



Introduction

The Commission and Its Mandate

What do we know about economic growth? And what practical implications can policy makers draw from that knowledge? Those are both daunting questions, no easier to answer than they are to ignore. Since April 2006, they have guided the work of the Commission on Growth and Development, an independent group of policy makers, business leaders and scholars, supported by the World Bank, the Hewlett Foundation, and the governments of Australia, Netherlands, Sweden, and the United Kingdom. Drawing on academic research, case histories, and practical experience, the Commission has weighed what is known about generating and sustaining fast growth in developing countries.

This assessment is meant to be useful to senior political and policy leaders, those whose job it is to craft a developing country's economic reforms. We hope it provides a framework within which policy makers can develop country-specific growth strategies of their own. We do not give policy makers all the answers, but we hope to help them ask the right questions. To this end, the majority of the members of the Commission are leaders from developing countries. Our intention is to share their experiences, priorities, successes, and failures with their peers and the next generation of leaders.

The Commission understands that growth is not an end in itself. It is instead a means to several ends that matter profoundly to individuals and

societies. Growth is, above all, the surest way to free a society from poverty. Without it, a stark lack of material resources will tend to dominate everything else, narrowing people's horizons, consuming them in a daily struggle to get by, and depriving them of the chance to fulfill their potential. Prosperity, on the other hand, frees people to make choices, and allows a more equal distribution of opportunities. Human development, under-

Box 1: Growth and poverty

In the last 30 years absolute poverty has fallen substantially. This is almost entirely due to sustained growth. The fall is likely to continue because India is likely to grow at a fast pace for another 15 years, when it will catch up to where China is today, and China has another 600 million people in agriculture yet to move into more productive employment in urban areas.

In a very poor country, it is arithmetically impossible to reduce poverty without growth. There is no one to redistribute from. Conversely, if everyone is poor, growth will reduce poverty regardless of how it is distributed.

But some kinds of growth reduce poverty more effectively than others. The distribution of income can change as average incomes rise, becoming more or less equal. The expansion of smallholder farming, for example, cuts poverty quickly, raising the incomes of rural cultivators and reducing the price of the poor's food bill. Growth in labor-intensive manufacturing also raises the incomes of the poor. The expansion of capital-intensive mining industries, on the other hand, can result in jobless growth, making little impression on poverty.

One study shows that when average household incomes rise by 2 percent, poverty rates fall by about twice as much on average. But the range is wide, from as little as 1.2 percent to as much as 7 percent (95 percent confidence interval).^a

Such studies look at spells of growth, some of them short-lived. This report is about sustained growth, lasting more than two decades. Over that timescale, growth almost always bites deeply into poverty. In some cases, it eliminates extreme poverty entirely. However growth starts, sustaining it will usually require

mass job creation, raising the scarcity value of labor. As a result, wages rise, spreading the proceeds of growth more widely. In short, the most propoor growth is sustained growth.

This virtue of sustained growth is sometimes missed, because people confuse rising inequality with a failure to make progress against poverty. In economies without growth, a widening gap between rich and poor does indeed entail an increase in poverty. But in fast-growing economies, it is possible and quite normal for poverty to fall even as inequality rises.

The higher a country's average income level, the more complex is the relationship between growth and poverty reduction. In Latin America, for example, countries with incomes as high as \$4,000 per head nevertheless contain large numbers of poor people. These impoverished populations are left behind by the rest of the economy, lacking access to formal jobs, capital markets, and public services. In such cases, growth is clearly not sufficient to reduce poverty. It may not be necessary either, because some progress can be made by redistributing income, assets, or access to services. But it is much easier to carry out a program of redistribution if the country is also growing. The proceeds of growth can then be redistributed without anyone's standard of living having to fall. That makes the politics of redistribution much easier. After all, the richer sections of society will settle for smaller gains in income more readily than they will accept a loss of income.

a. This range is a 95 percent confidence interval. Ravallion, Martin. 2001. "Growth, Inequality, and Poverty: Looking Beyond Averages." Policy Research Working Paper 2558, World Bank

stood in its broadest sense, is both an “output” of growth and one of the most important inputs. We have focused on sustained growth because it creates options for individuals and societies that are difficult or impossible to achieve otherwise.

In the developed world, the great questions of growth and poverty are inseparable from debates about aid. Many believe foreign aid can help raise growth and fight poverty. They are probably right. Aid, however, is not the focus of this report. Donors can help governments in some poor countries by relaxing their financial limitations. But in many countries, the lack of aid dollars is not the binding constraint and in others it is only one constraint among many. It is not a substitute for leadership, good strategy, and effective implementation.

A great deal of aid is not intended to raise growth *per se*. It makes a contribution to the fight against disease and other social ills—worthy goals in themselves, whatever their effect on the economy. Other categories of aid do try to lift growth, by providing finance or expertise or both. If the logic of this report is compelling, it will be useful to these donors as they look for rewarding areas of investment.

The Commission asked distinguished academics and practitioners to assess the state of knowledge in a wide range of policy areas, from exchange rate intervention to school feeding programs. The result is a rich collection of papers, country case studies, and workshop deliberations available on the Commission’s Web site.¹ In some cases there is widespread agreement. In others our knowledge is incomplete. In still others there are controversy and ongoing disagreement about the benefits and risks of a policy.

This report is not a summary of all those assessments, but a distillation of them, guided by the commissioners’ own experience. Our goal has been to identify the key insights and policy levers that help countries raise and sustain the pace of growth and poverty reduction.

The Organization of the Report

The report has four main parts. In the first, we review the 13 economies that have sustained, high growth in the postwar period. Their growth models had some common flavors: the strategic integration with the world economy; the mobility of resources, particularly labor; the high savings and investment rates; and a capable government committed to growth. The report goes on to describe the cast of mind and techniques of policy making that leaders will need if they are to emulate such a growth model. It concludes that their policy making will need to be patient, pragmatic, and experimental.

¹ <http://www.growthcommission.org>.

In the second part, we lay out the ingredients a growth strategy might include. These range from public investment and exchange rate policies to land sales and redistribution. A list of ingredients is not enough to make a dish, of course, as Bob Solow, a Nobel Prize-winning economist and a member of the Commission, points out. We, however, refrain from offering policy makers a recipe, or growth strategy, to follow. This is because no single recipe exists. Timing and circumstance will determine how the ingredients should be combined, in what quantities, and in what sequence. In India, for example, policy makers must concentrate on infrastructure investment and improving the quality of education. In China, on the other hand, policy makers should try to wean the economy off exports and investment and give freer rein to consumption.

Formulating a full growth strategy, then, is not a job for this Commission but for a dedicated team of policy makers and economists, working on a single economy over time. Instead of a country-specific recipe, we offer some more general thoughts on the opportunities and constraints faced by nations in Sub-Saharan Africa, countries rich in resources, small states with fewer than 2 million people, and middle-income countries that have lost their economic momentum.

In the final part of the report, we discuss global trends that are beyond the control of any single developing-country policy maker. Global warming is one example; the surge in protectionist sentiment another; the rise of commodity prices a third. In addition, we discuss the aging of the world population and the potential dangers of America's external deficit. These trends are new enough that the 13 high-growth economies of the postwar period did not have to face them. The question is whether they now make it impossible for other countries to emulate that postwar success.

The developing countries today have a collective importance in the world economy that is impossible to ignore. They leave a sizable imprint on commodity prices, inflation, capital flows, and greenhouse gas emissions, to name just some of the ripple effects. Their collective importance has, however, yet to be fully reflected in the few international institutions that help steward the world economy. This should change. The developing world has benefited enormously from the global economy and contributed a great deal to it. Now their policy makers need to assume a bigger role in managing it.