

The importance of macroeconomic management for poverty and inequality reduction as part of the SDGs in Latin America

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Date and time

28 January 2022 16:00-17:30 pm

Outline of the lecture

- SDGs in LATAM
- Macroeconomic management (policies, variables, indicators)
- SDGs and macroeconomic management
- Inflation

Main issues

- Government addresses Good health and well-being (Goal 3), Decent work and economic growth (Goal 8), Industry, innovation and infrastructure (Goal 9), Inequality (Goal 10) as critical SDGs in LATAM.
- How to finance the extra fiscal burden.
- Discussion: ① The implementation of SDGs leads to an extra fiscal burden for the government. How to finance the extra burden?
② More taxes? Or more debt? ③ If it is more taxes, what sort of changes in the tax system structure? For instance what taxes could be increased? ④ If it is more debt, external debt or securities? Is there any other way to finance the extra fiscal burden?

THE IMPORTANCE OF MACROECONOMIC MANAGEMENT FOR POVERTY AND INEQUALITY REDUCTION AS PART OF THE SDGS IN LATIN AMERICA

グローバルAL講座
Global Active Learning Seminar
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January 28th, 2022

LATIN AMERICA AND THE CARIBBEAN (LATAM)



CONTENTS

1. SDGs in LATAM
2. Macroeconomic management (policies, variables, indicators)
3. SDGs and macroeconomic management
4. Inflation



LATAM'S OVERALL PERFORMANCE

Country	Country	Country
1 Finland 85.90	52 Argentina 72.80	90 Bolivia 67.60
2 Sweden 85.61	53 Ecuador 72.54	91 Surinam 66.98
3 Denmark 84.86	61 Brazil 71.34	92 Paraguay 66.94
18 Japan 79.85	63 Peru 71.09	99 Nicaragua 66.29
30 Chile 77.13	67 Dominican Republic 70.76	104 Belize 64.43
32 US 76.01	68 Colombia 70.56	112 Honduras 62.77
41 Uruguay 74.55	80 Mexico 68.13	121 Guatemala 59.91
43 Thailand 74.19	81 Jamaica 68.97	122 Venezuela 59.32
49 Cuba 73.65	88 Panama 67.98	150 Haiti 51.35
50 Costa Rica 73.55	89 El Salvador 67.93	

Source: Sustainable Development Report (2020)

LATAM SDG INDEX





LATAM: CRITICAL SDGs

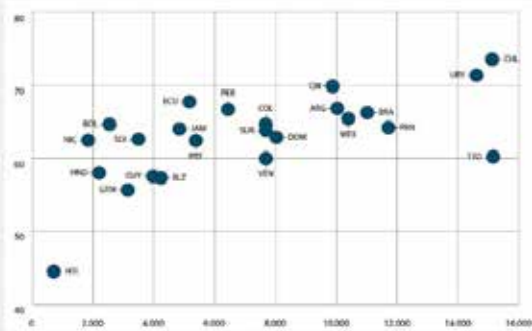


SDGS IN LATAM



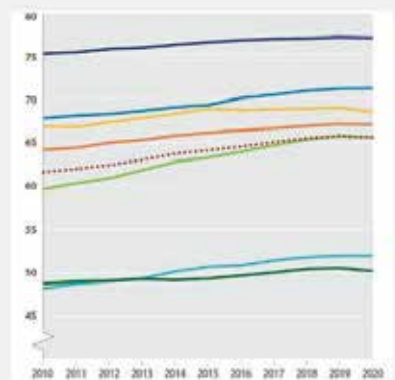
Source: CDDP (2020)

SDG INDEX AND GDP (PER CAPITA) IN LATAM



Source: CDDP (2020)

SDG INDEX BY REGION



Source: Sustainable Development Report (2021)

THE SDGs :

- The 17 goals re integrated
- Universal call to action
- Advanced countries, emerging countries and developing countries
- **Public sector** (central government, local governments), private sector (companies), and third sector (NGOs, NPOs)
- Individuals and households

SHARING RESPONSIBILITIES

Public sector intervention



Private sector participation



SDGs AND MACROECONOMIC MANAGEMENT

MACROECONOMIC VARIABLES (INDICATORS)

- Economic growth (GDP/GNP/National Income, growth rate)
- Inflation (increase of prices in a given period of time)
- Fiscal deficit (total revenues – total expenditure of the government)
- Money supply (total amount of money in circulation)
- Interest rate (amount charged for borrowing money)
- Unemployment (% of the total labor force that is unemployed but actively seeking employment)
- Balance of payments (transactions (imports & exports, remittances, foreign investment, etc.) between residents and nonresidents in a given period of time)
- Exchange rate (price of the country money in relation to another country's money)

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Macroeconomic policy

Fiscal policy

Monetary policy

Labor policy

International trade and financial policy

SDGs AND MACROECONOMIC MANAGEMENT

Internal level

- Creation of an enabling macroeconomic environment
- Promotes investment
- Foster creativity and innovation
- Creates employment

Labor policy

Fiscal policy

Monetary policy

- Economic stability
- Sound fiscal results (fiscal deficit)
- Proper monetary management (money)
- Prices / interest rates

External level

- Encouragement of an active international exchange
- Trade
- Financial flows and inflows
- Foreign Direct Investment (FDI)
- Exchange rate

International cooperation

International trade and financial policy

Result: Robust sustainable growth

LATAM: CRITICAL SDGs



LATAM: CRITICAL SDGs



HOW THE GOVERNMENT ADDRESSES THE SGDS



- 3. Good health and well-being → hospitals, medical equipment, doctors, nurses, etc.
- 8. Decent work and economic growth → macroeconomic stability, economic policies, regulatory agencies
- 9. Industry, innovation and infrastructure → R&D, economic and social infrastructure (roads, bridges, reservoirs, schools, hospitals, health posts, nurseries, etc.), patents, investment promotion (domestic and foreign)
- 10. Inequality → distributive policies



HOW TO FINANCE THE EXTRA FISCAL BURDEN

Fiscal (government) revenues (+)

- Taxes ↑
 - Value-added tax
 - Income tax
 - Excise tax
 - Tariffs
- Debt ↑
 - External debt
 - Securities (notes, bonds)

Fiscal (government) expenditures (-)

- Government current expenditures
 - Doctors, nurses, etc. → personal
 - Other ↓
- Government investment
 - Hospitals, medical equipment, R&D, roads, bridges, reservoirs, schools, hospitals, health posts, nurseries → infrastructure
 - Other ↓



HOW TO FINANCE THE EXTRA FISCAL BURDEN

Fiscal (government) revenues (+)

- Taxes ↑
 - Value-added tax (applies to all commercial activities)
 - Income tax (individual and corporate)
 - Excise tax (to luxury goods, tobacco, alcohol, etc.)
 - Tariffs (imports)
 - Wealth tax (on assets)
- Debt ↑
 - External debt
 - Securities (notes, bonds)



DISCUSSION (15 MINUTES)

- The implementation of SGDS leads to an extra fiscal burden for the government. How to finance the extra burden?
- More taxes? Or more debt?
- If it is more taxes, what sort of changes in the tax system structure? For instance what taxes could be increased?
- If it is more debt, external debt or securities?
- Is there any other way to finance the extra fiscal burden?

INFLATION TAX

- It is massive loss of money's value
- Regardless of income, it affects to everyone at the same rate
- Therefore, it worsens inequality
- Wages and salaries does not increase at same pace

INFLATION DURING THE PANDEMIC

Inflation rose in the world:

US (6.8%)
UK (5.5%)
Venezuela (686.4%)
Argentina (50.9%)
Brazil (10.0%)
Chile (7.2%)
But Japan (0.8%)

Causes:

- Base effect (compare to 2020 slowdown, it is much higher)
- Disruption of the supply chain due to scarcity of certain goods (ex. chips) or due to transportation delays
- Less demand
- Temporary

CONCLUSION

- Resources are needed to achieve the SDGs, particularly, developing countries.
- Macroeconomic policy coherence is a significant core strategy in the implementation of the SDGs.
- It is important to understand how macropolicies relate to the SDGs.
- It is important to understand how macroeconomic policy making (monetary, fiscal and international trade) could be improved.
- Fiscal policy:
 - Its consolidation only through tax.
 - Innovative taxes, as additional source of financing sdgs.
 - Natural resource taxation, linking mining or oil revenues to human development.
 - Transparent and equitable tax system is necessary for an adequate revenue mobilization to meet sdgs.
- Monetary policy:
 - No monetary mission.
- Restraining the fiscal authorities from engaging in excessive deficit financing is a prerequisite to align fiscal and monetary policy.

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