Discussion of:
Microsimulation Approaches to Studying Shocks and Social Protection in Selected Developing Economies

by Kwabena Adu-Ababio (Uni Helsinki & UNU-WIDER)

André Victor Doherty Luduvice

Federal Reserve Bank of Cleveland

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Basic Idea and Takeaway Lessons

- The paper studies automatic stabilization in developing economies:
  - Countries: Ghana, South Africa, and Ecuador
  - Uses microssimulation models from UNU-WIDER: GHAMOD, SAMOD, and ECUAMOD
  - Stabilization of income, demand, and poverty head count (welfare)
  - Added role of informality shocks
- Takeway Lessons:
  - Order of stabilization capacity: South Africa $\succ$ Ecuador $\succ$ Ghana
  - Ghana has an overall more fragile social insurance net
  - Counterfactual: room for improvement in exposure to shocks via expansion/creation of transfer policies
- Overall:
  - The contribution within the literature is precise
  - The results are consistent and show clear patterns
  - Paper is very organized with summaries and robustness checks
  - Suggestion: more in-depth discussions (tackled below)

Discussion of the Paper: Three Main Points

- Three main discussion points:
  - Methodological and general: microssimulation approach
  - My expertise: macroeconomics with heterogeneity, lessons from previous literature
  - Model details and selected results
- First: microsimulation approach
  - Reference to models but would welcome more details
  - Extent to which they survive Lucas' Critique
  - Takes into account labor supply responses?
  - If yes, based on regressions or structural equations?

Discussion of the Paper: Continuation

- Macroeconomics with heterogeneity:
  - Suggestion of key papers: McKay and Reis (ECTA, 2016), McKay and Reis (ReStud, 2021)
  - Key ingredients: essentially one of the first "HANK", hetereogeneous agents new keynesian model
  - Combines household heterogeneity a la Aiyagari-Huggett-Imrohoroglu and nominal rigidities at the macro level
  - 2016: stabilizers for the US play a larger role when they mitigate inequality combined with a zero lower bound interest rate
  - 2021: Optimal stabilizers more important in recessions, UI replacement rate more important than progressivity
  - Lesson from US to developing economies: critical role of UI

Discussion of the Paper: Continuation

- Model details and selected results
  - Are the income shocks indeed idiosyncratic? Proportional shock to income might be systematic?
  - Interesting aspect: role of informality as a cushion to unemployment
  - For Ghana and Ecuador: there is some stabilization from income but virtually zero from demand/credit - potential reform that is less fiscally costly
  - Remarkable effect of low poverty stabilization in Ghana. How the current programs are failing?
  - The counterfactuals for Ghana look fiscally sustainable, what's missing for expenditures to take place?