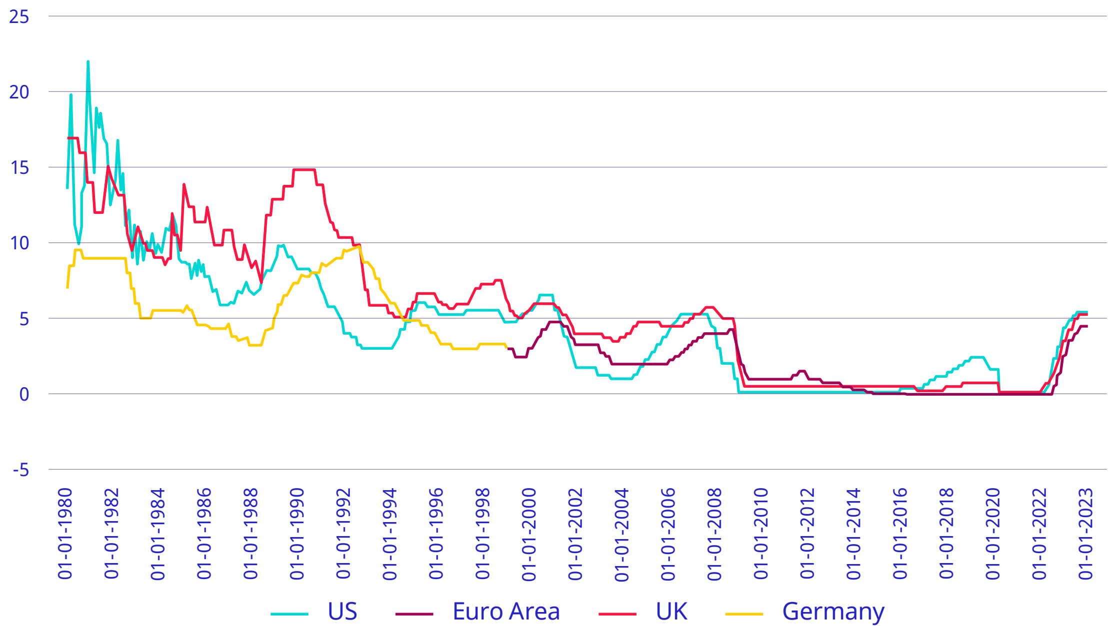
Source: Derived from FRED (Federal Reserve Economic Data) database, https://fred.stlouisfed.org/.

▶ **Figure 9. Real policy rate of interest in the United States, 1960–2023 (percentage)**



Note: The "real policy rate" is the federal funds effective rate minus the consumer price index rate.
Source: FRED (Federal Reserve Economic Data) database, https://fred.stlouisfed.org/.

▶ **Figure 10. Evolution of policy rates in selected economies, 1980–2023 (percentage)**



Source: Derived from BIS (n.d.).

On the fiscal side, and long before the Covid-19 crisis, EU Member States had long relaxed the fiscal provisions of the Treaty on European Union (Maastricht Treaty – see box 4 for more details) as they were envisaged in the 1990s and running fiscal deficits above 3 per cent of GDP for multiple consecutive years already. In the wake of the pandemic, the observance of those targets was put on hold until 2023, although differentiated fiscal tightening was due to start in 2024 (Eurogroup 2023).

Engaged for the long haul

Another key COVID-19 crisis-induced policy development in the EU was the creation of a European recovery instrument in 2021 known as NextGenerationEU, a multi-year fund worth €800 billion (or about 4 per cent of the EU's aggregate GDP). For the first time the EU was allowed to issue a significant volume of debt at the European level, up to €150 billion per year in bonds to finance grants and loans to EU countries, including "green bonds". This represented a significant development towards a common fiscal policy across EU countries. NextGenerationEU was designed to bolster Member States' fiscal policies in response to the COVID-19 crisis, but shortterm goals were meshed in with the EU's longer-term ambitions: the fund is also expected to significantly increase green investments, digitalization, skills, agricultural adaptation, social cohesion and gender equality (European Commission, n.d.).

Both the NextGenerationEU fund and the 2022 Inflation Reduction Act in the United States, which provides for US$430 billion in new expenditure, signal a further important development for fiscal policies in high-income countries: they have expanded well beyond the remit of short-run countercyclical measures to also support long-term transformation. **Public investments and industrial policies** are back (Evenett et al. 2024)[4], driving investments in the green economy and other key industries, such as the manufacture of electronic chips and electric vehicles. Significantly, the Inflation Reduction Act has been described by the current US administration as:

> ▶ **"the largest investment in clean energy and climate action … a transformative law that is helping the United States meet its climate goals and strengthen energy security, investing in America to create good-paying jobs, reducing energy and health care costs for families, and making the tax code fairer." (United States, The White House 2023)**

The discussion of macroeconomic policies and structural transformation continues in Section 2.3.

▶ 1.2 Macroeconomic policies in low- and middle-income countries

In 1963, Dudley Seers famously wrote that modern economics represented the "limitations of the special case" as it was reared in the institutional environment of advanced economies that did not apply to the developing world (Seers 2012). This argument is particularly relevant to macroeconomics.

The ideas that led to the golden era of Keynesianism in the 1960s and early 1970s in the rich countries bypassed their poorer neighbours. Development economics as a field of study hardly dealt with macroeconomic policy issues. It was initially shaped by notions of economic dualism à la Lewis and the Harris–Todaro model, and later on by debates on trade and industrialization. Even in 1974, when the World Bank published its landmark report *Redistribution with Growth* (Chenery et al. 1974), macroeconomic policy debates did not take centre stage.

4 For an exploration of the data on industrial policy spending see https://www.imf.org/en/Publications/WP/Issues/2023/12/23/The-Return-of-Industrial-Policy-in-Data-542828

All that changed with the launching of the first **structural adjustment programmes** (SAPs) in 1980. Macroeconomic policy issues in developing countries came to the fore with a vengeance. The Latin American debt crisis was under way as the countries in that region and elsewhere were reeling from the aftermath of the 1970s oil price shocks and the collapse of the Bretton Woods system of fixed exchange rates. The severe monetary contraction under Federal Reserve Chair Volcker added fuel to the fire. Latin American countries' external indebtedness became unsustainable: the cost of such debt went up sharply as many of them borrowed heavily from US banks. This sharp increase in debt-service costs, combined with the negative impact of higher oil prices, ushered in a protracted period of economic turmoil.

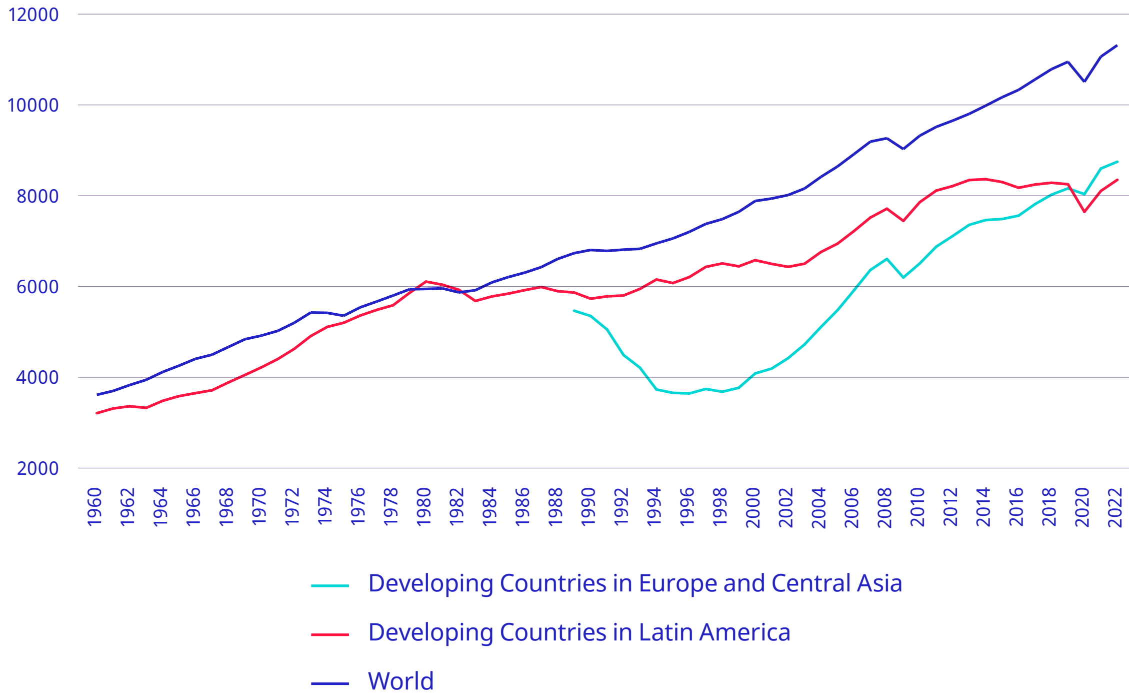
Under SAPs, the response to the Latin American debt crisis was a combination of monetary contraction and fiscal restraint to rectify macroeconomic imbalances on the one hand, and supplyside reforms to facilitate private sector-led growth on the other. The idea was to nurse the affected countries to sustainable economic recovery while reducing the debt burden, but it also entailed the underlying assumption that the macroeconomic imbalances in Latin America were rooted in domestic circumstances. The formula was applied to other parts of the developing world. Between 1980 and 1998, more than 950 SAPs were enacted by the IMF and the World Bank (Easterly 2001).

In 1990, John Williamson proposed a list of ten policy priorities that, in his view, commanded consensus among Washington-based institutions – most notably the World Bank and the IMF, as well as the US Department of the Treasury. The "**Washington Consensus**", as he called it, was seen as summarizing the key ideas that were of central relevance to the debt-ridden Latin American countries (Williamson 1990).

In terms of timing, this might be seen as an ex post validation of the SAPs that had been under way since 1980. From a macroeconomic policy perspective, what was notable was the Washington Consensus's emphasis on fiscal discipline, which was placed first in the list of ten policy priorities. There was even a suggested fiscal target: the budget deficit should not exceed more than 1 to 2 per cent of GDP. Breaching that threshold was seen as prima facie evidence of "policy failure". There were the usual exhortations to embark on market-oriented reforms cutting across privatization and deregulation (of both product and labour markets), trade and liberalization of foreign direct investment (FDI).

The SAPs coincided with the **"lost decades"** in the developing world (Easterly 2001; Milanovic 2003; Islam 2005). In Latin America, where SAP precepts were most dutifully heeded, per capita GDP recovered to its 1980 level only after 1996 (figure 11). "Shock therapy", an accelerated textbook neoliberal programme, was indeed a massive shock to the people of Eastern Europe and Central Asia, without many of the much-vaunted therapeutic benefits. Post-Soviet economies started healing once EU accession and integration-related investments were made available. Poverty, measured against the then frugal standard of US$1 per person per day as the international poverty line, rose during the 1980s in Latin America and sub-Saharan Africa. Non-existent at the beginning of the 1980s, poverty also quickly spread in Central Asia and Eastern Europe (Chen and Ravallion 2008).

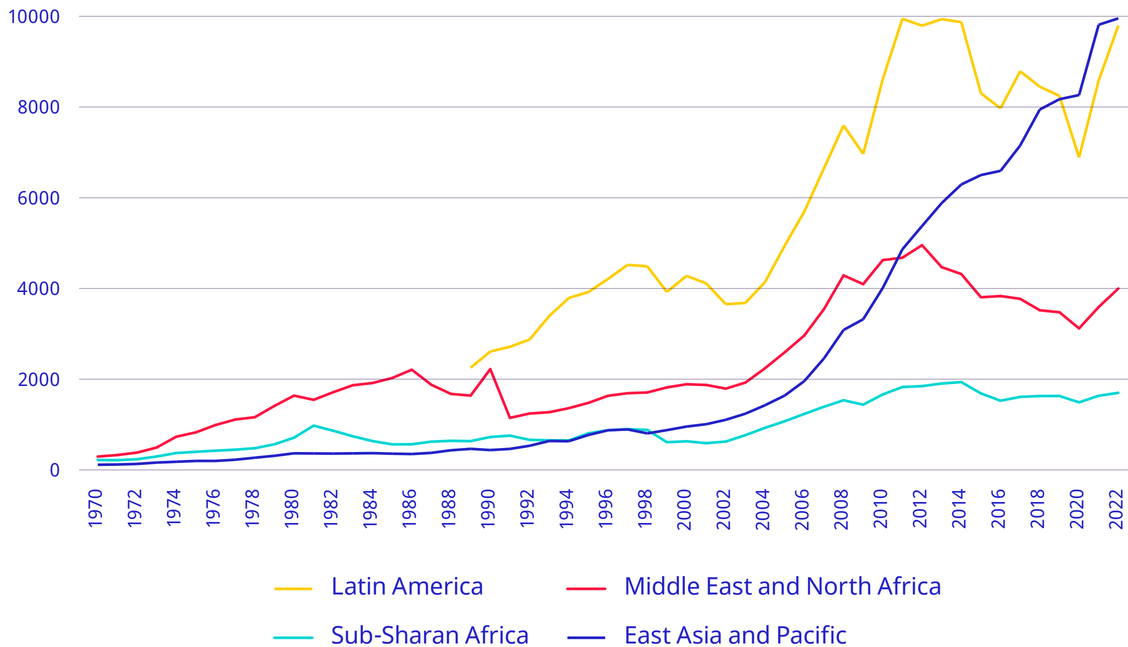
▶ **Figure 11. GDP per capita, world and developing countries by region, 1960–2022 (in 2010 US dollars)**



Source: Data from World Bank, WDI.

East Asia was the only region that defied the grim trend of the lost decades, achieving instead a truly remarkable development record (figure 12) in what came to be known as the **"East Asian miracle"** (Islam and Chowdhury 2000).

▶ **Figure 12. GDP per capita in developing regions, 1970–2022 (current US dollars)**



Source: Data from World Bank, WDI.

The 1993 *East Asian Miracle* report published by the World Bank attempted to draw some key policy lessons from the recent successes of the "Asian tigers". In doing so, it represented a break with key orthodox precepts in significant ways. The report recognized that "**activist public policies**" were associated with East Asia's success, which raised important questions about "the relationship between government, the private sector, and the market" (World Bank 1993, v).

The 1997 financial crisis in Asia provided further lessons on the linkages between short-term macroeconomic policies and longer-term structural policies. Many countries were hit by financial instability, and the IMF came to the rescue with the usual conditionalities of the time. One country that stood out was Malaysia, which rejected the IMF programme, pegged its exchange rate to the US dollar and imposed capital controls, giving it the necessary space to enact countercyclical policies that would allow it to emerge from its recession. A study of the country's response to the crisis found that "the Malaysian policies produced faster economic recovery, smaller declines in employment and real wages, and more rapid turnaround in the stock market" (Kaplan and Rodrik 2001). In a post-mortem, the IMF (2000) conceded that it "did not foresee the deep recessions that occurred". With regard to the capital controls introduced by Malaysia, an IMF study noted that they had not caused any significant economic damage, contrary to what had been widely predicted by critics, while providing considerable policy autonomy to the national authorities (Tamirisa 2001). The East Asian financial crisis thus refuted the idea that a financial crisis can be handled by **procyclical policies:** inflicting short-term pain for long-term gain is, in effect, counterproductive.

The 2000s ushered in the most impressive period of solid growth and moderate inflation in decades for developing and emerging economies. They were helped by a benign external environment (high commodity prices, very low interest rates, China's growth), and a global agenda featuring a renewed commitment to poverty reduction and sustainable development.

The East Asian region, and the developing world at large, fared much better during the global financial crisis of 2008–09. Unlike previous crises – whether in Latin America in the early 1980s, or in East Asia in the late 1990s – the victims this time were the rich countries, especially those in the OECD area. The aftermath

of the global financial crisis was met with countercyclical fiscal stimulus packages along old-fashioned Keynesian lines and with unconventional monetary policy tools.

The **COVID-19** pandemic and the recession that followed in 2020 affected developing countries differently. In GDP terms their economies contracted to a lesser extent, with real GDP falling by 4.2 per cent in 2020 in richer countries and by 1.8 per cent in developing economies (IMF, n.d.). However, employment losses were sharper in developing economies and a “great divergence” in the recovery paths of higher- and lower-income countries was evident by 2021 and 2022 (ILO 2022a).

Fiscal stimulus packages and supportive monetary policies were quickly enacted in both developing and richer countries, in part with support from the international financial institutions. While the steps taken in developing countries were more modest in scale than those of the advanced economies,[5] they were historically unprecedented. Social protection and job retention schemes were substantially expanded (Pignatti, Galian and Peyron Bista 2024). Support was also provided to the hardest-hit sectors, many of which were dominated by women, reflecting the acknowledgment that the transmission mechanisms of the COVID-19 crisis were different from those of previous crises, and that women in particular needed sectoral policies aimed at maintaining jobs and incomes (Esquivel 2023).

Where do the low- and middle-income countries stand now in relation to their macroeconomic policy configuration? Several large emerging economies (such as Brazil, India, Indonesia and South Africa) have adopted key elements of the “nominal targeting” approach, most notably inflation targeting and prudential thresholds on fiscal debts and deficits that mimic the provisions of the Maastricht Treaty governing the eurozone. Nevertheless, many developing countries have not formally embraced inflation targeting. They have opted, instead, for a diverse range of monetary policy regimes, with the exchange rate in many cases playing the role of a nominal anchor. Numerical fiscal rules among low- and middle-income countries are more widespread, but fiscal councils are much less common.

More importantly, questions have been raised about the relevance of dominant macroeconomic approaches in developing countries whith structurally distinctive features. It has been argued that developing countries do not need to indiscriminately import economic policymaking ideas from richer countries given, inter alia, their limited financial development and large informal labour markets .

How the collective macroeconomic policy stance of the developing world will evolve in the medium term remains to be seen. Maintaining, indeed accelerating efforts to achieve the SDGs is a major challenge – one where a critical examination of macroeconomic and growth strategies may be said to be crucial.

Fiscal councils are ”nonpartisan public entities with a statutory or executive mandate aimed at promoting sustainable public finances through assessing fiscal plans and performance, evaluating macroeconomic and budgetary forecasts, monitoring the implementation of fiscal rules, and costing of government measures” (Davoodi et al. 2022).

5 Developed countries could borrow at very low interest rates to invest in their recovery, also benefiting from a “flight to quality” of global capital. Poorer countries, on the contrary, experienced capital outflows, a weakening of their debt positions, insufficient access to new sources of finance and an increase in borrowing costs and debt servicing, all of which reduced their “monetary policy space” and further constrained their ability to respond to the crisis (IATF 2022).

▶ 1.3 Macroeconomics and labour markets

In all the major macroeconomic models used across the globe and that have been alluded to here, the labour market plays a pivotal role. The 1960s Keynesian framework, where an economy can deviate from full-employment equilibrium over long periods, needs to be buttressed by the assumption of nominal wage rigidities. How or why these rigidities emerged was not fully explained or explored, leading to a micro–macro split in economics, in which competitive markets with full price and wage flexibility prevailed at the micro level, but not at the aggregate level. This led the late Nobel laureate Paul Samuelson to propose the notion of a **"**neoclassical synthesis**"** (Blanchard 1991). One could simultaneously be a neoclassical economist at the micro level and a Keynesian at the macro level.

The New Keynesians added to the original Keynesian model by justifying nominal wage rigidities as the result of price-setting decisions by profit-maximizing firms in monopolistic industries. The labour market exhibited downward wage rigidity owing to a combination of institutional impediments and the payment of efficiency wages by profit-maximizing, but benevolent, employers.

The formulation of the labour market in both monetarist and new classical models is quite simple. The labour market is assumed to be fully competitive and populated by utility-maximizing agents who enjoy equal bargaining power with the owners of firms. In the Friedmanite version of monetarism, the **natural rate of unemployment** prevails in the long run, which in modern parlance came to be termed NAIRU (non-accelerating inflation rate of unemployment). This is a special case of price stability with full employment, where policies to manage aggregate demand are unnecessary. In this framework, only **supply-side structural policies** can reduce NAIRU without disrupting the expectations of economic agents and thus without provoking inflationary pressures. Involuntary unemployment and working poverty, along with discrimination and unsafe and precarious working conditions, are assumed to be negligible or transitory. Involuntary unemployment and persistent voluntary unemployment emerge when there are *institutional impediments*, such as minimum wages, collective bargaining or unemployment benefits. As noted in section 1.1 above, even the New-Keynesian economists concede that the "first-best" option is to engage in comprehensive labour market reform to induce wage flexibility. This would help to reduce the duration and amplitude of business cycles.

These intellectual traditions ignored important empirical evidence and research that undercut some of their key assumptions. Unequal **bargaining power** between firms and workers is a first critical element. It has been long understood that **monopsony** elements can affect labour market outcomes. As the British economist Joan Robinson demonstrated in the 1930s, in a pure monopsony there is **wage suppression** (that is, wages are below the marginal productivity of workers) and suboptimal employment relative to the full employment level in a competitive market (Thornton 2004).

For a long time, monopsony models of the labour market remained on the fringe of academic or policymaking circles. A growing literature has recently made strides in showing how pervasive the exercise of monopsony power by firms is, and how it induces wage suppression.[6] The upper hand of firms on labour markets has also been shown to partly explain a decline in the **share of labour income** in GDP, the persistent incidence of low pay in many countries and discrimination in the labour market along multiple dimensions. Different typologies of workers have different bargaining power and women are often at a disadvantage, which affects their activity rates, wages and career progression, and also depresses workers' overall bargaining power (Seguino and Braunstein 2019). This literature has largely concentrated on richer countries, but there is "growing evidence that the competitive labour markets assumption is not valid for employment in developing countries" either (Chau, Kanbur and Soundararajan 2022).

6 See Manning (2021) for a review of the literature; Langella and Manning (2021) on a UK case study; Posner, Naidu and Weyl (2018) on the US experience; and OECD (2022) on the OECD area.

Promoting mutually beneficial employer–worker relations has been at the core of the ILO's mandate ever since its creation in 1919, at a time of acute social tensions in many countries. **International Conventions** and guidelines have thus long been established – jointly by the representatives of governments, employers and workers – on key measures to deal with potential employer monopsonies (or excessive worker demands), namely minimum wage-setting mechanisms, sectoral collective bargaining and freedom of association. Extending social security can also play a key role in this respect, as workers stand on firmer bargaining ground when buffered by unemployment benefits. Labour mobility is more rational when workers' incomes are supported so they do not need to settle for the first income opportunity that comes their way, but are able instead to look for a good match for their skills and capabilities (Eeckhout and Sepahsalari 2023).

Furthermore, the configuration of the labour market in dominant macroeconomic models is at variance with a major feature of low- and middle-income countries, namely the large size of the **informal economy**. Informal employment accounts for 84 per cent of employment in Africa and 87 per cent in South Asia (ILO 2024). This is incompatible with the assumption of formal and competitive labour markets in standard macrolevel models. The presence of large informal employment reduces the effectiveness of the monetary policy transmission mechanism and, consequently, the effectiveness of monetary policy. Informality also reduces the tax base and hence the effectiveness of fiscal policy.

▶ Figure 13. Employment by formality status, world (high-income countries) and by region, 2023 (percentage)

Source: ILO modelled estimates.

Another key defining feature of many labour markets that has long been ignored in standard macroeconomic assumptions is the evidence that women face systemic and enduring disadvantages relative to men in the world of work (box 2). This is reflected in gender pay gaps, significant disparities in labour force participation rates, the unequal distribution of unpaid work between men and women, and the underrepresentation of women in formal political institutions as well as in managerial positions. Unpaid and non-market work, still predominantly performed by women, is largely ignored in macroeconomic policymaking, despite its prevalence and implications for economic and labour market outcomes. At the same time, fiscal policies that expand social expenditures – including spending on health, education, care, and maternity and paternity benefits – can have significantly positive impacts on gender inequalities (see box 2).

▶Box 2. Gender-responsive macroeconomics and labour markets as gendered structures

Macroeconomic policies are not gender-neutral: they can address gender inequalities, if they are *genderresponsive*, or exacerbate those inequalities (Elson 1995). The IMF recently recognized that "narrowing gender inequality can raise economic growth and enhance macro-financial stability" (IMF 2022a, 3). More broadly, the impact of crises differs depending on where men and women were in the productive structure. And the way in which countries deal with crises can impact on women and men quite differently.

"Fiscal consolidation" can affect women disproportionately. Cuts in public administration and services impact on women's employment to a greater extent, and the erosion of social services indirectly increases unpaid care work, again affecting women's availability for employment. On the other hand, balance-of-payments crises tend to hit industrial and tradable sectors' employment to a greater extent, thus affecting men more heavily in their first-round shocks. However, women's labour force participation tends then to increase to offset men's loss of activity (referred to as the "added worker effect"), but in the absence of decent employment opportunities, women end up in precarious, informal employment. These dynamics were observed during the Great Recession in Latin America and in Europe (Karamessini and Rubery 2013; Esquivel and Rodríguez Enríquez 2014), and also in the COVID-19 crisis – although in the latter, women were also affected to a relatively greater extent by first-round shocks since the lockdown measures hit feminized sectors harder (ILO 2020a; Esquivel 2023).

Gender-responsive fiscal and monetary policies explicitly address gender inequalities and the way policies can affect women and men. As part of the COVID-19 response, fiscal stimulus measures were implemented that prioritized women's income security or supported care provision, wage subsidies and income replacement, targeting specific groups of women (such as rural, indigenous and migrant women) or specific occupations (care workers). These measures included tax cuts, exemptions and credits channelling resources to hard-hit, female-dominated sectors. On the monetary front, loan guarantees, credit/loan deferrals, debt restructuring and loan renegotiations were also channelled towards female-dominated sectors and women-owned businesses.

More generally, fiscal and monetary policies shape the *levels* and *patterns of growth*, which have compounded impacts related to class, race and gender that alter jobs, income levels and the functional distribution of income. This structural approach to gender-responsive macroeconomic policies includes but goes beyond gender budgeting narrowly understood as using "budget resources to support [the] achievement of gender equality objectives" (IATF 2022, 40). For example, expanding the fiscal space and *how* the fiscal space is created – whether it is based on domestic resource mobilization, external borrowing or official development assistance – are also important for gender equality. Similarly, it is not enough to work towards women's financial inclusion and supporting micro-entrepreneurs: it is also necessary to put in place credit policies that support gender-responsive industrial policies – in other words, to reclaim the developmental role of monetary policy (UN-Women and ILO 2021).

Source: Esquivel (2023).

The view that structural and labour market reforms to induce **price and wage flexibility** were the "first-best" option for a well-functioning macroeconomy achieved considerable influence as part of neo-classical and neo-Keynesian economics. This is reflected in the OECD Jobs Strategy of 1994; the launching and dissemination of the OECD's indicators of employment protection legislation; the World Bank's use of its Employing Workers Index in its widely circulated *Doing Business* annual reports; and in frequently cited academic papers which argued that "pro-worker legislation" paradoxically hurt workers by reducing job opportunities and benefiting "**insiders**" at the expense of "**outsiders**" (Besley and Burgess 2004; Botero et al. 2004).

The ILO and others have voiced concerns about the validity of the wage flexibility thesis and of the construction of the Employing Workers Index. The World Bank has formally withdrawn both,[7] while the OECD has moved beyond its 1994 Jobs Strategy to now advocate "inclusive labour markets" (OECD 2022) and expand research on monopsony power (see OECD 2022, in particular Chapter 3).

Within the broader macroeconomic policy shifts that have been described, this more nuanced and evidence-based perspective on employment and wage dynamics, including the incidence of low pay, narrow social protection, working poverty and declining labour income shares) has important policy implications. **Minimum wages, collective bargaining, social security and other subjects covered by international labour standards** are no longer mere "distortions and impediments", but essential factors for sustainable development (Calligaro and Cetrangolo 2023).[8]

A better understanding of real-world labour dynamics is also critical to current debates on inflation and **wage–price spirals**. As pointed out by *The Economist* (2023), wage–price spirals might have been useful in understanding persistent inflation in the OECD area in the 1970s, when there was full employment and powerful organized labour, but not in the world of today. Instead, work on profit–price spirals, which would have seemed heretical to many until only recently, is now gaining attention. The IMF, the Federal Reserve, the ECB and others have all found more profit–price than wage–price effects in the recent inflation surge following the COVID-19 crisis (Hansen, Toscani and Zhou 2023; Van Gaal 2023; Brainard 2023).

7 Lee, McCann and Torm (2009) offer a robust evidence-based critique of the Employing Workers Index. The World Bank withdrew the *Doing Business* series of reports in 2021 (World Bank, n.d.). The new flagship report on the business environment titled "B-READY" is due for launch in September 2024.

8 An important study by Posner, Naidu and Weyl (2018, 538) finds, for instance, that "monopsony power in the U.S. economy reduces overall output and employment by 13%, and labor's share of national output by 22%."

POLICY DIAGNOSTICS AND DIALOGUE: KEY ISSUES

Part 1 has considered the evolution of macroeconomic policy from the vantage points of advanced and developing economies. In sum, over the past two to three decades there have been important policy shifts in monetary and fiscal policy away from “stability first” paradigms towards more balanced and comprehensive approaches to the short- and longer-term management of economies. Central banks and finance ministries are exercising greater caution when they need to put the brakes on inflation, actively balancing price stability with employment objectives. In the EU and the United States, in China and some other developing countries, fiscal policy is increasingly being used to address long-standing industrial, environmental and social concerns.

Such policy evolutions have not, however, reached all shores. Given that a whole generation of academic economists and policymakers have grown up in the neo-classical and New-Keynesian traditions, a lingering tension between the imperatives of "nominal targeting" and structural liberalisation, and the needs of the real economy continues to shape policy debates.

In that regard, the present guide is intended to support policy dialogues among a broad constituency of users to examine macroeconomic policies and identify viable options to accelerate the achievement of employment, social protection and just transition outcomes. The unsatisfactory progress towards the SDGs in many developing countries calls for a reconsideration of macroeconomic stances where these remain focused on narrow concerns about price and fiscal stability, and insufficiently cognizant of alternatives that can promote growth and social progress.

This part of the Guide reviews some **key issues warranting close examination** as a country considers its macroeconomic configuration. Part 3 proposes a process and associated practices.

▶ 2.1 External balancing

The balance of payments

Balance-of-payments constraints are a primary concern for macroeconomic policy in relatively open developing countries. The balance of payments measures the external surplus or deficit of a country in its monetary transactions with the rest of the world. Long periods of deficit (or surplus) result from a structural imbalance between receipts from exports and tourism on the one hand, and outflows from imports on the other. Export receipts may be conceived as capping the capacity to import those goods and services that are needed for domestic production (and exports) and for final consumption. In the shorter term, international capital flow reversals are also a key factor. There is clearly a predilection among developing countries for *some degree of control over the **capital account*** combined with *some management of the currency* – a pragmatic stance that may be linked to several factors specific to such countries.

- **Imports**. Demographic growth tends to push imports upwards, as year after year the need increases for all those things that are commonly imported. The rise in incomes per capita also drives up consumer demand for more diversity and quality, which tends to induce import growth. In contrast, exports do not increase automatically with a growing population or changes in consumer predilections.

- **Exports**. The composition of exports in lower- and middle-income countries tends to be less diverse and more concentrated in primary agricultural or mining products. For both reasons, their foreign currency revenues are much more prone to large fluctuations, generating sudden, often hardly foreseeable drops in revenue and greater short-term uncertainty. Relatedly, the evolution of the terms of trade – that is, the long-term trend in the pricing of different types of tradable goods and services – is widely believed to disfavour agricultural and mining products: their value relative to manufactured goods and services has historically been sliding downwards, probably as a result of rising global consumption of manufactured goods and services. Furthermore, agriculture benefits from a particularly generous treatment in higher-income countries through fiscal subsidies or import restrictions, making it harder for developing countries to access major markets in a key sector for their development.

- **Capital**. Massive surges of capital inflows through highly liquid assets are another challenge that developing countries need to contend with. Their relatively small financial markets can experience

rapid upswings that do not tally with their economic fundamentals. Currencies can appreciate inordinately, hurting the competitiveness of often highly price-sensitive and low-margin exports. Such "hot money" inflows are also known to be prone to drastic reversals as a result of exogenous factors, such as a change in the US Federal Reserve's rates, or to amplify the macroeconomic effects of a domestic crisis.

The currency

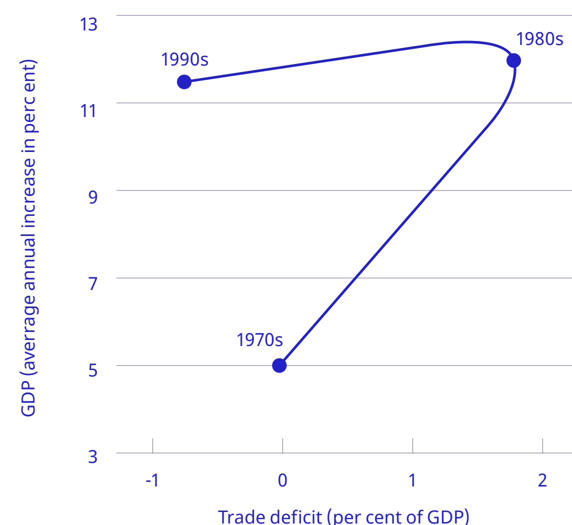
The chorus warning against **currency overvaluation** is as unanimous as it gets. An overpriced currency is broadly recognized as playing a major role in balanceofpayments crises and persistent foreign currency shortages. It artificially weighs on exports and on import substitution, favouring short-term purchasing power and consumption, and fuelling capital flight. Very few are the cases where overvaluation would appear as advisable, yet it is far from a rarity, perhaps primarily because of its short-term expediency. Some economists, such as Dani Rodrik, go one step further by considering *under*valuation to be as beneficial as overvaluation is detrimental, arguing that "a credible, sustained real exchange rate depreciation may constitute the most effective industrial policy there is" (Rodrik 2005, 1002; see also Rodrik 2008).

Determining whether a currency is overvalued or undervalued implies a comparison between prices in one country and prices in others, typically those with which that country trades the most. Several ways of measuring valuation exist, ranging from the "Big Mac index" published by *The Economist*, to measures of the **real exchange rate** or of the **real effective exchange rate**, to various modelling exercises. Whether or not a currency is misvalued can therefore be subject to different interpretations, but different methods will reach similar conclusions when the misvaluation is sizeable.

A continuous monitoring of, and policy dialogue on, the external positioning of a country – and the role played by the currency in favouring or, at least, in not disfavouring production – are essential when making decisions on any macroeconomic policy. Within an overall strategy of maintaining a "competitive currency", which implies free floating[9] more often than not, central banks may also resort to different "balance-of-payments tactics".

As mentioned above, imports are a necessary corollary of investment, public or private. Investment growth is accompanied by import growth, and shortages of foreign currency or exchange restrictions imposed on private or state enterprises can be detrimental to exports and overall economic growth.[10] The case of China is often regarded as exemplary of a healthy relationship between trade deficits and economic growth – at least until the 2000s, when the country's enormous trade surpluses became more contentious (see figure 14). The **trade**

▶ **Figure 14. Annual GDP growth (%) and trade deficit (% of GDP) in China, 1970–96**



Source: UNCTAD, Trade and development report, 1999.

9 Currency appreciation has been recommended in countries where consumption is considered to account for too small a share of the economy.

10 See, for instance, the case of Ethiopia as diagnosed by Hausmann et al. (2022).

deficit first grows with economic growth, to then recede as the export basket moves upwards in terms of value addition.

The acquisition of machinery and other intermediate goods and services for public and private investment can be constrained, at any given time, by lower than desirable export proceeds and capital inflows (or by sudden reversals of "hot money" inflows). As a means of favouring intermediate goods and services in the basket of imports (and collecting revenue), higher rates of direct tax (value-added or sales tax) may be applied to certain classes of goods and services for *final* consumption, especially for high-end consumption (see also section II.2 on government revenue). The tourism industry is a major source of external revenue that governments pay particular attention to. The remittances of citizens working abroad also play an important role in stabilizing the external position of some countries.

▶ 2.2 Internal balancing

The role of the exchange rate in balancing the external position of a country can be constrained by trends in the two other macro-level prices, interest rates and inflation, and by the way in which these interact with the internal budgetary balances (the short-term deficit and the longer-term debt).

Inflation

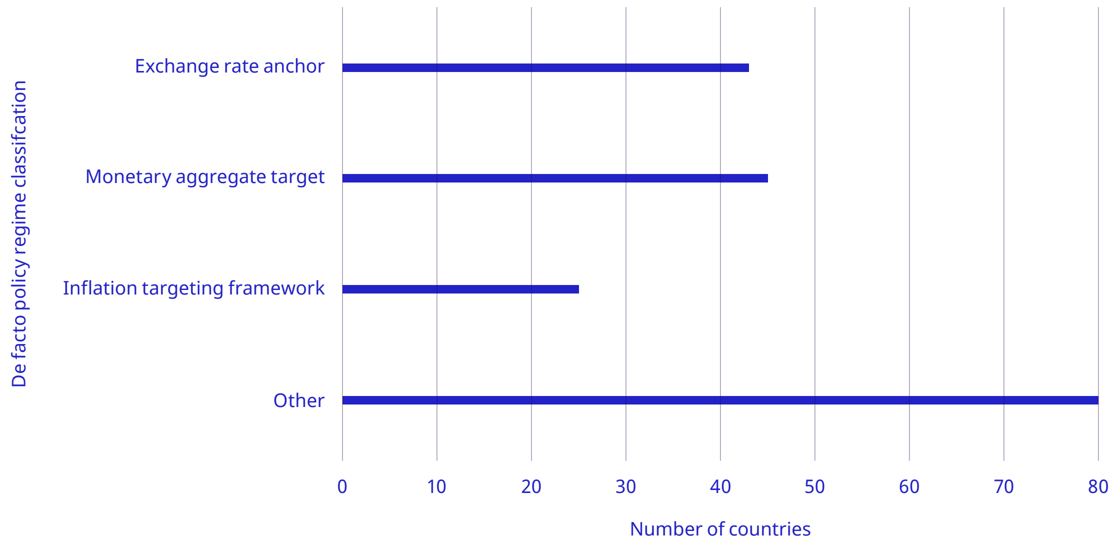
The classical playbook for monetary policy calls for (a) flexible exchange rates; (b) open capital accounts; and (c) inflation targeting. Most countries deviate from such a configuration, and central bank mandates change over time.

The evidence on the impact of inflation targeting regimes,[11] based on maintaining predetermined low-inflation targets, is far from conclusive. The latest evaluation by IMF economists suggests that while such regimes may not be harmful to growth, they are not necessarily associated with higher growth. For example, out of 23 country-level cases studied, only four demonstrated statistically significant results, with improved growth outcomes following the adoption of inflation targeting. Furthermore, late adopters among developing countries (that is, those that did so after 2000) did not record sustainably lower inflation and inflation volatility (Bhalla, Bhasin and Loungani 2023). An earlier ILO evaluation had also found that there is no robust statistical association between inflation targeting regimes and improved labour market indicators (Anwar and Islam 2011).

Only 45 out of the 193 member countries and territories tracked by the IMF have adopted inflation targeting regimes (IMF, 2023). Others use a diversity of monetary policy frameworks, with the exchange rate anchor being a popular one (80 out of 193 countries and territories – see figure 15). As mentioned in section 2, among the institutional prerequisites for the effective operation of inflation targeting regimes are formal financial systems and labour markets. These conditions are often not fulfilled in many low- and middle-income countries.

11 The Reserve Bank of New Zealand was the first central bank to formally adopt inflation targeting in 1989, setting 0 to 2 per cent as the target range. Later, it became 1 to 3 per cent with a focus on the midpoint of 2 per cent. This appears to have been inspired by an informal observation made by the then Finance Minister Roger Douglas during a television interview, when he said that he preferred inflation to be "around zero to one per cent". Bank officials themselves admit that the initial target was used "primarily as a communications device" to establish policy credibility (McDermott and Williams 2018).

▶ Figure 15. Monetary policy regimes in member countries of the International Monetary Fund and selected territories, 2022



Note: The chart covers 190 countries and three territories of the IMF.
Source: Derived from IMF (2023).

Twin objectives, dual mandates

Many major central banks, including and perhaps most notoriously the US Federal Reserve, are statutorily tasked with a "dual" mandate, that is to pursue *both* price stability and full employment. Others central bank statutes are based on single (or hierarchical mandates), in which the attainment of price stability is prioritized over all other objectives.[12] As the Federal Reserve was raising interest rates in 2022 and 2023 to check inflationary pressures, it also signalled that it was carefully observing the US labour market and aiming to maintain full employment, or rather to keep unemployment at its lowest structural levels. Whether it is prescribed in their foundational statues or not, one may observe that central banks in advanced economies have progressed from a narrow focus on price stability to a policy stance whereby stability is not held as the sole or preeminent condition for economic performance, with the debate shifting to whether and how much labour market *slack* is needed for price pressures to subside (Krugman and Summers 2022).

12 For example, the US Federal Reserve Act of 1977 directs the Federal Reserve to "maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates".

▶Box 3. Monetary policy governance

The management of monetary policy requires solid expertise, along with an inclusive system of governance. Sound monetary policy starts with good data and technical expertise, but also involves the deliberations of monetary policy committees, and adequate public communication and reporting of monetary policy decisions to political authorities and the wider public, if only to explain intentions, expectations and the means to be used.

The composition of **monetary policy committees (MPCs)** has often been described as lacking diversity. A community of insufficiently diverse experts risks falling into groupthink. For example, the MPC of the Bank of England is dominated by economists and by men: there are four women in a committee of nine members.[1] This is also the case of the MPC of the Reserve Bank of India (one woman in a committee of six).[2]

1 See the landing page for the Committee on the Bank of England website, https://www.bankofengland.co.uk/about/people/monetary-policy-committee.

2 See the Reserve Bank of India web page on monetary policy, https://www.rbi.org.in/scripts/FS_Overview.aspx?fn=2752.

Different types of inflation in different places

Whether or not and how aggressively a country should seek to tame price growth depends on the nature of the inflationary pressures it is facing. Inflation responds well to changes in the policy rate when it is **demand-driven**, but not so well when **supply-side** factors are also significant. To what extent are price hikes "imported" is a crucial consideration. The Federal Reserve, the ECB and other major central banks were criticized by some in 2021 for their "wait it out" stance when the first signs of rising prices appeared. On the other hand, many considered this posture to be reasonable, since inflation could be traced to global supply bottlenecks resulting from the COVID-19-related lockdowns, and subsequently to the effects on oil and cereal prices of the war in Ukraine and the sanctions imposed on the Russian Federation.

Inflation management needs also to be country-specific, and in this respect the literature on optimal inflation levels in high-income countries may offer limited clues to policy making in developing countries. It is broadly accepted that the **trade-off between inflation and growth** is non-linear (Fischer 1993): different levels of inflation impact on growth in different ways. And it is generally accepted that higher levels of inflation can, or should, be tolerated in developing countries. *How high* an inflation rate is not quite clear (Anwar and Islam 2011)[13]. Barro (1997) found no (or a very weak) relationship between growth and inflation when inflation remains below 20 per cent. Bruno and Easterly (1998) found that inflation hurts growth only above their "high inflation" threshold of 40 per cent. In an IMF study Khan and Senhadji (2001) lower this threshold to between 7 and 11 per cent for developing countries. Stiglitz et al. (2006) argue that the *costs of combating moderate inflation* (defined as between 15 and 30 per cent) outweigh the costs of inflation itself in developing countries. Research findings to date do not substantiate any policy rule beyond the broad classical precept for "**sound money**" – that is, eschewing profligate money printing and debt monetization practices that dilute everyone's assets to the State's sole gain.

One key aspect of the distinctiveness of developing economies as far as inflation management lies in the distinctiveness of their labour markets. The relationship between inflation and unemployment (the **Phillips curve**) should thus be expected to work differently there. Indeed the prevailing evidence

13 See Anwar and Islam, 2011, for a review of cross-country and country-specific studies on the relation between growth and inflation.

indicates that the trade-off between inflation and unemployment is much weaker in developing countries. As Stiglitz et al. (2006, 54) note,

"It's even difficult to conceptualize a negative relationship between inflation and unemployment when disguised unemployment in the subsistence agricultural sector, underemployment in the urban informal sector, and wage employment in the formal (manufacturing and services) sector co-exist in a spectrum without clear lines of demarcation".

The literature has evidenced other factors in the case for higher inflation tolerance in developing countries. Rather than tight labour markets, supply-side sources of inflation play a stronger role in developing countries. Imported-goods inflation plays a relatively larger role in relatively small and open developing economies. Supply-side bottlenecks, including inadequate infrastructure, amplify global inflationary effects. Climate change is creating demand and supply shocks that add new complexities (Kabundi, Mlachila and Yao 2022). As mentioned earlier, institutional prerequisites for effective inflation targeting are often absent and faster demographic growth in developing countries, coupled with their need to catch-up on per-capita capitalization, require larger shares of investment, further militating against tight money.

Higher levels of inflation may thus be tolerated in developing economies, provided the less affluent sectors of society are not disadvantaged. It is critical that old-age pensions, to start with, are *indexed* to inflation rates, as required under international labour standards.[14] While the selfemployed, including those in the informal sector, have potentially greater scope to adapt their prices to inflation levels, the earnings of those in wage or dependent employment, in the public and private sectors, must also be aligned with inflation through minimum wage laws and/or sectoral collective bargaining. *Informal employees* may be particularly vulnerable to price accelerations and would thus require particular attention.

Investment and debt

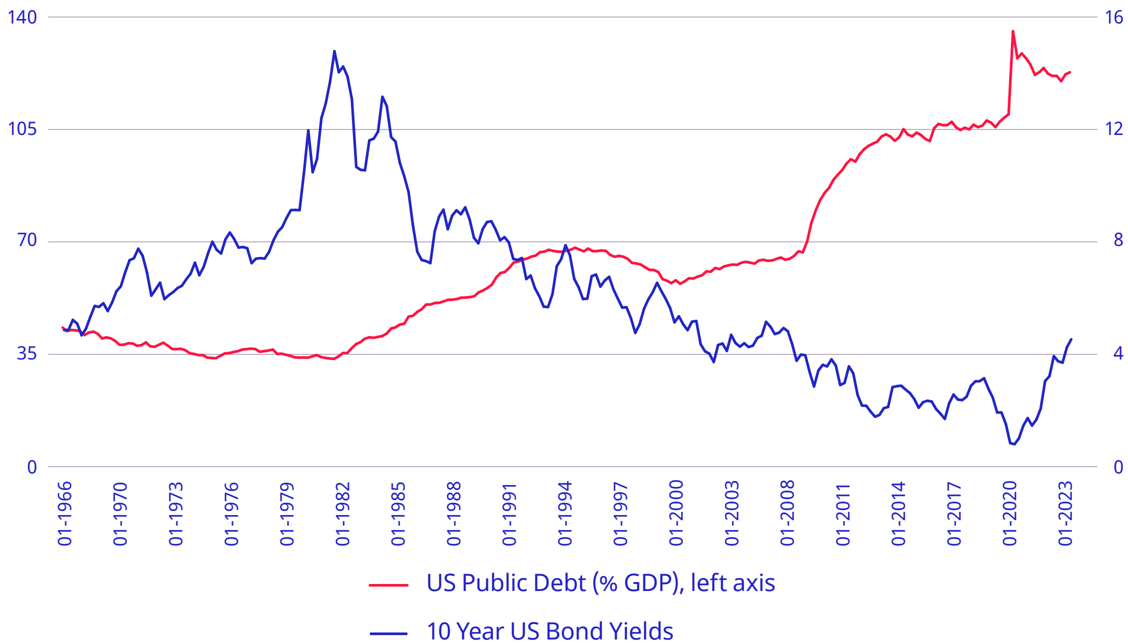
Savings, investment and finance

In an "Economics 1.01" world, the total amount of investments (I) in an economy is equal to the amount of savings (S) that households and enterprises can set aside: the equation is simple, I=S. When governments run deficits in this model, they *"crowd out" investments*: deficits are funded by debt obligations issued by the government, which are acquired by households or businesses, thereby reducing the stock of savings available for investment and driving interest rates up. As a result, less investments are made in this theoretical setting – something often referred to as the "**crowding-out effect**".

A good deal of empirical research has been carried out to establish whether or not such an effect could be observed in the real world, especially in the 1980s and 1990s. The results are on the whole considered to be inconclusive, and that research field has largely dried out by now. In fact, since the 1990s and in particular after the global financial crisis, major economies have vastly increased their debts just as interest rates have plunged to historical lows (see figure 16).

14 See the "Flagship Thematic Area: Old-Age Pensions" on the ILO Social Protection platform, https://www.social-protection.org/gimi/ShowTheme.action?id=21.

▶ **Figure 16. US public debt (% of GDP) and ten-year government bond yields (%), 1966–2023**



Source: Quarterly data, derived from FRED (Federal Reserve Economic Data) database, https://fred.stlouisfed.org/.

To understand the real-world relationship between savings and investment, and between government deficits and interest rates, a few more elements need to be brought into the equation. The first of these is the business cycle: when the deficit rises during a recession, it stimulates the economy. An extensive literature indicates that **fiscal multipliers** are positive (>1) in recessions.[15] As further discussed in the next sub-section, debt-funded countercyclical spending does make sense economically, as the recovery from the COVID-19 crisis has again illustrated: the most fiscally proactive countries have recovered the fastest.[16] How high the multiplier can climb above 1 in recessions is a more contentious matter. Among other factors, it depends on the depth of the recession (the output gap or the extent of labour underutilization); the type of fiscal measure (expenditure versus tax cuts, and types of expenditure – for example, public investments versus social spending); and how open the economy is (that is, the likelihood of income injections "leaking out" through increases in imports, further impacting on the currency and the trade balance).

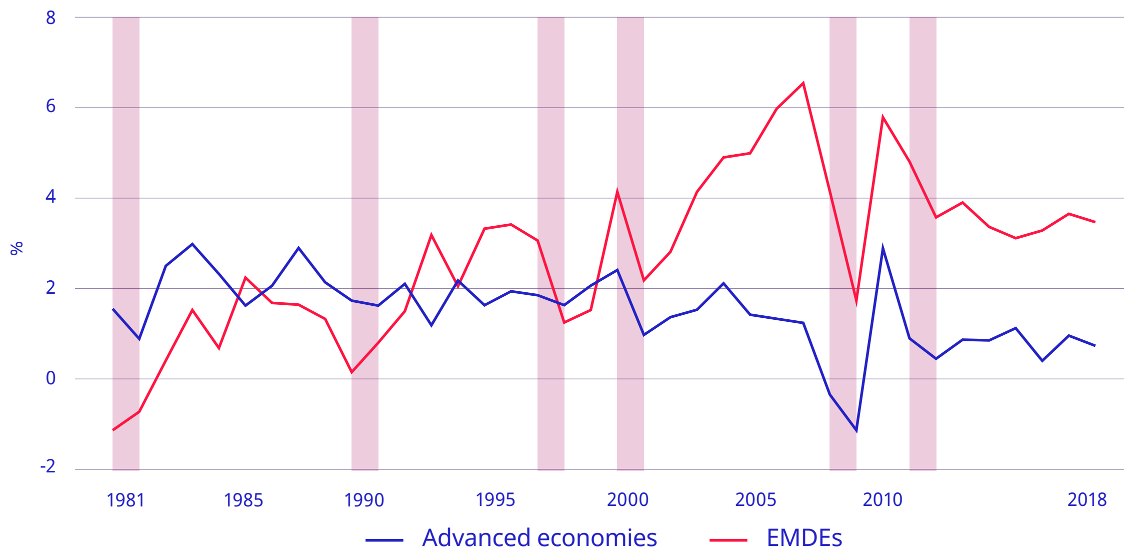
A second key element that needs to be taken into account is the rest of the world – specifically, a world drenched in a "global savings glut", as the then Chairman of the Federal Reserve, Ben Bernanke, famously described it (see Bernanke 2015).[17] The spectacular growth of the financial industry and the liberalization of capital flows around the world, along with the wealth and income inequality dynamics described by Piketty (2014), may be said to have generated a structural *excess* of savings in the world economy. In such a context, developing countries do not need to rely only on their domestic savings to finance their investments, but can also turn to highly liquid **international financial markets**.

15 See Gechert and Rannenberg (2018) for a recent meta-analysis of empirical studies on the subject. A seminal article is Blanchard and Perotti (2002).

16 See, for instance, ILO (2022a), which discusses the "great divergence" in recovery trends. As has been noted, since the COVID-19 crisis was also a supply-side shock, fiscal spending may have overshot the mark and contributed to inflationary pressures.

17 See also *The Economist* (2015) for the debate between Bernanke, Summers and Krugman on this topic.

▶ **Figure 17. Productivity growth, advanced versus other economies, 1981–2018 (percentage)**



Note: EMDEs = emerging market and developing economies.
Source: Dieppe (2021).

Indeed, financial resources globally would be expected to flow from highly capitalized areas (richer countries) to areas where capital is scarcer (and labour more abundant) and productivity growth is higher, that is, to developing countries (see figure 17). This has happened to some extent, with FDI and equity and bond acquisitions in developing economies increasing since the 2000s (though with considerable volatility in equities and bonds). However, a more comprehensive examination of global financial transfers flips the script: in a striking paradox, poorer countries are actually transferring financial resources to richer countries. As noted in UNCTAD (2020), "net transfers of financial resources from developing to developed countries far exceed any compensation by net ODA [official development assistance] flows to developing countries ... For example, in 2017 net transfers of financial resources from developing to developed countries amounted to $496 billion, while net ODA amounted to $97 billion."[18] Looking next at the composition of capital and of credit allocation in developing countries, one finds that real estate, trading and consumption (in credit) often take up the lion's share. Investments in longer-term productive capacities seem to be "crowded out" by shorter-term, lower-risk opportunities for profit, albeit at lower returns. Such **misallocations of capital** call for serious efforts to be undertaken worldwide on debts and investments in developing countries, with the involvement of international financial institutions and bilateral and private actors. This aberration had already been identified by Robert Lucas (a central figure of the new classical movement) in 1990, and three decades of financial liberalization since then have not helped. At the country level, on which the present guide is focused, this underscores the importance of "capital controls as an essential part of the macroeconomic toolkit of developing countries" (UNCTAD 2020), as well as of financial and industrial policy instruments aimed at improving the allocation of domestic and international capital for development.

National development banks – especially those with international/regional financial institutions and private actors participating in their capital and governance – have long demonstrated their value in filling market gaps when it comes to the financing of longer-term, high-stakes industrial projects (see, for instance, Xu, Marodon and Ru 2021). Preferential credit lines (prudential rules and/or interest

18 UNCTAD (2020) defines net transfer of financial resources as "the difference between net capital inflows and net income payments to foreign capital, including net changes in international reserves". Similar findings were published in UNDESA (2017).

rates) that reward results (such as exports), together with credit guarantee schemes to accompany commercial banks into segments with a higher risk–return profile (such as lending to small and medium-sized enterprises), have also worked well when adequately designed and managed. Long-term special government bonds attached to the financing of specific "mega projects", such as the Grand Ethiopian Renaissance Dam, can likewise play a useful role.

Debt and fiscal policy

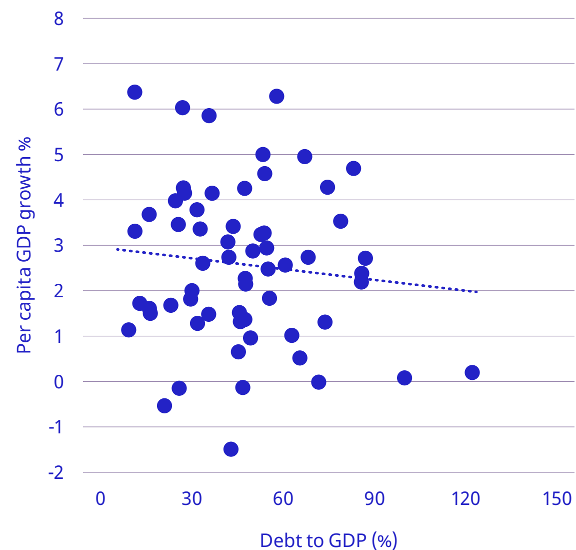
The "investments and savings" equation can be further refined by distinguishing between public and private investments, and accepting that public investments can in fact productively utilize savings and "crowd in" private investment. This is related to the propensity of the public and private sectors to invest in human and physical productive capacities, and to how functional public spending portfolios are with respect to the longer-term investment needs of developing economies.[19]

Policy narratives around public debt often refer much more simply to the need to abide by prudent "**debt thresholds**". Guidance published by the OECD (2015, 1) suggests the following:

- "For higher-income countries, a debt threshold range of 70 to 90% of GDP."
- "**For euro area countries,** the debt threshold is lower, as they do not control monetary policy. Given the no-bail-out clause, the absence of debt pooling, a higher dependency on foreign financing and difficulties in adjusting to shocks, the debt threshold is 50–70%."
- "For the emerging economies, the threshold is even lower at 30 to 50% debt of GDP as they are exposed to capital flow reversals."

Such guidance brings simplicity to complex issues. Wide differences in debt-to-GDP ratios persist within country income groups, and evidence is mixed as to how much that ratio matters for a country's economic performance (see figure 18). Caselli et al. (2022) take into account the long-term decline in the equilibrium interest rate in global capital markets and argue that the maximum sustainable public debt-to-GDP ratio is 200 per cent of GDP for advanced economies and 95 per cent of GDP for emerging economies. A meta-analysis of 30 studies suggests that fiscal rules (see box 4) can reduce the risk of fiscal profligacy, but the results are vitiated by the publication bias of some of the studies and by the endogeneity of fiscal policy, that is, the way in which such policy is shaped by a country's characteristics and circumstances (Heinemann, Moessinger and Yeter 2018). In other words, fiscal rules work well in countries with a tradition of fiscal prudence. Drawing on a diversified sample of developing countries, an ILO evaluation found that fiscal rules do not have a statistically significant association with growth and employment (Ray, Velasquez and Islam 2015).

▶ Figure 18. GDP growth and debt, annual average (2002-2022) for 62 developing countries



Note: $R^2 = 0.0129$
Source: WB WDI

19 These points tie in with Hansen and Summer's take on the long-term decrease in interest rates and the inability of private investment to absorb savings. See, for instance, Summers (2018).

Debt sustainability is ultimately a country-specific matter, a *judgement* on how sound the growth and development strategy of a country is and on how functional public revenues and expenditures are to such a strategy.[20] Analysing debt sustainability requires a diagnostic and open dialogue on the nature of the government expenditures envisaged, and the revenues to be expected, including the *return on investment* from such expenditures (Cardoso et al. 2023; see also the discussion of *financing gaps* further down). The debt sustainability analyses of the IMF and the World Bank in low-income countries are important resources in that regard.[21]

Fiscal policy should thus be considered in terms of the need to finance **a country's development and growth agenda.** In many developing countries, a substantial increase in recurrent and capital spending is needed. UNCTAD (2014) estimated that the financing gap that had to be closed for developing countries to achieve the SDGs was US$2.5 trillion per year. An IMF assessment of SDG financing needs based on four cases (Cambodia, Nigeria, Pakistan and Rwanda) estimates that "the public and private sectors will have to spend some 14 percent of GDP additionally every year between now and 2030 to meet the SDGs in [...] five sectors [education, health, roads, electricity, and water and sanitation]" (Benedek et al. 2021).

▶Box 4. Fiscal rules

In the mainstream macroeconomic framework, numerical fiscal rules on debts and deficits are assigned a prominent role. As defined by the IMF (2022b)

"A fiscal rule is a long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates. Fiscal rules typically aim at ... containing pressures to overspend, particularly in good times, so as to ensure fiscal responsibility and debt sustainability."

There are four types of rules – budget balance rules, debt rules, expenditure rules and revenue rules – and they may apply to the central or general government or the public sector (IMF 2022b).

The Maastricht Treaty of 1992 governing the eurozone was among the first policy frameworks to prescribe numerical fiscal targets **(3 per cent of GDP for the budget deficit, 60 per cent of GDP for public debt)**, while the Reserve Bank of New Zealand was the first central bank in the developed world to announce (in 1990) an explicit inflation target, namely a target of 2 per cent. This approach gradually spread to other central banks in the OECD area. Such nominal targets are to be supported by flexible exchange rates (to engender monetary policy autonomy), an open capital account and an independent technocracy (independent central banks, monetary policy committees, fiscal councils). In addition, as further discussed in section 2.3, supply-side structural reforms, including labour market reforms, are expected to foster private sector-led growth supporting the credible commitment to the inflation and fiscal targets that would ensure macroeconomic stability.

In 2021, there were 106 countries with at least one type of fiscal rule, while 49 countries had independent fiscal councils (IMF 2022b).

Revenue

Increasing tax revenue is obviously the most direct way to sustain increased public spending and investment, as long as higher taxes do not disincentivize total investment and growth. The trend globally is instead towards lowering the "tax burden" on enterprises and households in a *fiscal race to the bottom* that can work for some "first adopters" but that is disastrous for the common good (see, inter alia, OECD 1998; Abbas et al. 2012). Quite clearly, developing countries need instead to increase **taxation and its progressivity**. As a recent IMF working paper puts it, the case is straightforward:

20 For further discussion of this topic and associated references, see the UNCTAD thematic web page on debt and debt sustainability, https://unctad.org/topic/debt-and-finance/debt-and-debt-sustainability.

21 Countries are ranked into different categories of risk: "in debt distress", "high", "moderate" and "low". Results of the debt sustainability analysis of middle-income countries with access to private capital markets are due to be published in 2024.

> ▶ *"[T]here is widespread consensus that a minimum level of tax revenue is necessary for countries to ensure that the [S]tate can provide its essential functions conducive to inclusive economic growth. Gaspar et al. (2016a) find, for instance, that, once the tax-to-GDP level reaches around 12¾ percent, economic growth increases sharply and in a sustained manner over the following decade. Still, tax-to-GDP ratios are generally low in developing countries. Indeed, whereas tax ratios in advanced economies (excluding social contributions) average around 25 percent of GDP, those in developing economies are often below 15 percent … Higher tax ratios are needed in these countries to boost growth, as well as to support inclusion through public spending."*
> Abdel-Kader and De Mooij 2020, 4

In another important contribution, the IMF *Fiscal Monitor* for October 2017 analysed fiscal policies in detail from the perspective of "tackling inequality", concluding that

> ▶ *"the analysis confirms a decline in tax progressivity that cannot be fully explained by optimal tax theory or likely by a strong negative impact of progressivity on growth. Therefore, there would appear to be scope for increasing the progressivity of income taxation without significantly hurting growth … However, this could be difficult to implement politically, because better-off individuals tend to have more political influence … "*
> IMF 2017, 13

Increases in taxation and improvements in progressivity should involve adjustments to tax policy covering **personal and corporate income**, **wealth** and **consumption**. Tax hikes that directly favour the majority through improved essential services and social welfare, as well as businesses and workers through economic infrastructure and industrial policy, are not in themselves a self-defeating political sell. Provided there are tangible social returns from taxation, tax increases can help to strengthen social cohesion and political stability.

Consumption taxes (sales/value-added tax and excise duties) are often considered politically and operationally expedient but socially *regressive*. However, different goods and services can be taxed differently in line with differences in consumer baskets along the income scale, and also to address negative externalities: staple goods and essential services can be exempted, while higher-end and negative-externality consumption (tobacco, alcohol, unhealthy foods) can be taxed more heavily. Taxing consumption also enables a fiscal transfer away from labour and production (Roeger and De Fiore 1999).

Taxing capital is notoriously challenging at the country level. From the perspectives of inequality and of economic efficiency, taxing the other facet of wealth, **real estate**, is all the more important. Progressivity in real estate taxation (taking into account primary and secondary dwellings, and property size and type) can balance the social pros of private ownership with the fiscal and capital allocation rationales that support such taxation.

Carbon taxes are increasingly being deployed to better factor in the negative externalities of carbon emissions and promote more desirable environmental outcomes. Putting in place an emission pricing scheme that covers most emissions and is progressive can be challenging. As pointed out in ILO (2023b, box 2), "a well-managed carbon pricing scheme should send price signals to the market to move towards green technologies, while protecting low-income households from undue cost implications." The introduction of such schemes should thus be combined with public investments and incentives to accelerate access to alternative services and goods, and with strengthened social protection systems to compensate for welfare losses and prevent negative distributional effects.

A key aspect of the "race to the fiscal bottom" is the proliferation of generous *special taxation regimes*, which may or may not be associated with special economic zones. Competition over **corporate income** taxation is particularly intense given the fairly high mobility of international investments (Abbas et al. 2012). The overall picture is one of *excessive* fiscal concessions. Decisions on FDI location are based on multiple factors, among which taxation is often not decisive. As noted by Abdel-Kader and De Mooij (2020, 25), "surveys show that these tax incentives generally rank low in the list of relevant location

factors for multinationals." This, again, is an important matter for international coordination.[22] At the country level, authorities should limit wideranging tax exemptions across multiple broad sectors. **Cost–benefit and employment impact analyses** (both ex ante and ex post) are important to determine whether incentives can, and have been, accompanied by additional investment and employment. It is difficult to find a compelling economic and social rationale for fiscal incentives to investments in enclaved economic zones that do not generate strong upstream or downstream multiplier effects or technological transfers, in which employment is paid at close-to-subsistence levels and that yield meager tax returns.

In addition to increasing taxation, broadening the tax base is another clear objective for developing countries. In that regard, a large **informal sector** is by definition a challenge to tax coverage, and the public revenue rationale for formalization is well understood. Obviously, there is *some* tax avoidance in informality, or in "chosen" forms of informality, but these cases are in the minority. There are positive experiences in shaping *pathways to formality* with progressive levels of taxation and compliance, and through incentives related to social insurance or access to finance (as in the *monotributo*, or "single tax", systems in Latin America). At the same time, many informal workers and microenterprises operate at, or close to, subsistence levels. Tax compliance[23] would be unaffordable and yield meagre revenues, against high administrative costs. There is certainly considerable growth and revenue potential associated with formalization in the medium term as a result of structural transformation (see section 2.3 below), and of **formalization programmes**[24] that provide incentives and technical support to formalise businesses and workers

Financing gaps

On the expenditure side, fiscal reforms are increasingly informed by estimates of **social spending needs** and of the potential **returns on investment** of such spending, including social, economic and fiscal returns (IMF 2019). Participatory reviews of social protection needs and systems make it possible to identify gaps and formulate policy recommendations and scenarios for achieving universal social protection (ILO, FAO and UNICEF 2022). An ILO study estimated in 2020 the financing gap to achieve universal social protection floors (including healthcare) to be 3.8 per cent of the GDP of the developing countries considered in the study[25] (Durán-Valverde et al. 2020). Wide disparities across countries need addressing (see figure 19).

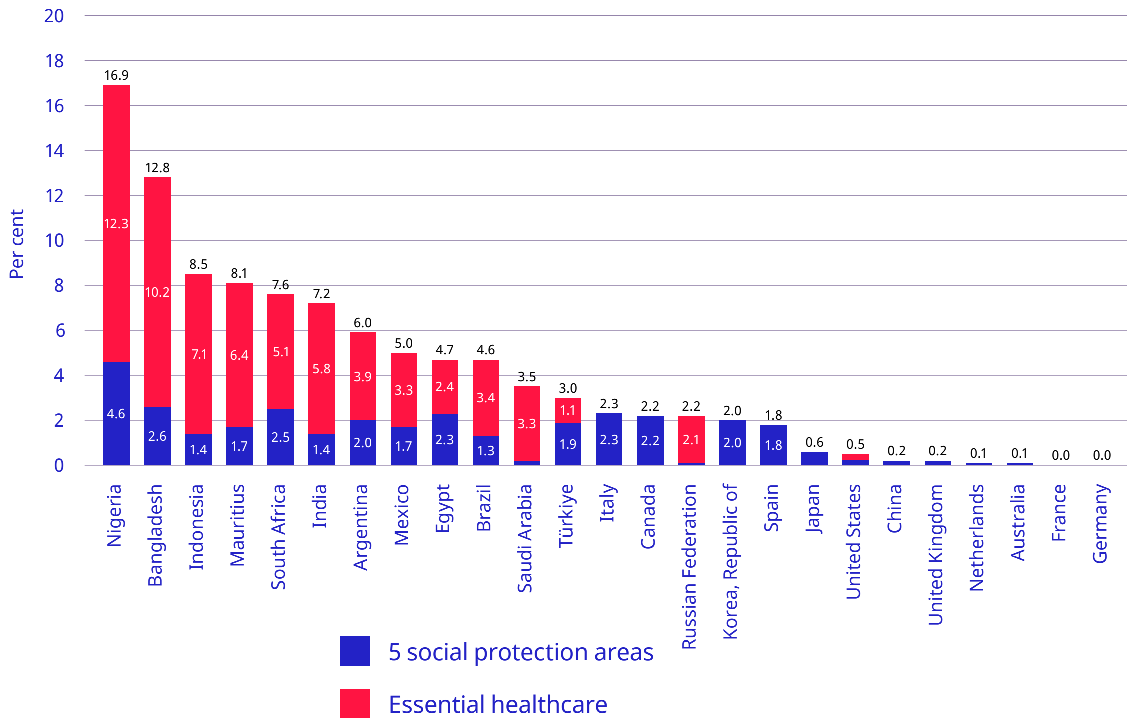
22 A notable initiative in this regard is the Base Erosion and Profit Shifting (BEPS) Project, an international collaboration launched by the OECD and the G20 to end tax avoidance. See the OECD web page on the BEPS Project, https://www.oecd.org/tax/beps/.

23 Informal sector operators do in fact pay a range of taxes, permits, levies and fees (see Anyidoho et al. 2022 for evidence from Ghana).

24 Such programmes should be adopted in line with the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).

25 These are "floor-level" estimates. Healthcare costs do not include investments in health infrastructure.

▶ Figure 19. Financing gap for achieving universal social protection coverage and essential healthcare in selected countries, 2022 (percentage of GDP)



Note: The five social protection areas considered are child benefits, disability benefits, maternity protection, old-age pensions and unemployment insurance.

Source: ILO, OECD and ISSA (2023).

The ILO Rapid Assessment Protocol (ILO/RAP) can be used to estimate the cost and affordability of implementing policy recommendations on social protection floors.[26] Similarly, countries can use the ILO publication *Fiscal Space for Social Protection: A Handbook for Assessing Financing Options* to review the various **fiscal space options** that are available domestically (for example, budget efficiency and the mobilization of internal resources such as progressive taxation or extension of social insurance) and externally (such as official development assistance, budget support and debt restructuring) (Ortiz et al. 2019).

The effect of fiscal policies on GDP growth – in particular, their effect through an increase in spending on contributory and non-contributory social protection – can be measured using several methods, including structural vector autoregression (SVAR) models. A recent study on the multiplier effect of public spending on social protection from 1985 to 2020 in 42 countries found a median *impact multiplier* of 1.53 for such spending (cumulative, after ten quarters), and that the multiplier was higher in developing countries (Cardoso et al. 2023). This complements the extensive evidence available on how unemployment benefits and other social protection expenditures act as **automatic stabilizers** in a macroeconomic policy framework.

26 The ILO/RAP tool is available at https://qpss.ilo.org:9082/Login.

Public expenditure reviews focusing on gender (ILO 2006), social protection[27] and employment[28] are useful tools that policymakers can draw on when adjudicating public resource allocations against different objectives and programmes. These costing and fiscal space analyses can help countries to better assess their current expenditure profile and possible reforms from a social protection or employment policy perspective.

The broader issue at stake on the financing of jobs, social protection and just transitions is the dynamic interplay between macroeconomic policies and socio-economic transformation, as is discussed in the next section.

▶ 2.3 Macroeconomic policy for structural transformation and just transitions

From a neoclassical perspective, the **"structural reform"** agenda is a corollary of monetary and fiscal stabilization. Once stability has been achieved in macro-level prices, "institutional rigidities and distortions" need to be lifted to allow private actors in an expanding world of free markets to deliver growth, and consequently welfare, for most if not for all. This is an elegant idea, but one that has struggled to find validation in reality. Reviewing growth strategies around the world for his contribution to the *Handbook of Economic Growth* (2005), Rodrik found that

> ▶ *"reality has been unkind to our expectations. If Latin America was booming today and China and India were stagnating, we would have an easier time fitting the world to our policy framework. Instead, we are straining to explain why unorthodox, two-track, gradualist reform paths have done so much better than surefire adoption of the standard [Washington consensus] package."* (Rodrik 2005)

"Structural reform" as a liberalization agenda is now largely considered too *partial* a programme: all challenges cannot be offloaded on to the private sector. As discussed in Part 1, the spectacular rise of Asia (and disappointing performance in other developing regions), the global financial crisis or, more recently, the "green imperative" and the "fourth industrial revolution" have all brought state investments and incentives back to the fore.

It is not that countries are reverting to industrial policy manuals from the 1970s or turning their back on international trade. There is a compelling case for active engagement by the State *alongside* private actors to bolster **productive capacities**, by driving investments in critical infrastructures and high-stakes industrial projects,[29] in people's capabilities, and in health and in social protection, for which the State needs to continue to have primary responsibility.[30]

The renewal of **the State's role** in driving long-term transformations should be seen as complementary to its shorter-term management of the economy. Macroeconomic policy agendas need to be both *proactive* in navigating the business cycle and *engaged* with longer-term developmental goals. While taking into account the specific constraints faced by developing countries, indeed, in order *to* address these very

27 See the ILO landing page for Social Protection Expenditure and Performance Reviews, https://www.ilo.org/secsoc/areas-of-work/statistical-knowledge-base/WCMS_206081.

28 See the ILO Employment Policy Action Facility web page on pro-employment budgeting and employment policies, https://www.ilo.org/global/topics/employment-promotion/epaf/design-lab/WCMS_869830/lang--en/index.htm.

29 A topic examined by many authors, including Dani Rodrik, most recently in Rodrik and Stiglitz (2024).

30 The State's primary responsibility for social protection is laid down in the Social Security (Minimum Standards) Convention, 1952 (No. 102), and the Social Protection Floors Recommendation, 2012 (No. 202).

constraints, countercyclical activism creates fiscal space for promoting longer-term transformative change, which in turn bolsters the capacities required to mitigate and recover from economic, climatic and other shocks.

Driving structural transformation

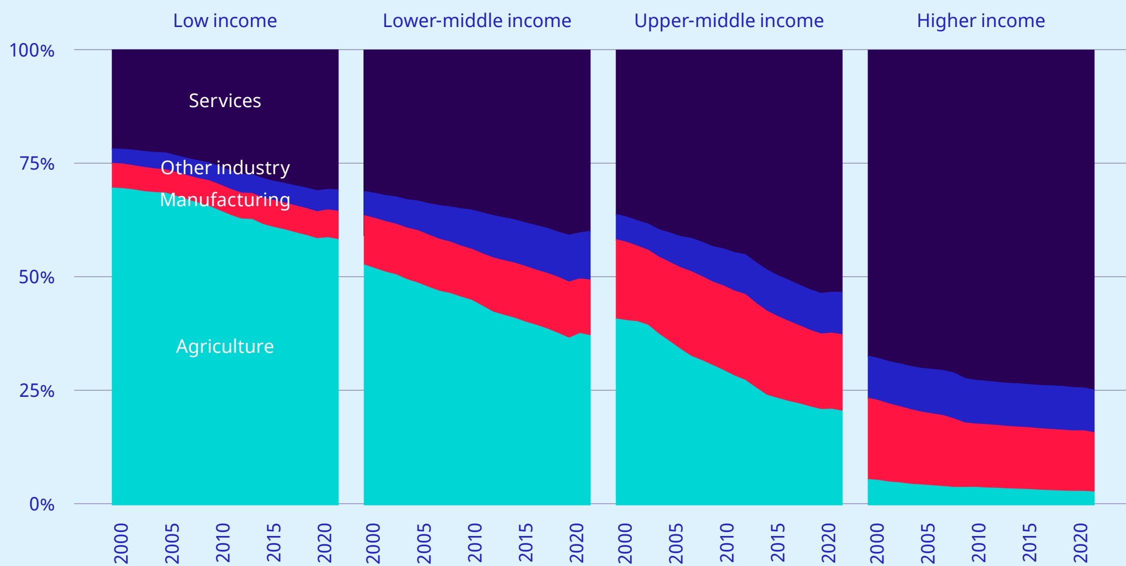
Structural transformation is central to productivity, decent jobs, and social progress. Compositional shifts in employment and output between sectors account for an important share of growth and productivity gains in the development process. The increase in productivity improves incomes and working conditions, in particular where social and labour policies and institutions facilitate an equitable distribution of gains. Government revenues also increase and make it possible to invest more in health, education and social protection.

Studies of structural transformation have traditionally focused on the movement of labour from low-productivity agriculture to higher-productivity manufacturing. The evidence, dating back to the first Industrial Revolution all the way to the recent experience of Asian countries, shows that manufacturing not only was a major driver of job creation but also spurred productivity spillovers and long-term growth dynamics, as encapsulated in Kaldor's three laws of economic growth (see also ILO 2020b). Disappointing economic and social performance in low and lower-middle income countries outside of Asia can be linked to slow structural transformation and "early deindustrialisation" (see box 5 and for example, Sen 2023).

▶ Box 5. Slow structural change in low- and lower-middle-income countries

Trends in the sectoral distribution of employment over the past few decades in low-income and lower-middle-income countries evidence a slow progress in moving out of agriculture and the relatively minor role played by manufacturing in absorbing workers. In low-income countries, the share of workers in agriculture declined from almost 70 per cent in 2000 to about 60 per cent in 2021, while the principal increase occurred in services, whose share of employment increased from about 20 per cent to 30 per cent. The share of employment in manufacturing in these countries amounted to just 6 per cent in 2021, less than 1 percentage point higher than two decades earlier. In lower-middle-income countries, there is a smaller share of workers in agriculture, dropping from approximately 50 per cent in 2000 to 37 per cent in 2021. As in low-income countries, manufacturing did not shift significantly over the two-decade period, reaching a share of just 12 per cent in 2021, compared with 11 per cent in 2000.

▶Figure B2. Structural change as measured by sectoral shares of employment, by country income group, 2000–21 (percentage of total employment)

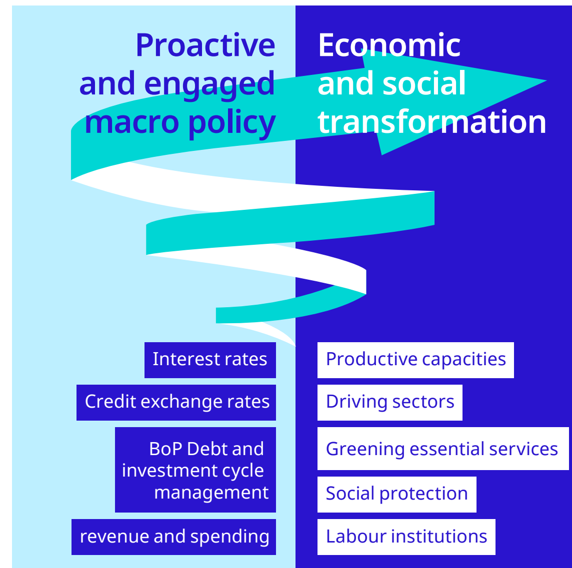


Source: ILOSTAT database.

These long-term trends in the structure of the economy and the labour market are essential to appraise an economy's performance and future prospects. Beyond just a focus on annual GDP rates and other shorter-term macro-fiscal aggregates, the performance of a country's (macro)economic policies should also be based on a longer-term appraisal of productivity (including of between- and within-sector changes), employment quality, wages and incomes, access to social protection and essential services or progress on gender equality (ILO 2022b; 2022c).

The disappointing outcomes of "structural reform" as a liberalization agenda and the Asian example, as well as the new challenges raised by climate change or the digital revolution have brought back **industrial policy** to the fore, as a means to influence private activity and accelerate the pace and nature/quality of growth and job creation (Aboobaker and Michell 2022). And industrial/sectoral policies need to be aligned with macroeconomic policies, and vice versa, for countries to converge towards higher incomes, decent employment and social protection. Inadequate productive capacities mean that increases in domestic demand, including through macroeconomic policy measures (such as fiscal stimulus), will result in increased imports, higher inflation and a current account deficit.[31]

31 For an exposition of these issues in relation to Africa, see ILO (2021).



As seen in section 1.2. **the experience of Asian countries** since the nineties underscored the effectiveness of activist public policies, undercutting the dominant consensus over the need for the State to just get out of the way. The afore-cited 1993 World Bank report on Asia's impressive performanceidentified some key policy take-aways. It noted a considerable variety of policy strategies rather than a single Asian receipe. Commonalities within country-specific policy frameworks included *unorthodox* monetary measures and large state investment on infrastructure, other physical capital, as well as in human capital accumulation. In the 2001 follow-up volume, *Rethinking the East Asian Miracle*, Joseph Stiglitz refined the policy takeaways not just from Asia's continuing rapid growth but also from the 1997 financial crisis that had hit the region's most open economies. The diversity of Asian growth experiences was again highlighted. Some countries relied heavily on FDI inflows (such as Malaysia and Singapore), others did not (such as Japan and Korea). The contribution of "export-led growth" was nuanced, with import substitution also playing a role. A key success factor across Asian economies was identified in the central role of industrial policies, particularly on currencies and capital markets, and interventions to strengthen and diversify financial institutions. Asian governments strongly promoted savings and directed investment to reward exports, boost selected sectors and foster business start-up. Other factors recognised were public–private dialogue and coordination, including at the sectoral level, human capital development and strong rule enforcement to keep corruption and other distortions in check (Stiglitz 2001).

In current debates and policy frameworks relating to both advanced and developing economies, a broader perspective is being applied to industrial policies to cover different sectors, including services, with less of a top-down approach and a greater focus on **sectoral dialogue and coordination** (see, for example, Rodrik 2022). It is at that level that a bottom-up, shared understanding of *key challenges* from concrete enterprise-level experience can take shape, for then prioritised *policy asks* to be raised and negotiated with the competent authorities.

Labour in structural transformation

A "*policy scan*" of industrial policies is thus an important component of a country diagnostic as conceived in this guide. **Labour market and skills policies** should also not be overlooked. The large shifts of workers from agriculture to industry and services associated with structural transformation should be facilitated by improving information flows between jobseekers (often from rural areas) and recruiting employers (often in urban areas). Structural transformation can advance when jobseekers and employers are able to find opportunities beyond their immediate surroundings. As an economy becomes more complex, skills needs diversify and transitions into and between jobs become more demanding. Governments have to substantially increase their investment in education and training, and support informed educational and career choices. Some sectors will decline, and new ones emerge. Social protection policies, such as unemployment benefits, are essential so that the costs of transformations can be shared and mitigated. Moreover, and coupled with active labour market policies, social protection policies can facilitate entry into, and transfers between, jobs.

▶Box 6. Formalization and macroeconomic policy

Formalization needs to be on the agenda of macroeconomic policy discussions, and not be a only a concern of social or microeconomic policy. The formalization of enterprises and of employment is critical to domestic revenue mobilization (formalized businesses pay taxes, workers contribute to social insurance). More broadly, formalization is a prerequisite for sustained growth. Businesses need to formalize in order to grow, and positive feedback loops arise from improved economic security and resilience. The efficiency of macroeconomic policies (the *transmission* of both monetary and fiscal policy) hinges on the extent of the formal economy.

Formalization is a result of economic and structural transformation, as traditional (largely informal) activities in agriculture, industry and services give way to more capitalized, productive and formal types of activity.[1] A *formalization strategy*, in which fiscal and financial/prudential measures play an important part, can also accelerate the achievement of better economic and social outcomes, including among the most marginalized and impoverished segments of the informal sector.

1 See, in particular, the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).

Macro-structural policies and a just transition

In a pioneering report on the economics of **climate change**, which modelled the impacts of climate change and their economic costs, Stern (2007) found that macroeconomic and industrial policies – notably internalizing negative externalities and putting a price on carbon – could lead to superior economic growth trajectories. Researchers have since then made major strides in understanding the economic and social costs of "business as usual" trajectories and, conversely, the net economic, social and environmental gains from climate adaptation. Higher levels of aggregate employment, incomes and economic growth can be achieved when investments are shifted towards renewable sources of energy, energy efficiency, the electrification of transport and nature-based climate solutions (Stern et al. 2020; Lewney et al. 2021). All the while, the pace of climate change has increased further, and its devastating effects have started to materialise:

> ▶ *"Human-caused climate change is already affecting many weather and climate extremes in every region across the globe. This has led to widespread adverse impacts on food and water security, human health and on economies and society and related losses and damages to nature and people … Vulnerable communities who have historically contributed the least to current climate change are disproportionately affected …"* (IPCC 2023, 42)

Fiscal policy and central banks have a critical role to play in accelerating the slow progress achieved so far in decarbonizing and greening economies – for example, through carbon taxes, other fiscal incentives and financial measures (ILO, n.d.). In many countries, finance ministries and central banks are only just starting to take hold of such an agenda.[32]

32 One evaluation shows that only 12 per cent of central banks around the world have incorporated green economy goals into their mandate (Dikau and Volz 2021).

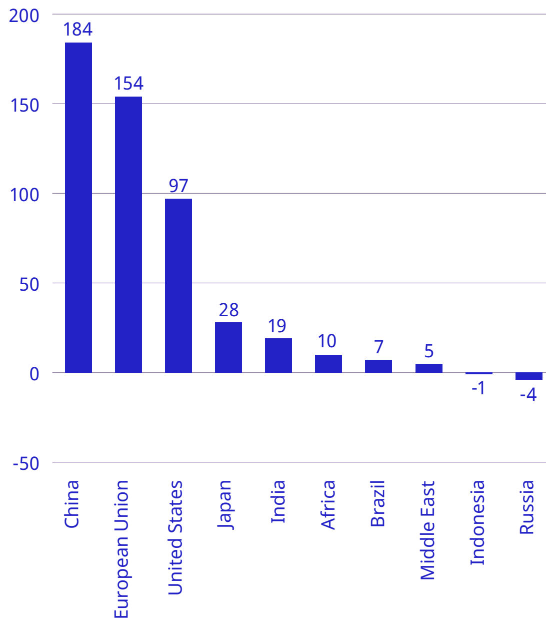
▶Box 7. Fuel subsidy reform

Reforming subsidies on fossil fuels is a clear pathway towards a just transition for many developing and high-income countries. Globally, governments directed around US$577 billion in 2021 into artificially lowering the price of fossil fuels. Although they are intended to protect consumers, the money spent on fossil fuel subsidies could be channelled to more effective uses and not perpetuating inefficient, polluting technologies. Well-designed subsidy reforms can open up considerable fiscal space for green investments and social spending, including by strengthening social protection systems and active labour market policies. Such comprehensive reforms can help to curb emissions, generate new green economic activity and jobs, and protect the most vulnerable people from price increases, thereby also ensuring social acceptance and the political viability of green reforms.

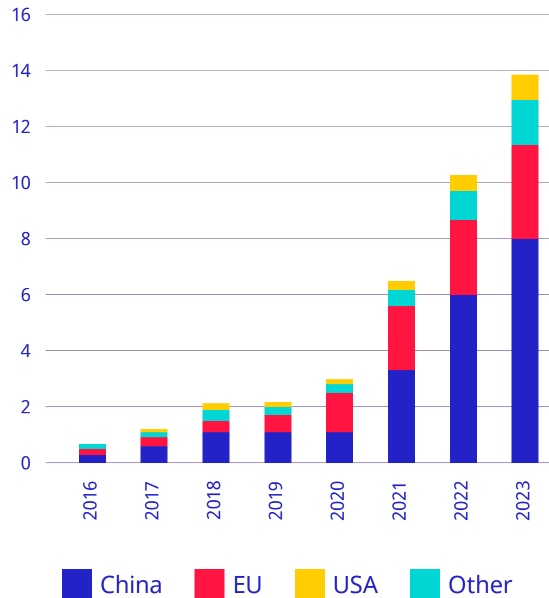
Source: Based on Damania et al. (2023).

A review of recent policy on **greening the energy and transport sectors**, two key sectors for the green transition, is useful to illustrate how the convergence of macroeconomic and structural change policies can be achieved in practice. As can be seen in figures 20 and 21 below, China, the EU and the United States are notably ahead of other economies. This did not just happen to happen but is the fruit of long-standing policy.

▶ Figure 20. Annual clean energy investment, selected economies, 2022 (billion US$)



▶ Figure 21. Annual sales of electric vehicles, selected economies, 2016–23 (million units)



Source: IEA (n.d.).

The case of China stands out in particular. It has become the global leader in the production of electric vehicles (EVs) and in clean energy investments.[33] China accounts for 61.5 per cent of EV sales and for 75 per cent of global EV battery production.

These achievements are the result of a long-standing strategy. EV technology was first designated as a state priority for research and investment in 2001, and efforts were then accelerated in 2007. Subsidies and tax breaks amounting to an estimated US$29 billion between 2009 and 2022 were directed towards

33 The discussion in this subsection draws on Yang (2023).

the sector. Government mandates and public procurement policies also played a role, leading, among other things, to a large-scale electrification of public transport systems, especially in major cities. The car registration and licensing system also heavily favoured the purchase of EVs and long-term investments in the mining sector in sub-Saharan Africa and elsewhere were made to ensure a steady supply of the needed minerals.

Not all countries can or should try to carve out a share in the global EV market as things stand. Car ownership rates are low in many developing countries; EVs remain more expensive than internal combustion engine vehicles, and without additional investment in the electricity grid, they would drain already limited electricity supplies. Other options for the energy transition include expanding solar energy (household, medium-sized and large stations), better insulation of dwellings, and the expansion and electrification of public transport.

▶Box 8. The triple bottom line: Economic, social and environmental results

Investment opportunities to realize "triple bottom line" gains – that is, economic, social and environmental gains – can and should be exploited. In 2023, the Government of Senegal reduced fuel and electricity subsidies, thereby freeing funds amounting to an estimated US$420 million. The cut in subsidies was accompanied by measures to mitigate the impact on low-income groups and to preserve and promote jobs. Households with electricity consumption below a certain threshold and public transport operators were exempted from the cuts, as were small-scale fisheries. The money saved through the cuts was used to launch reforestation and environmental preservation programmes that also generated jobs. In addition, part of the funds were allocated to the national family allowance programme, resulting in an increase in benefits by 40 per cent.

In 2021, there were 106 countries with at least one type of fiscal rule, while 49 countries had independent fiscal councils (IMF 2022b).

The *2022* ***Inflation Reduction Act*** in the United States ties a short-term macroeconomic issue – inflation reduction, with explicit long-term objectives towards the green transition, job creation and social inclusion. The Act earmarks some US$430 billion, principally through fiscal incentives for private investment in renewable energy, to drive the transition to green energy. An evaluation, based on multiple modelling exercises, foresees that economywide emissions in the United States would drop to between 43 and 48 per cent of 2005 levels by 2035 as a result of the accelerated deployment of clean energies (Bistline et al. 2023). The US Department of the Treasury estimates that between 65 and 85 per cent of government fiscal support for clean energy deployment is being directed at disadvantaged communities (Van Nostrand and Feiveson 2023) and more than 1.5 million jobs are expected to be created over the next decade.

In the EU, the ***European Green Deal*** was announced in 2019 to make Europe a climate-neutral continent by 2050. Several intermediate targets for 2030 were set, namely achieving a net reduction in greenhouse gas emissions of at least 40 per cent; increasing the share of renewable energy sources in the overall energy mix to 32 per cent; and raising energy efficiency by 32.5 per cent. Reaching these targets was estimated to require investments of €260 billion per year till 2030, which represents almost 2 per cent of the EU countries' aggregate GDP in 2020 (Filipović, Lior and Radovanović 2022). The EU *recovery fund* seeks to make a significant contribution to the realization of the Green Deal, as well as addressing disparities between regions in the EU. Critics note that the fund, which amounts to 0.8 per cent of the EU countries' annual aggregate GDP, falls short of the required investment. Despite these limitations, this represented a significant step forward towards a common EU-level fiscal policy and here again. As emphasized by Cornago and Springford (2021), it is the first time that EU-level fiscal support for investment has been provided on such a scale. Similarly to the IRA in the US, short-term macro goals (recovery from the COVID-19 crisis) are intertwined with longer-term greening and productive capacity objectives.

3

POLICY DIAGNOSTICS AND DIALOGUE IN PRACTICE

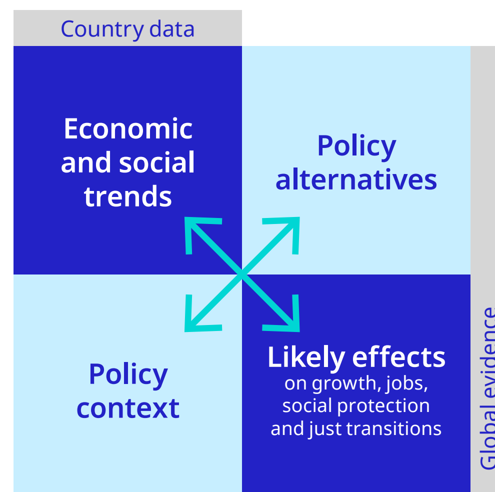
A diagnostic assessment of macroeconomic policy in support of jobs, social protection and just transitions should be led by the government in close association with employers' and workers' representatives, and with technical support as may be required by the ILO, other contributing international organizations and country experts. The diagnostic and dialogue process is about investigating the extent to which a country's macroeconomic policy contributes to structural transformation and social goals, with a view to identifying possible policy alternatives. The aim is to gain a *shared understanding* of challenges, opportunities and viable options to accelerate the creation of decent jobs, social protection and just transitions.

▶ 3.1 Driving questions and guiding principles

The diagnostic seeks to address two main questions:

1. Is the economy growing with jobs, social protection and a just transition?
2. What growth and macroeconomic strategies can accelerate job creation, social protection and the just transition?

Several principles to guide the diagnostic exercise may be drawn from the review of macroeconomic policy covered in Parts 1 and 2:



Guiding principles

a. Accelerating progress on the SDGs – in particular, on the creation of decent jobs, social protection and just transitions – hinges on macroeconomic policy choices. These choices can either set back or accelerate development outcomes for societies, including for their most vulnerable. High unemployment, economic insecurity and income losses are not predictors of future wealth, but of *hysteresis* for labour markets and economies. The "scarring" of the labour force and the widespread destruction of productive capacities that occur when economic shocks are not actively managed result in delayed and weakened recovery, and erode long-term productive potential.

b. Macroeconomic policy agendas need to go beyond a narrow and one-sided focus on "stability", and be both *proactive* in the short term and *engaged* for the long haul. A proactive management of the economic cycle prevents short-term shocks from eroding longer-term productive potential and social progress, and provides more fiscal space for investment in long-term transformation. Low productive capacity, low labour productivity and utilization, informality and economic insecurity are *macro-critical* features that macroeconomic policy needs to address. To do so, macroeconomic policy agendas need to be *gender-responsive* and recognize that macro-level trends and policy responses affect men and women differently, in particular with regard to labour market outcomes. Social equality, the formalization of employment and enterprises, the green transition and other key developmental goals should also be facilitated. International financial support, including debt relief, needs to support these broader, country-level macro-policy agendas.

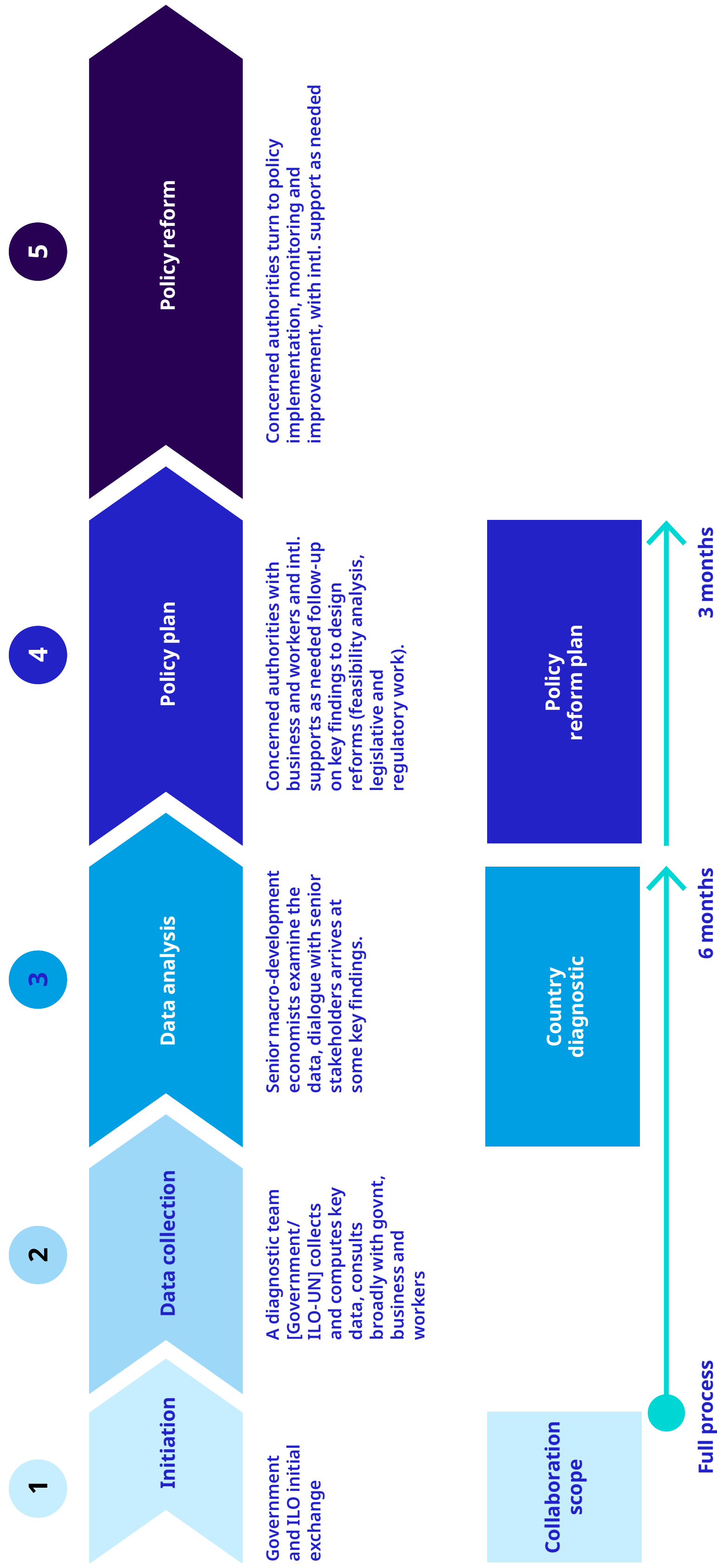
c. There is no "one size fits all" macroeconomic framework, nor a set of benchmarks that can apply to any country at all times. Policy dialogues to shape and adapt country-specific macrolevel configurations need to extend beyond a narrow circle of fiscal and monetary policymakers and involve the broader group of economic and social stakeholders, including the ministry of labour and other sectoral/line ministries, and representatives of businesses and workers. A shared understanding of constraints and challenges, opportunities and options across macro and developmental policies, is essential.

d. Ongoing policy dialogue needs to be informed by evidence on the country's performance and by global knowledge and lessons learned from other countries. The success of macroeconomic policies should be assessed against macro-level fiscal benchmarks and key labour and socioeconomic outcomes, including incomes and wages, job quantity and quality, informality, social protection and access to social services, and a just transition.

▶ 3.2 Main steps and diagnostic inputs and outputs

A lead (or co-lead) institution(s) with a stake in macroeconomic policy is identified, and a senior official there is designated to steer and coordinate the exercise. Ministries and government agencies concerned with economic and structural transformation, labour, social protection and the environment should also join in early on. A possible process is described below.

1. An initial engagement with senior officials takes place to map out the scope of the policy work and to define a clear mandate for the diagnostic study. A diagnostic team is assembled.
2. Available data from socio-economic and national accounts is collected, with the help of the national statistical office and other data producers, as part of a first profiling. Key government experts, business and worker representatives, and experts from other countries are consulted for a policy mapping.
3. Senior international and national macroeconomists and development economists examine the data and policy map to assist in untangling dynamics and trade-offs, and lay out policy options. Broad-based policy dialogues help to attain a shared understanding of key findings, and to identify reform options.
4.
5. Work on specific policy areas follows to determine specific policy measures and attend to their implementation. Government capacities to monitor macro-level trends may be strengthened to support the continuous adaptation and enhancement of policies.


1
Initiation
Government and ILO initial exchange
2
Data collection
A diagnostic team [Government/ ILO-UN] collects and computes key data, consults broadly with govnt, business and workers
3
Data analysis
Senior macro-development economists examine the data, dialogue with senior stakeholders arrives at some key findings.
4
Policy plan
Concerned authorities with business and workers and intl. supports as needed follow-up on key findings to design reforms (feasibility analysis, legislative and regulatory work).
5
Policy reform
Concerned authorities turn to policy implementation, monitoring and improvement, with intl. support as needed
Collaboration scope
Country diagnostic
Policy reform plan
Full process
6 months
3 months

Diagnostic inputs

The following sets of quantitative data needs and qualitative questions are suggested by way of guiding the preparation of a country diagnostic.

- Government, ILO/United Nations and other experts collect and compute **available statistics** and make use of available secondary sources. To the extent possible, data is compiled over long time series (two to three decades) and benchmarked against other countries.
- No less importantly, **policy dialogues** with senior officials, business and worker representatives, academics and other relevant experts make it possible to contextualize the data and decide on the at times subtle trade-offs involved.

Quantitative data needs / qualitative questions	Data sources
SOCIO-ECONOMIC TRENDS	
▶ Long-term trends in per capita income/GDP; ▶ Labour quantity and quality (disaggregated by sex and age): • Activity rates (labour force participation), unemployment/underutilization • Employment by sector, status in employment, occupational and skills profiling • Informality, wages; ▶ Social protection coverage and adequacy; ▶ Poverty, inequality, working poverty; ▶ Sectoral output and distribution of employment; ▶ Labour/multifactor productivity; contributions of (public/private) consumption, investment and trade in growth; ▶ Exports by sector, imports (final/intermediate use); ▶ Credit to the private sector, by economic sectors; stock exchange capitalization; savings.	Country statistics IMF, World Bank, ILOSTAT databases Economic Transformation Database
FISCAL, MONETARY AND FINANCIAL DATA	
▶ Long-term trends in debt-to-GDP and debt-to-revenue ratios; deficits; balance of payments; ▶ Central bank policy rates, responsiveness to unemployment and growth; ▶ Inflation and its decomposition (imports, including energy/wages/domestic products); ▶ Real exchange rate; ▶ Government expenditure, by function; gender-responsive budgeting; ▶ Public revenue on GDP; by source (taxation – private, corporate incomes, consumption, wealth/real estate, others).	Finance ministry and central bank publications IMF, World Bank

Quantitative data needs / qualitative questions	Data sources
POLICY MAPPING	
How can **monetary policy** now and over the past two to three decades be characterized? **a.** What is the monetary policy regime according to the de facto IMF classification? What is the exchange rate regime? How free or managed is the currency in practice? How "competitive" is the real exchange rate perceived to be, and what inflation–growth trade-offs are considered? Is there an informal exchange market, and if yes, what does that suggest about the official valuation of the currency? Are businesses and house-holds experiencing difficulties in accessing foreign currency? **b.** What kind of mandate does the central bank have: hierarchical, multiple? Is there an explicit inflation target? How has it been set? Are employment targets and objectives explicitly mandated? How are employment concerns reflected in the central bank's current narrative? Does it communicate on expected labour market trends and shorter-term employment targets? **c.** Based on movements in the policy rate, what is the current monetary policy stance: neutral, expansionary, contractionary? How has monetary policy dealt with previous contractions in the business cycle? What was done in times of rapid growth of capital inflows ("hot money")? **d.** What preferential credit and credit guarantee programmes in place? What role does the central bank play in supporting investment in key sectors as may be defined in government strategies? Are these "green" sectors? What role does the central bank play in increasing the availability of credit for the private sector outside of real estate and the extraction of oil and minerals? Are there public or public–private development finance institutions? How capitalized are they? Are the financing needs of state-owned enterprises supported? **e.** What role does the central bank play in supporting genderresponsive credit policies, including policies to support female-owned firms, women farmers and female-dominated sectors? **f.** Is there a monetary policy committee? What role does it play in the setting of monetary policy? What is its composition? Have evaluations been carried out on the nature of monetary policy and its effectiveness in meeting its core goals? Is there an ongoing debate within the central bank and elsewhere on the appropriate monetary policy stance?	Central bank, other national sources In-country consultations IMF annual publication on exchange rate and monetary policy regimes IMF Article IV consultations Bank for International Settlements time series on policy rates (covering more than 30 central banks in both advanced and emerging economies) Literature

Quantitative data needs / qualitative questions	Data sources
POLICY MAPPING	
How can **fiscal policy** over the past two to three decades be characterized? **a.** What is the finance ministry's position regarding debt sustainability, taking into account the envisaged macroeconomic outlook and revenue expectations? How realistic are these assumptions on outlook and revenue considered to be? **b.** What is the finance ministry's mandate? Are there explicit employment promotion objectives? Are there numerical fiscal targets within the framework of fiscal rules? How have they been derived? **c.** What is the fiscal policy track record in managing the business cycle (proactive, inactive, procyclical)? **d.** How much public expenditure is devoted to economic infrastructure, utilities, and information and communications technologies? To promoting agriculture, industry, services and trade? Education and skills? How does such spending align with development and growth strategies? **e.** What are the main tax incentives in place? How much do they support investment in productive activities versus consumption and other purposes? How do they align with the overall development strategy? **f.** Have financing needs for the social protection floor and active labour market policies been estimated? Is there a time-bound plan to meet these needs? Is the country on track? What is the level of social protection expenditures? How does such spending align with the objectives of the national development plan, strategies and policies? How does such spending align with the IMF social spending floor (if articulated, especially in the context of an IMF lending programme or Article IV consultation)? **g.** What role does fiscal policy play in promoting gender equality? Is gender-responsive budgeting performed? **h.** What role does fiscal policy play in greening the economy? **i.** Is there a fiscal council to provide advice on the fiscal policy stance? What is its composition?	Finance ministry, other national sources In-country consultations IMF *Fiscal Monitor*, data on fiscal rules and fiscal councils Estimates by the IMF and other international agencies on financing needs Estimates by the ILO on financing needs for social protection floors Literature

<table>
<tr><th>Quantitative data needs / qualitative questions</th><th>Data sources</th></tr>
<tr><td colspan="2">POLICY MAPPING</td></tr>
<tr><td>How can the country's growth/industrial strategy over the past two to three decades be characterized?
a. Beyond broad intentions and objectives, what are the main precepts, means and ends shaping the country's economic strategy? How significant is its industrial policy? What key sectors are prioritized, and what fiscal and financial means are used? How does the industrial strategy relate to trade policy and openness?
b. What are the growth, employment, social protection and poverty projections for the next five years? How have they been arrived at? How realistic can the assumptions and projections be considered to be?
c. What are the provisions and means devoted to advancing gender equality in the economy?
d. What are the provisions and means devoted to advancing climate goals and the green transition, particularly in the energy and transport sectors? Are fossil fuels still subsidized, and if so, are there plans for subsidy reform?
e. What are the provisions and means devoted to advancing formalization?</td><td>Government sources
Literature
Stakeholder consultations</td></tr>
<tr><td>How can the country's labour market and social protection policies over the past two to three decades be characterized?
a. Schematically, what is the context in relation to minimum wages, sectoral collective bargaining, freedom of association and social dialogue? Are there outstanding issues before the ILO's supervisory bodies monitoring compliance with international labour standards?
b. Social protection policies: is there a commitment to universal social protection (political declaration, national strategy or policy, law, constitution)? Is there a financing strategy for the extension of social protection? What are the risks covered; population covered (disaggregated data); contributory schemes (coverage and type); non-contributory/mixed schemes (coverage and type); institutional capacity (including in rural areas)?
c. Labour market policies: unemployment insurance and its role as an automatic stabilizer; job retention, active labour market programmes (volume of public expenditure, types of services and coverage);
d. Gender equality;
e. Formalization of enterprises and employment;
f. Green transition.</td><td>Government sources
Literature
Stakeholder consultations
ILO, World Bank World Development Indicators</td></tr>
<tr><td>What are the country's green commitments and what means are in place to achieve them?
a. Carbon emission commitments and emission trends;
b. Are the national climate change adaptation plan, just energy transition plan or other plans taking employment and social protection dimensions into consideration?
c. Private and public investment trends as regards green energy and energy efficiency; other green investments;
d. Other legislative work on climate adaptation and the environment.</td><td>Government sources
Literature
Stakeholder consultations</td></tr>
</table>

Diagnostic outputs

Based on the evidence gathered on key country trends and the prevailing policy configuration, a set of main findings and recommendations may be arrived at for possible revisions to monetary and fiscal policy that would be expected to generate positive trade-offs for output and jobs, social protection and green investments.

1. **Monetary policy**
    - Interest rates
    - The exchange rate and capital account management
    - Financial instruments
2. **Fiscal space**
    - Spending, investments and incentives for
        - productive capacities, including in greening and feminized sectors
        - social spending
    - Resource shifts

Likely effects on jobs, social protection and green investments may be broadly sketched out on the basis of trends and the implications of the suggested policy revisions.

▶ References

Abbas, S.M. Ali, Alexander Klemm, Sukhmani Bedi, and Junhyung Park. 2012. "A Partial Race to the Bottom: Corporate Tax Developments in Emerging and Developing Economies", IMF Working Paper No. 12/28.

Abdel-Kader, Khaled, and Ruud De Mooij. 2020. "Tax Policy and Inclusive Growth", IMF Working Paper No. 20/271.

Aboobaker, Adam, and Jo Michell. 2022. *Demand-side Policies for Employment Promotion in Low- and Middle-Income Countries*. ILO.

Anwar, Sarah, and Iyanatul Islam. 2011. "Should Developing Countries Target Low, Single Digit Inflation to Promote Growth and Employment?", ILO Employment Working Paper No. 87.

Anyidoho, Nana Akua, Max Gallien, Ghida Ismail, Florian Juergens-Grant, Mike Rogan, and Vanessa van den Boogaard. 2022. "Tight Tax Net, Loose Safety Net: Taxation and Social Protection in Accra's Informal Sector", WIEGO Working Paper No. 45. Women in Informal Employment: Globalizing and Organizing (WIEGO).

Barro, Robert J. 1997. "Determinants of Economic Growth: A Cross-Country Empirical Study", Development Discussion Paper No. 579. Harvard Institute for International Development.

Bean, Charles. 2010. "Joseph Schumpeter Lecture: The Great Moderation, the Great Panic and the Great Contraction". *Journal of the European Economic Association* 8 (2/3): 289–325.

Benedek, Dora, Edward Gemayel, Abdelhak Senhadji, and Alexander Tieman. 2021. "A PostPandemic Assessment of the Sustainable Development Goals", IMF Staff Discussion Note No. 2021/003.

Bernanke, Ben S. 2015. "Why Are Interest Rates So Low, Part 3: The Global Savings Glut". *Ben Bernanke's Blog* (blog). 1 April 2015. https://www.brookings.edu/articles/why-are-interest-rates-so-low-part-3-the-global-savings-glut/.

Besley, Timothy, and Robin Burgess. 2004. "Can Labor Regulation Hinder Economic Performance? Evidence from India". *The Quarterly Journal of Economics* 119 (1): 91–134.

Bhalla, Surjit S., Karan Bhasin, and Prakash Loungani. 2023. "Macro Effects of Formal Adoption of Inflation Targeting", IMF Working Paper No. 23/7.

BIS (Bank for International Settlements). n.d. "BIS Data Portal". https://data.bis.org/.

Bistline, John, Geoffrey Blanford, Mawell Brown, Dallas Burtraw, Maya Domeshek, Jamil Farbes, Allen Fawcett, Anne Hamilton, Jesse Jenkins, Ryan Jones, et al. 2023. "Emissions and Energy Impacts of the Inflation Reduction Act". *Science*, 29 June 2023.

Blanchard, Olivier Jean. 1991. "Neoclassical Synthesis". In The World of Economics, edited by John Eatwell, Murray Milgate and Peter Newman, 504–510. London: Palgrave Macmillan.

Blanchard, Olivier, Giovanni Dell'Ariccia, and Paolo Mauro. 2010. "Rethinking Macroeconomic Policy", IMF Staff Position Note No. 10/03.

———. 2013. "Rethinking Macroeconomic Policy II: Getting Granular", IMF Staff Discussion Note No. 13/03.

Blanchard, Olivier, Jonathan D. Ostry, Atish R. Ghosh, and Marcos Chamon. 2015. "Are Capital Inflows Expansionary or Contractionary? Theory, Policy Implications, and Some Evidence", IMF Working Paper No. 15/226.

Blanchard, Olivier, and Roberto Perotti. 2002. "An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output". *The Quarterly Journal of Economics* 117 (4): 1329–1368.

Botero, Juan C., Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer. 2004. "The Regulation of Labor". *The Quarterly Journal of Economics* 119 (4): 1339–1382.

Brainard, Lael. 2023. "Staying the Course to Bring Inflation Down". Speech delivered at the University of Chicago Booth School of Business, 19 January 2023.

Bruno, Michael, and William Easterly. 1998. "Inflation Crises and Long-Run Growth". *Journal of Monetary Economics* 41 (1): 3–26.

Calligaro, Florencia, and Oscar Cetrangolo. 2023. "Financing Universal Social Protection: The Relevance and Labour Market Impacts of Social Security Contributions", WIEGO Working Paper No. 47. Women in Informal Employment: Globalizing and Organizing (WIEGO) and ILO.

Cardoso, Dante, Laura Carvalho, Gilberto Tadeu Lima, Luiza Nassif-Pires, Fernando Rugitsky, and Marina Sanches. 2023. "The Multiplier Effects of Government Expenditures on Social Protection: A Multi-Country Analysis", University of São Paulo Department of Economics Working Paper No. 2023-11.

Caselli, Francesca, Hamid Davoodi, Carlos Goncalves, Gee Hee Hong, Andresa Lagerborg, Paulo Medas, Anh Dinh Nguyen, and Jiae Yoo. 2022. "The Return to Fiscal Rules", IMF Staff Discussion Note No. 2022/02.

Chau, Nancy H., Ravi Kanbur, and Vidhya Soundararajan. 2022. "Employer Power and Employment in Developing Countries", United Nations University World Institute for Development Economics Research Working Paper No. 2022/100.

Chen, Shaohua, and Martin Ravallion. 2008. "The Developing World Is Poorer than We Thought, but No Less Successful in the Fight against Poverty", World Bank Policy Research Working Paper No. 4703.

Chenery, Hollis, Montek S. Ahluwalia, C.L.G. Bell, John H. Duloy, and Richard Jolly. 1974. *Redistribution with Growth*. Washington, DC: World Bank Group.

Cornago, Elisabetta, and John Springford. 2021. "Why the EU's Recovery Fund Should Be Permanent". Centre for European Reform.

Damania, Richard, Esteban Balseca, Charlotte de Fontaubert, Joshua Gill, Kichan Kim, Jun Rentschler, Jason Russ, and Esha Zaveri. 2023. *Detox Development: Repurposing Environmentally Harmful Subsidies*. World Bank.

Davoodi, Hamid R., Paul Elger, Alexandra Fotiou, Daniel Garcia-Macia, Xuehui Han, Andresa Lagerborg, W. Raphael Lam, and Paulo Medas. 2022. "Fiscal Rules and Fiscal Councils: Recent Trends and Performance during the COVID-19 Pandemic", IMF Working Paper No. 22/11.

Dieppe, Alistair, ed. 2001. *Global Productivity: Trends, Drivers and Policies*. World Bank.

Dikau, Simon, and Ulrich Volz. 2021. "Central Bank Mandates, Sustainability Objectives and the Promotion of Green Finance". *Ecological Economics* 184.

Durán-Valverde, Fabio, José F. Pacheco-Jiménez, Taneem Muzaffar, and Hazel Elizondo-Barboza. "Financing Gaps in Social Protection: Global Estimates and Strategies for Developing Countries in Light of the COVID-19 Crisis and Beyond", ILO Working Paper No. 14.

Easterly, William. 2001. "The Lost Decades: Developing Countries' Stagnation in Spite of Policy Reform 1980–1998". *Journal of Economic Growth* 6 (2): 135–157.

ECB (European Central Bank). n.d. "Asset Purchase Programmes". https://www.ecb.europa.eu/mopo/implement/app/html/index.en.html.

Eeckhout, Jan, and Alireza Sepahsalari. 2023. "The Effect of Wealth on Worker Productivity". *The Review of Economic Studies*.

Elson, Diane. 1995. "Gender Awareness in Modeling Structural Adjustment". *World Development* 23 (11) 1851–1868.

Esquivel, Valeria. 2023. "Gender-Responsive Macroeconomic Policies: Lessons Learned from the COVID-19 Crisis and Beyond". In *Global Employment Policy Review 2023: Macroeconomic Policies for Recovery and Structural Transformation*, 28–51. ILO.

Esquivel, Valeria, and Corina Rodríguez Enríquez. 2014. "Macroeconomic Policies and Gender Equality in Latin America: Assessing the Gender Impact of the Global Economic Crisis". In *Gender Perspectives and Gender Impacts of the Global Economic Crisis*, edited by Rania Antonopoulos, 104–134. New York: Routledge.

Eurogroup. "Eurogroup Statement on the Euro Area Fiscal Stance for 2024". Press release, 13 July 2023.

European Commission. n.d. "NextGenerationEU". https://commission.europa.eu/strategy-and-policy/eu-budget/eu-borrower-investor-relations/nextgenerationeu.

Evenett, Simon, Adam Jakubik, Fernando Martín, and Michele Ruta. 2024. "The Return of Industrial Policy in Data", IMF Working Paper No. 24/1.

Filipović, Sanja, Noam Lior, and Mirjana Radovanović. 2022. "The Green Deal: Just Transition and Sustainable Development Goals Nexus". *Renewable and Sustainable Energy Reviews* 168.

Fischer, Stanley. 1993. "The Role of Macroeconomic Factors in Growth". *Journal of Monetary Economics* 32 (3): 485–512.

Freier, Maximilian, Charlotte Grynberg, Marguerite O'Connell, Marta Rodríguez-Vives, and Nico Zorell. 2022. "Next Generation EU: A Euro Area Perspective". *ECB Economic Bulletin* No. 1/2022: 93–112.

Gaal, Wester van. 2023. "ECB's Lagarde Says Profits Are Two-Thirds of Inflation". EUobserver, 27 June 2023.

Galí, Jordi. 2018. "The State of New Keynesian Economics: A Partial Assessment". *Journal of Economic Perspectives* 32 (3): 87–112.

Gechert, Sebastian, and Ansgar Rannenberg. 2018. "Which Fiscal Multipliers Are Regime-Dependent? A Meta-Regression Analysis". *Journal of Economic Surveys* 32 (4): 1160–1182.

Gordon, Robert J. 1990. "What Is New-Keynesian Economics?" *Journal of Economic Literature* 28 (3): 1115–1171.

Hansen, Niels-Jakob, Frederik Toscani, and Jing Zhou. 2023. "Europe's Inflation Outlook Depends on How Corporate Profits Absorb Wage Gains". *IMF Blog* (blog). 26 June 2023. https://www.imf.org/en/Blogs/Articles/2023/06/26/europes-inflation-outlook-depends-on-how-corporate-profits-absorb-wage-gains.

Hausmann, Ricardo, Tim O'Brien, Tim Cheston, Ibrahim Worku Hassen, Can Soylu, Kishan Shah, Nikita Taniparti, Pankhuri Prasad, and Pablo Andrés Neumeyer. 2022. "Development in a Complex World: The Case of Ethiopia", CID Faculty Working Paper No. 423. Center for International Development (CID) at Harvard University.

Heinemann, Friedrich, Marc-Daniel Moessinger, and Mustafa Yeter. 2018. "Do Fiscal Rules Constrain Fiscal Policy? A Meta-Regression Analysis". *European Journal of Political Economy* 51: 69–92.

IATF (United Nations Inter-Agency Task Force on Financing for Development). 2022. *Financing for Sustainable Development Report 2022: Bridging the Finance Divide*.

IEA (International Energy Agency). n.d. "Data and Statistics". https://www.iea.org/data-and-statistics.

ILO. 2006. "Overview of Gender-Responsive Budget Initiatives". Discussion paper prepared by the ILO Bureau for Gender Equality.

———. 2018. *Decent Work in Portugal 2008–18: From Crisis to Recovery.*

———. 2020a. "ILO Monitor: COVID-19 and the World of Work. Third Edition", 29 April 2020.

———. 2020b. *Global Employment Policy Review 2020. Employment Policies for Inclusive Structural Transformation.*

———. 2021. *Towards a Transformative Macroeconomic Policy Framework for Employment Generation in Africa.*

———. 2022a. "ILO Monitor on the World of Work. Ninth Edition", 23 May 2022.

———. 2022b. *Present and Future of Work in the Least Developed Countries.*

———. 2022c. *The Least Developed Countries: Crisis, Structural Transformation and the Future of Work.* ILC.110/Report I(B).

———. 2023a. Resolution concerning statistics on the informal economy. 21st International Conference of Labour Statisticians. ICLS/21/2023/RES. I.

———. 2023b. *Achieving a Just Transition towards Environmentally Sustainable Economies and Societies for All.* ILC.111/Report VI.

———. 2024. *World Employment and Social Outlook: Trends 2004.*

———. n.d. "Frequently Asked Questions on Just Transition". https://www.ilo.org/global/topics/green-jobs/WCMS_824102/lang--en/index.htm.

ILO, FAO (Food and Agriculture Organization of the United Nations) and UNICEF (United Nations Children's Fund). 2022. *UN Collaboration on Social Protection: Reaching Consensus on How to Accelerate Social Protection Systems-Building.*

ILO, OECD (Organisation for Economic Co-operation and Development) and ISSA (International Social Security Association). 2023. "Sustainable Financing of Social Protection". Technical paper prepared for the first meeting of the Employment Working Group under India's G20 Presidency in 2023.

IMF (International Monetary Fund). 2000. "Recovery from the Asian Crisis and the Role of the IMF", IMF Issues Brief No. 00/05.

———. 2013. "Jobs and Growth: Analytical and Operational Considerations for the Fund".

———. 2017. *Fiscal Monitor, October 2017: Tackling Inequality.*

———. 2019. "A Strategy for IMF Engagement on Social Spending", IMF Policy Paper.

———. 2022a. "A Proposed Strategy for Mainstreaming Gender at the IMF". Consultation Concept Note, 10 February 2022.

———. 2022b. "Fiscal Rules Dataset 1985–2021". https://www.imf.org/external/datamapper/fiscalrules/map/map.htm.

———. 2023. *Annual Report on Exchange Arrangements and Exchange Restrictions 2022.*

———. n.d. "Real GDP Growth", IMF DataMapper. https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/ADVEC/OEMDC. Accessed 27 February 2024.

IPCC (Intergovernmental Panel on Climate Change). 2023. *Climate Change 2023: Synthesis Report. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change.* Geneva.

Islam, Iyanatul. 2005. "Circumventing Macroeconomic Conservatism: A Policy Framework for Growth, Employment and Poverty Reduction". *International Labour Review* 144 (1): 55–84.

Islam, Iyanatul, and Anis Chowdhury. 2000. *The Political Economy of East Asia: Post-Crisis Debates*. New York: Oxford University Press.

Jahan, Sarwat, and Chris Papageorgiou. 2014. "What Is Monetarism?", *Finance & Development* 51 (1): 38–39.

Jahan, Sarwat, Ahmed Saber Mahmud, and Chris Papageorgiou. 2014. "What Is Keynesian Economics?", *Finance & Development* 51 (3): 53–54.

Kabundi, Alain, Montfort Mlachila, and Jiaxiong Yao. 2022. "How Persistent Are Climate-Related Price Shocks?", IMF Working Paper No. 22/207.

Kaplan, Ethan, and Dani Rodrik. 2001. "Did the Malaysian Capital Controls Work?", National Bureau of Economic Research Working Paper No. 8142.

Karamessini, Maria, and Jill Rubery, eds. 2013. *Women and Austerity: The Economic Crisis and the Future for Gender Equality*. New York: Routledge.

Khan, Mohsin S., and Abdelhak S. Senhadji. 2001. "Threshold Effects in the Relationship between Inflation and Growth". *IMF Staff Papers* 48 (1): 1–21.

Krugman, Paul R., and Lawrence H. Summers. 2022. "Inflation Debate between Paul R. Krugman and Lawrence H. Summers – Part II". Transcript of webinar organized by Princeton University Bendheim Center for Finance, 21 January 2022. https://bcf.princeton.edu/wp-content/uploads/2022/01/Webinar-Transcript-2.pdf.

Kydland, Finn E., and Edward C. Prescott. 1982. "Time to Build and Aggregate Fluctuations". *Econometrica* 50 (6): 1345–1370.

Langella, Monica, and Alan Manning. 2021. "Marshall Lecture 2020: The Measure of Monopsony". *Journal of the European Economic Association* 19 (6): 2929–2957.

Lee, Sangheon, Deirdre McCann, and Nina Torm. 2009. "The World Bank's 'Employing Workers' Index: Findings and Critiques – A Review of Recent Evidence". *International Labour Review* 147 (4): 416–432.

Lewney, Richard, Bence Kiss-Dobronyi, Stijn Van Hummelen, Luca Barbieri, Mike Harfoot, and Calum Maney. 2021. *Modelling a Global Inclusive Green Economy COVID-19 Recovery Programme*. Cambridge Econometrics.

Lucas, Robert E., Jr. 1972. "Expectations and the Neutrality of Money". *Journal of Economic Theory* 4 (2): 103–124.

McDermott, John, and Rebecca Williams. 2018. "Inflation Targeting in New Zealand: An Experience in Evolution". In *Central Bank Frameworks: Evolution or Revolution?*, edited by John Simon and Maxwell Sutton, 7–23. Sydney: Reserve Bank of Australia.

Manning, Alan. 2021. "Monopsony in Labor Markets: A Review". *ILR Review* 74 (1): 3–26.

Matthews, Dylan. 2022. "How the Fed Ended the Last Great American Inflation – and How Much It Hurt". Vox, 13 July 2022.

Milanovic, Branko. 2003. "The Two Faces of Globalization: Against Globalization as We Know It". *World Development* 31 (4): 667–683.

Ocampo, José Antonio. 2004. "Beyond the Washington Consensus: What Do We Mean?". *Journal of Post Keynesian Economics* 27 (2): 293–314.

Ocampo, José Antonio, Codrina Rada, and Lance Taylor. 2009. *Growth and Policy in Developing Countries: A Structuralist Approach*. New York: Columbia University Press.

OECD (Organisation for Economic Co-operation and Development). 1998. *Harmful Tax Competition: An Emerging Global Issue*.

———. 2015. "Achieving Prudent Debt Targets Using Fiscal Rules", OECD Economics Department Policy Note No. 28.

———. 2020. "Job Retention Schemes during the COVID-19 Lockdown and Beyond".

———. 2022. *OECD Employment Outlook 2022: Building Back More Inclusive Labour Markets*.

Ortiz, Isabel, Anis Chowdhury, Fabio Durán-Valverde, Taneem Muzaffar, and Stefan Urban. 2019. *Fiscal Space for Social Protection: A Handbook for Assessing Financing Options*. ILO.

Parisotto, Aurelio, and Nikhil Ray. 2017. "Rethinking Macroeconomic Policies for Full Employment and Inclusive Growth: Some Elements", ILO Employment Policy Department Working Paper No. 238.

Pignatti, Clemente, Carlos Galian, and Céline Peyron Bista. "Extending Social Protection during Times of Crisis: The Data Revolution", ILO Social Protection Department working paper.

Piketty, Thomas. 2014. *Capital in the Twenty-First Century*. Translated by Arthur Goldhammer. Cambridge, MA: Harvard University Press.

Posner, Eric A., Suresh Naidu, and Glen Weyl. 2018. "Antitrust Remedies for Labor Market Power". *Harvard Law Review* 132 (2): 536–601.

Powell, Jerome H. 2024. Press conference after the meeting of the US Federal Reserve's Federal Open Market Committee on 30 and 31 January 2024. https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20240131.pdf.

Ray, Nikhil, Agustin Velasquez, and Iyanatul Islam. 2015. "Fiscal Rules, Growth and Employment: A Developing Country Perspective", ILO Employment Policy Department Working Paper No. 184.

Rey, Hélène. 2013. "Dilemma not Trilemma: The Global Financial Cycle and Monetary Policy Independence". Paper presented at the Federal Reserve Bank of Kansas City symposium "Global Dimensions of Unconventional Monetary Policy", Jackson Hole, Wyoming, United States, 22–24 August 2013.

Robinson, Kali. 2022. "What Is the 'Kafala' System?". Council on Foreign Relations. 18 November 2022.

Rodrik, Dani. 2005. "Growth Strategies". In *Handbook of Economic Growth*, Vol. 1A, edited by Philippe Aghion and Steven N. Durlauf, 967–1014. Amsterdam: Elsevier.

———. 2008. "The Real Exchange Rate and Economic Growth". *Brookings Papers on Economic Activity* 39 (2): 365–439.

———. 2022. "An Industrial Policy for Good Jobs". Policy proposal prepared for the Hamilton Project.

Rodrik, Dani, and Joseph E. Stiglitz. 2024. "A New Growth Strategy for Developing Nations". Essay prepared for a joint project of the International Economic Association (IEA) and the Economic Research Institute for ASEAN and East Asia (ERIA) on the new global economic order. https://www.hks.harvard.edu/centers/mrcbg/programs/growthpolicy/new-growth-11strategy-developing-nations.

Roeger, Werner, and Fiorella De Fiore. 1999. "Growth and Employment Effects of Fiscal Regimes". *Oxford Economic Papers* 51 (1): 200–222.

Saraceno, Francesco. 2015. "Challenges for the ECB in Times of Deflation", ILO Employment Policy Department Working Paper No. 183.

Scheja, Elina, Sher Verick, and Drew Gardiner. 2023. *Guidelines for Employment Diagnostics in Times of Continuous Change*. ILO.

Seers, Dudley. 2012. "The Limitations of the Special Case". In *Milestones and Turning Points in Development Thinking*, edited by Richard Jolly, 3–19. London: Palgrave Macmillan.

Seguino, Stephanie, and Elissa Braunstein. 2019. "The Costs of Exclusion: Gender Job Segregation, Structural Change and the Labour Share of Income". *Development and Change* 50 (4): 976–1008.

Sen, Kunal. 2023. *Varieties of Structural Transformation: Patterns, Determinants, Consequences*. Cambridge, UK: Cambridge University Press.

Stern, Nicholas. 2007. *The Economics of Climate Change: The Stern Review*. Cambridge, UK: Cambridge University Press.

Stern, Nicholas, Sam Unsworth, Anna Valero, Dimitri Zenghelis, James Rydge, and Nick Robins. 2020. "Strategy, Investment and Policy for a Strong and Sustainable Recovery: An Action Plan". London School of Economics and Political Science, Centre for Economic Performance.

Stiglitz, Joseph E. 2001. "From Miracle to Crisis to Recovery: Lessons from Four Decades of East Asian Experience". In *Rethinking the East Asian Miracle*, edited by Joseph E. Stiglitz and Shahid Yusuf, 509–526. New York: Oxford University Press.

Stiglitz, Joseph, José Antonio Ocampo, Shari Spiegel, Ricardo Ffrench-Davis, and Deepak Nayyar. 2006. *Stability with Growth: Macroeconomics, Liberalization and Development*. Oxford: Oxford University Press.

Summers, Lawrence H. 2016. "The Age of Secular Stagnation: What It Is and What to Do about It". *Foreign Affairs* 95 (2): 2–9.

———. 2018. "Secular Stagnation and Macroeconomic Policy". *IMF Economic Review* 66 (2): 226–250.

Tamirisa, Natalia. 2001. "Capital Controls in Response to the Asian Crisis". In *Malaysia: From Crisis to Recovery*, 50–70. International Monetary Fund.

Thatcher, Margaret. 1991. "Speech to the Economic Club of New York". 18 June 1991. https://www.margaretthatcher.org/document/108274.

The Economist. 2015. "The Global Secular Savings Stagnation Glut: Why Are Savings Piling Up in Slow-Growing Countries?" 3 April 2015.

———. 2023. "Wage–Price Spirals Are Far Scarier in Theory than in Practice". 15 June 2023.

Thornton, Robert J. 2004. "How Joan Robinson and B.L. Hallward Named Monopsony". *Journal of Economic Perspectives* 18 (2): 257–261.

UN-Women (United Nations Entity for Gender Equality and the Empowerment of Women) and ILO. 2021. "Assessing the Gendered Employment Impacts of COVID-19 and Supporting a GenderResponsive Recovery: A Country-Level Policy Tool".

UNCTAD (United Nations Conference on Trade and Development). 2014. *World Investment Report 2014: Investing in the SDGs – An Action Plan*.

———. 2020. "Topsy-Turvy World: Net Transfer of Resources from Poor to Rich Countries", UNCTAD Policy Brief No. 78.

UNDESA (United Nations Department of Economic and Social Affairs). 2017. "International Financial Flows and External Debt", Development Issues No. 10.

United States, The White House. 2023. "One Year In, President Biden's Inflation Reduction Act Is Driving Historic Climate Action and Investing in America to Create Good Paying Jobs and Reduce Costs". Fact sheet, 16 August 2023.

Van Nostrand, Eric, and Laura Feiveson. 2023. "The Inflation Reduction Act and U.S. Business Investment". Featured story on US Department of the Treasury website, 16 August 2023.

Williamson, John. 1990. “What Washington Means by Policy Reform”. In *Latin American Adjustment: How Much Has Happened?*, edited by John Williamson, 7–20. Washington, DC: Institute for International Economics.

World Bank. 1993. *The East Asian Miracle: Economic Growth and Public Policy*. New York: Oxford University Press.

———. n.d. “Doing Business Legacy”. https://www.worldbank.org/en/businessready/doing-business-legacy.

Xu, Jiajun, Régis Marodon, and Xinshuan Ru. 2021. “Mapping 500+ Development Banks: Qualification Criteria, Stylized Facts and Development Trends”, AFD Research Paper No. 192. French Development Agency (AFD) and Institute of New Structural Economics, Peking University.

Yang, Zeyi. 2023. “How Did China Come to Dominate the World of Electric Cars?” MIT Technology Review, 21 February 2023.

Yellen, Janet L. 2016. “Macroeconomic Research after the Crisis”. Speech delivered at the 60th Annual Economic Conference sponsored by the Federal Reserve Bank of Boston, 14 October 2016.

ILO Employment Policy, Job Creation
and Livelihoods Department

Geneva, Switzerland.

https://www.ilo.org/employment

ISBN 978-92-2-040660-1