

## **Transcript of Consultation Meeting with NGOs, Private Companies, and Think Tanks, London, December 11, 2007**

**Presenter:** Michael Spence, Chairman, Commission on Growth and Development

**Moderator:** Stephanie Flanders, Economics Editor, BBC Newsnight

### **Participants [detailed list to be posted]**

**Stephanie Flanders, Moderator:** Welcome everybody on behalf of the Commission. I am Stephanie Flanders. I won't take much time right now, and I hope that this morning is going to be what it's supposed to be, which is an opportunity for discussion of where the Commission is going, issues that the Commission would like to discuss and issues that you'd like to discuss. So, I'll say a little bit more after Michael Spence has given his introduction, but I'm hoping that we're not going to be too structured and that you will provide the content for this morning with limited guidance from me. But without further ado, let me introduce the chair of the Commission, the very distinguished academic and Nobel Laureate, Michael Spence, who will also introduce the other members of the Commission.

**Michael Spence, Chair, Growth Commission:** Thank you Stephanie and good morning everyone. Let me begin by introducing members of the Commission and others who are associated with us. On my immediate right is Dr. Ngozi Okonjo-Iweala. She was the Finance Minister of Nigeria, and is now Managing Director of the World Bank. To Ngozi's right is my colleague at Stanford, Paul Romer, who has been very helpful as a member of what we call the Working Group for putting the work of the Commission together. To Stephanie's left is Danny Leipziger, Vice-President of the World Bank and the Vice-Chairman of the Commission, and he's in charge of the Poverty Reduction and Economic Management Network in the World Bank. Sir Dwight Venner, to Danny's left, is a member of the Commission, and he is the head of the Eastern Caribbean Central Bank and also a Knight. Dr Pedro Pablo Kuczynski to Sir Dwight's left, is the former Prime Minister of Peru and a member of the Commission. Roberto Zagha is the Secretary to the Commission.

I think what I am going to do is give you a brief presentation on the work of the Commission and what we are talking with each other about, and then we will fall to general discussion, if that's acceptable. The Commission and its members occupy a little bit of my time, followed by our activities and outputs. Then I'll spend a little bit of time on the principle themes and issues that we have been talking with each other about. Occasionally my own views will intrude and I apologise in advance to my fellow Commissioners if they don't actually agree with me. I will talk about some key policy areas that we think are important with respect to growth, and then next steps.

We are starting a process that includes this morning's meeting, I think a very important process, of getting feedback on the thinking that we've done to date and the work and research from people who have deep knowledge of development and poverty reduction and all the challenges that leaders in developing countries face in improving the lives of their fellow citizens. In addition to the feedback that we get today, we'd be delighted to have feedback of any length delivered either directly to one of us, including me, by email, or to the website or the email associated with it

[consultations@growthcommission.org]. I guarantee you we will take these comments seriously and try to incorporate the thinking in our work. I also want to say that this meeting is public in the sense that we're going to produce a transcript of it, and we will post that on the Commission's website. So if there is a communication that you prefer to make privately, that would be fine, and I would use the email channel.

These are the Commission members. The vast majority of us, unlike Bob Solow and I, are leaders, political and policy leaders from developing countries, and that is the set of experiences that inform the work of the Commission, more than almost anything else.

The origins of the Commission: The World Bank in the early-2000-plus period produced a very interesting report called Lessons of the 1990s. What did we learn from the experiences of that period? We learned a lot of things, many things that we thought would work didn't, and many strategies that were pursued that were thought to be flawed actually produced pretty good results. So we accumulated a lot of relevant experience over the last few years, as China grew and India grew, and other countries started to grow more quickly. So we decided it was time to focus attention again on growth because of its importance as the necessary condition for poverty reduction.

We had a sense a couple of years ago when the Commission got started that the importance of growth in poverty reduction and the achievement of a whole range of goals that individuals in society's have, it's sort of been set aside. Growth is not explicitly recognised in the MDGs. That may be because it's a means to an end and not an end in itself, and we're quite explicit in our recognition that we are focussing on growth because it creates options to accomplish things that human beings actually want, and is not the main objective itself.

We are supported by a number of governments listed there, and by the World Bank and by a private foundation, the William and Flora Hewlett Foundation. We were created in April 2006. We will finish our work by the end of 2008 and hopefully produce a report in the first half of the year.

Our focus is on policy, leadership, all the ingredients it takes to generate and sustain high inclusive growth. Those activities include not only policies but investments in things like infrastructure and human capital. Inclusive is meant to signify a number of things, including especially not leaving people out, and as you'll see in a minute when I talk about cases of high sustained growth, they are all accompanied by vast amounts of incremental productive employment creation, which tends to be inclusive. Our primary target audience is political and policy leaders, current and the next generation in developing countries who have this very large responsibility for generating strategies, a political consensus in policies that accelerate and then sustain growth. I think we all understand that sustaining growth is a very difficult and challenging part of it.

At the bottom, I said what I said a minute ago, which is we understand that growth is not the primary objective. Our strategy is to put the following pieces together. One is a kind of second layer underneath the Commission's report itself. We have asked

distinguished academics from all over the world to produce an assessment of the state of the art, written for practitioners in various areas of policy that most people would agree are directly relevant to growth. This is a large collection of research. By “state of the art,” I mean precisely that. What do we know and what do we not know? There is never going to be a time in which we can say we know how to do this, and some of the areas that are being assessed are ones that are still quite controversial. We are going to combine that with the experience of the leaders and practitioners on the Commission and others. We have also produced a set of country case studies, because we find, and the Commission members felt very strongly about this, that countries are very different in their initial conditions and in the challenges that they face, and this comes through very clearly in a set of approximately 25 country case studies that we think are useful addition to the work of the Commission.

We intend to produce a report for the Commission that’s quite short. We are still debating how short, but I think we’d like to set a world record for brevity. Brevity I think will be two or three lengths starting at about eight pages for those with limited amounts of time to read, and move on from there. We will make accessible the country case studies and the working papers and these assessments that I referred to, and we are in the process of figuring how to do that and make it as easy as possible to get at with a kind of guide to the material.

Some of this I have said before. Let me mention, there is a Working Group that consists of myself, Bob Solow, and Danny Leipziger, Robert Zagher, Paul Romer, who is here, Edwin Lim, who is a former member of the World Bank with a lot of experience in Africa and India and China, Homi Kharas, also a former World Bank person. What this Group does is draft various versions of the report for the Commission and commissions and publishes the papers that I just talked about.

The activities to date? We started with a brainstorming session before the Commission was actually formed in March of 2006, with encouragement of the then-president of the World Bank, Paul Wolfowitz. Then we launched the Commission with its current composition in April 2006, produced a statement of purpose. We have had four meetings of the Commission. We will have one or two more, probably ending up in the first half of the year, and we have been preparing thematic papers.

Here you get a sense of the range of topics. This is intended to be complete, but we have had workshops, sometimes a day long, sometimes two days long on these various subjects, for example, equity and equality of opportunity, which is a terribly important part of this general subject. The planned outputs are actually the commissioned report and these published papers in the country case studies, and our time horizon is to get this out in the next six months approximately, and then do a good job of going around the world and talking about these things, interacting with people and dissemination I guess is the right way to describe it.

Where are we? We are reviewing a first draft of the report. We have completed almost all the workshops. We have one more to go on sort of fiscal policy in a developing country, an open economy developing country. We have a good chunk of the thematic papers in hand, and they are being edited. My arrangement with the Commission was that I said I would visit every one of them where they live and work, to visit not only with them but with business leaders, civil society organisations, labour unions and

others to get a sense of how they view the challenges in these various parts of the world. Finally, we are in the process of converging on a set of conclusions, but we are by no means there, and we value the input that we hope to get with our interaction with you today. This is a quote from Bob Solow, and I think perhaps the best way, I'll just let you read it. Basically what it says is that getting growth up and then sustaining it at that level is a very, very difficult thing to do. In the past there has been some sort of suggestion that there are a few simple policy things that need to be done in order to accomplish this, and the experience suggests that it's the other way around. I love the sentence that says in real life it's really very hard to move the permanent growth rate of any country, and then even then, after you manage to do it, it's not always clear how you got the job done.

My starting point at least for this was to go and look at countries that had sustained very high growth, and we took an arbitrary cut-off of 7%, and sustained it for at least 25 years. There are 12 cases of this in the post war period, in fact, in the history of the world. You couldn't grow at these rates before World War II. We didn't have a global economy that made it possible. The key features of these 12 cases, and there's lots of idiosyncratic differences among them, but they do share common characteristics, and I think they're instructive. These features are not policies. They are characteristics of the growth path.

One is that they were all open economy strategies. That is, they were not import substitution strategies. There was nothing isolationist about it. They leveraged or took advantage of or engaged the global economy in a way that enabled them to take advantage of global demand, which is gigantic and elastic with respect to the size of most countries, and very importantly, knowledge in the global economy.

This is sometimes called technology transfer, but this is the fundamental sort of soft side that allows the catch-up in the very high-speed growth. Essentially, the productive potential of a developing economy when it takes advantage of global knowledge rises much faster than it can in the advanced economy.

They all use market incentives, even though there were varying and perfectly developed market economies at the start, in many cases.

They are characterised by very high levels, I think 25%, 30% or above of savings and investment. Investment includes prominently public-sector investment. That means infrastructure, education, and so on.

They are characterised by a process of very rapid diversification of the economy, much of it toward the export sector in the early stages, but not just that. This creates - as I mentioned before - a very large amount of incremental productive employment. That tends to make the process inclusive, at least to some degree. I'll qualify that in a minute.

So the whole process viewed at the microeconomic level is one of structural transformation. This is very challenging and chaotic, and individuals need a good deal of attention and protection in the course of this process because jobs are created, jobs disappear, companies come and go, even whole industries if you take a long enough time horizon, come and go. Labour-intensive industries, which tend to characterise the

starting point in most of these cases, tend to disappear as the incomes go up and the relative price of labour rises. They are characterised by resource mobility in the labour market and elsewhere, capital. If there are impediments to this kind of mobility, it will slow the process down.

They are characterised by very rapid urbanisation. To take an example, China in 1978 was 82% rural. It is now somewhere between 50% and 55%. In another two decades or two and a half, it will be down to the 15% level. This is just an enormous transformation. In the case of a country that size, we are talking about 50 million people arriving in cities every year. The way I sometimes describe this, they have to create Los Angeles, approximately every year.

Political leadership is tremendously important in this. If we want to do one thing, it is to expand the notion of economic growth and strategies to support it well beyond the purely economic. There is a process of vision, communication, consensus building, communicating of values, and being convincing that this long journey is actually worth the sacrifices that have to be made at the start, in terms of high savings and the deferral of consumption and so on. In every case we've looked at, leadership of this type has been a crucial ingredient, not only at the start, but in keeping the process going. It includes paying attention to all the people in the country, and not leaving people out.

We are going to try and describe that in some detail so that it's understood as a key part of the process. It is a very long process. It's not to be thought of as now we do this, and then something good will happen. It's a continuous process of determined, persistent removal of bottlenecks, meeting of challenges, and so on. It takes pragmatism; it takes a willingness to experiment because the models that we have that describe this process are imperfect at best. So one is in some sense discovering how to get along on this journey as one actually undertakes it. The final thing I'll say is that organisation is a terribly important part of this.

To give you a sense of the time horizons, this is a very simple graph that simply tells you how long it takes to get from poor, think under \$1,000 per capita, to advanced or middle-income levels. It doesn't matter particularly what the definitions are, and you can see that even at relatively high growth rates, we are talking about five or six decades to complete this journey. The first part from low to middle income, because you start low and double at high rates every sort of seven to ten years if you are performing well, it takes longer than the middle- to high-income transitions.

The role of government – we think that this is a terribly important subject. There was in the 1990s, and I don't mean to stylise this, but a tendency to circumscribe the role of government, and it's captured in this phrase “stabilise, liberalise and privatise.” There is a lot of merit in the thinking that went behind that. There were many examples of governments that were overly intrusive, overly regulated the economy, over-sized and crowded out the private sector, and that part of the reform process we can see in many countries as a process of undoing that.

But that said, we think it's more complicated than that, and the answer in some sense to bad government is not less government, meaning writing them out of the script, but better government. We don't think you can substitute better government for no

government or less government. The other thing about government is that its role evolves over time. If you think about these cases of high growth, and many people in this room know them well, the private sector is by no means fully developed, and so the government in some sense fills in for it.

The Chinese case is particularly striking. In 1978 they had a command and control economy that basically wasn't a market economy at all, and people are quite eloquent in describing how government withdraws as the private sector's capacity and institutional development develops to perform various functions that it couldn't perform at the start. There is definitely a process of knocking down bottlenecks, but the other important thing that is sometimes forgotten about government, in the discussion about reforms and policies and so on, is that the government is an investor in important things like human capital, education, and infrastructure. They need to have very long time horizons, and if you like, low discount rates in order to make those investments intelligently.

I think I've covered the last items on this list in previous comments. "Model uncertainty" means we don't really know very precisely how this works, but it is an important role of government, and the leaders in particular, to pick the right strategy in the fundamental sense. You can do an awful lot of things right, but if you've got the wrong model, it probably won't work. It would be nice if we could stand here and say that somebody, we or others, knows the necessary and sufficient conditions for growth, but we don't. We have a pretty good suspicion about some of the necessary conditions, and we have the hope, and I think a reasonable hope, that focussing on key policy areas and investments will increase the likelihood of accelerating and sustaining high growth, but we by no means are in a position to suggest that there is a well-known formula or even a context, meaning country-specific formula, that can be applied. So this is a matter of trial and error with a kind of intelligent orientation to it.

The key policy priorities and challenges that we've been talking with each other are these. I'm not going to go into any great depth, but I want to give you a flavour of what we think are centrally important issues to think about. Whether or not one or other of them gets to the top of the list will be heavily dependent on what country you are talking about. It may be that there is a problem in both the quantity and quality of education in a particular case, and that will be a bottleneck or roadblock. In other cases, China being an example, and one of the few things that was done well prior to 1978 was elementary education and literacy. The numbers are astonishingly high by developing country standards. So, we think that equality of opportunity and equity are key ingredients of a successful growth strategy. That is not something to be managed on the side, but something to be built in.

The strategy has to have the intention of being inclusive and be designed to pull it off. Equity refers to the outcomes, *ex post*, equality of opportunity refers to the *ex ante* access to education, access to entrepreneurial opportunities, access to employment and so on. Equality of opportunity is terribly important. In the expert testimony that we received from people who study this, inequality of opportunity, particularly with respect to religion, ethnic groups, gender and so on, is a highly toxic environment with respect to sustaining growth. There is also a pronounced tendency for inequality of income to occur because of the dynamics of the growth process, and that needs to

be managed through the provision of services, through direct income distribution, through social insurance and policies and so on.

Public-sector investment, as I mentioned before, is terribly important. You might say, then why do you keep saying that if everybody knows it? The answer is because of two things. One, the data is astonishingly bad on this. People don't actually measure it, and therefore they don't tend to do it. The second thing is that in many, many countries, the public-sector investment levels are way below what is necessary to accelerate and sustain high growth. So, we are going to stay on it just because it's probably a very important complimentary activity that increases the return to the private-sector investment, both domestic and global, and the job creation process.

We think environment also should be built into growth. This is not based on academic work. It is based on bitter experience of countries that have ignored this. Environment here means natural resources, air quality, water quality, and so on. The reason the environment should be paid attention to is one, in terms of equity, when it is ignored it tends to land on the poorer parts of the population. Secondly, when you get around to fixing it, it's incredibly expensive to fix. You have housing and buildings that have been built with the wrong specifications with respect to energy consumption and so on. So, except in the extremely short run, it makes all kinds of sense to take this into account. This does not mean adopting advanced European type environmental standards from the get go. That may not be feasible, but it does mean building them into the strategy.

Health is here not because health is primarily in most people's minds an instrument for growth. It isn't. It's actually one of the things people directly care about. But there are certain aspects of health we found in listening to experts that are particularly relevant to growth. The one I want to mention today is early childhood education and nutrition. A deficit in this area with respect to some or all of the population produces a noticeable negative effect on cognitive and non-cognitive skills acquisitions at the level of education, and has a very long time horizon, this negative effect. Therefore, we think as part of growth and development strategy, it deserves attention. There are many other aspects of health that are also deserving of attention, but they are less directly related to the growth agenda.

Similarly, education I think is widely understood to be important at multiple levels, and I don't want to go into any detail. What we found in listening to people is that there is an irony here that the folks who do health envy the people who do education because they say they have a simple "vulgar" measure – we use the term "vulgar" in quotes – which is years of schooling, and we don't have one of those in health. We have a workshop the next day and the education people come in and say well, it's true we've got a simple "vulgar" measure, which is "years of schooling," but actually we shouldn't be measuring that; we should be measuring the outputs. The bottom line is there is a huge quality problem with respect to measured cognitive and non-cognitive skills acquisition in many places, advanced and developing countries, and it deserves attention with respect to growth.

We think competition is an important ingredient in the structural change process. It is often said by people who are trained in sort of conventional economics that you need to be big in order to have scale economies and be efficient. We think that the

dynamics of competition, the entry and exit process, the displacement of the less efficient by the more efficient, those dynamic efficiencies simply overwhelm the static ones. So we draw attention both to the ingredients of structural change and the importance of policies that do not interfere too much with the competition process. This is a serious issue because there is a natural instinct to protect people by protecting jobs or companies, because the world seems more stable. This is done not only in developing countries but in advanced countries, and it is a mistake. There are better ways to protect people, and that is the legitimate objective, other than interfering with the competitive process. A high-speed growth process, interfering with this will actually slow things down dramatically.

Many of the countries that we have looked at have had industrial policies. This is an extremely controversial area. You may or may not want to sort of chat about it. The reason it's controversial is these policies tend to target export sectors, or even specific sectors or sub sectors. The argument for it is that there are market failures that you need to overcome to jump-start the process of engaging in the global economy and producing that kind of growth. The arguments against it are two. One may very well be true, but government doesn't have the expertise to do it, and they will just waste resources, and the second argument is that, even if government had the expertise, the chances of that process being captured by special interests are too high, and so again, you will get wastage and so on. So this argument is going on, it's a fairly intelligent argument, and it is an important subject because of the dynamics of comparative advantage. But I think our role will be to expose both the benefits of the risks, and the decision makers will have to decide.

There is a similar argument about exchange rates. Most countries in the early stages of growth find a way to prevent their exchange rate from pricing themselves out of the export markets. These policies also have significant risks associated with them. If you pursue them too long, you will essentially stall the structural change process, lock the economy into a situation in which it has too much labour-intensive manufacturing, too much exports, and not enough domestic consumption and demand. You can see this clearly in China now. China is probably going to run a trade surplus of over 10% of GDP this year, which could be fairly explosive once it happens.

There are similar issues on managing the open capital account. One of the things that, while we say you need an open economy model, in fact, opening up suddenly in most cases is not the right answer. So there is fairly general agreement on that post the crises of the late 1990s and so on. There has been a lot of sensible discussion of this, but I need to say that if anyone is asked okay, so we don't do it suddenly, give us some guidelines for the right pace and sequencing of opening up both on the current account trade in goods and services and the capital account, nobody really has a very good answer to that at the moment. Enabling structural things, labour markets and labour mobility is very important.

Urbanisation is a complex sort of partnership between public and private sectors. It is usually quite chaotic, but it needs to be managed and undertaken because it is part of the structural transformation process. Technology and knowledge transfer as I mentioned before are key to this. We know this. What we don't know as much as we should is what are the key policy variables and levers that can be used to accelerate

the right kind of knowledge transfer and absorption? It's an area in which I think considerably more serious policy-oriented research should be done.

There is much talk of agriculture. Agriculture deserves attention, in part because in many countries in the early stages most of the people live there, and so investing in that sector to increase its productivity to create opportunities, makes all kinds of good sense. It also makes sense with respect to urbanisation. You don't want urbanisation to occur too quickly, and so you invest in agriculture so there are opportunities there and then people move for the right reasons, pull, if you like, rather than push. I think where one needs to draw the line, however, is at the point where you say we are an agricultural country, and so we must invest in agriculture.

The productivity differentials in most developing countries between traditional sectors, including agriculture and the newer sectors, range from about three times in favour of the newer ones, to six times. I mean, these are enormous differences, and it is the crossing of people across that boundary that drives the high growth. If you stop that, and you can produce very large productivity gains and growth in agriculture, and it won't come close to producing the effects of having the migration. So, that is not an argument for setting agriculture aside. There are very good equity and efficiency reasons to do it, but nevertheless, it has to be seen in the context of the dynamic process.

Finally, government needs to be good, not only at framing strategies and policies, but actually implementing them. That means attracting good people, retaining them, training them, and so on. Effective government seems to us to be a high priority item.

I'm not going to go into any depth, but we are going to pay attention to African countries because they have some special problems: size, land locked, need for regional integration, both in terms of governance and infrastructure in a number of other ways. We are going to pay attention to the resource-rich countries because they have a special challenge of sort of jump-starting the process that I just described. Commodity price increases may produce benefits, but they won't produce sustained growth unless they are transformed via a variety of investments into something that does look more like a sustainable job creation and growth process.

We are paying attention to small states. There are a lot of very small countries in the world and they have special problems. Some of them are similar, and in fact overlap with the African country problems, but they are not diversified. They have very high costs of governance, if you like, because of the scale economies associated with that. One of our commissioners, Sir Dwight Venner, is an expert at this and has guided us through all of that.

Finally, the middle-income transitions are less well understood than the early stages, but they are important, and quite different.

Finally, we are going to talk a little bit about global trends that we think are going to affect the viability and the characteristics of successful growth strategies in the future. I have listed them here. I won't go on at great length. We are happy to talk about them, and we are happy to add to the list if there is something important. You can see in general what this looks like.

Rising income inequality, both in developed and developing countries, plus related issues have produced anxiety, resistance, negative responses to globalisation, and there are policies all over the world that need to be undertaken to deal with this if people are going to stay onboard, so to speak. The Pew survey that came out in October is particularly clear on this.

Global warming is clearly going to be important for everyone, including the developing countries. Poorer developing countries tend to be tropical, at least a subset of them, and they are going to be more adversely affected. In addition, the large rapidly growing developing countries have to be part of the solution to reducing carbon emissions, or we won't actually solve the global warming problem in terms of getting emissions down to the point where they match the down take.

There is a lot of concern in developing countries that have not started growth. The successful strategies were based on finding a way to make use of well-educated but under-employed labour won't work so well anymore because of the enormous competitive impact of China and India. There is no question that large countries have an advantage. This is a subject, we are talking about it, we can get into it. My view is that China has lowered the relative price of manufactured goods more or less permanently, at least for an extended period of time, and that will affect both the social and private return to strategies based on labour-intensive growth mechanisms, but that doesn't necessarily make them impossible.

Demographics are actually quite interesting. The world is getting older, at the same time the poor countries are getting younger. This is particularly obvious in Africa. The fertility rates are high, and longevity because of AIDS and malaria have actually declined. There are a number of aspects to this. The one I will highlight today is that in a number of poor countries there is a youth unemployment problem because the newcomers in the labour markets tend to be at the end of the queue, for understandable reasons. I believe that even very high growth rates in many of these cases are not going to be sufficient to absorb these people in the labour force. If young people come in the labour force and are not successfully employed or given opportunities by the time they are 25 or 30, they will find other activities to undertake and be, I think, quite disillusioned. This is a problem that probably does not have a solution, absent a certain kind of migration. That is movement of people from surplus labour environments to others. I think at that, I will just put this up.

Our next steps are to interact with you, to learn as much as we can to finish the report, and then do a good job of dissemination. I think I've used up enough of your time, and hopefully given you enough of a sense of where the Commission is going so that you can give us some guidance. Stephanie, back to you.

**Moderator:** Thank you Michael. Well, I think you have gathered that we have certainly got enough to discuss in the two hours that we have. There is going to be a very short coffee break, but we might even just bring the coffees back over here, depending on how the discussion is going. As I said at the start, the whole point of this is not to dictate what is discussed because the Commission wants to have feedback from everyone here and wants to hear how you can feed into the issues that Michael has raised.

I think just for the sake of some kind of intellectual clarity and being able to discuss things without just ranging across the whole piece the whole time, I wondered whether I could maybe highlight four or five of the big clusters of issues that certainly Michael thought we'd be interested to hear about, and would also be worth discussing. This is by no means an exclusive list, so if there are other things that people pressingly want to discuss, that's fine, and then maybe suggest that a couple of those we push to the later part of the morning, again, just so that we can have some kind of focus in the discussion.

The first big cluster of issues I think, which was mentioned very early on by Michael, is issues of equity and inclusion and equality of opportunity with growth—how can policy be addressed to that? The next issue is the question of sustainability, and that's in the sense of sustaining growth beyond the first growth spurt. As Michael said, there are these examples of sustained growth, these 12 examples, but we know from experience that it's very hard for countries to sustain the kind of rapid growth rates that you need, again as he showed, in order to, within a generation, make substantial progress. So there will be that issue, and obviously as part of that, the role of the state, and Michael highlighted some of the issues which I think are still very live within the Commission to do with the role of government, industrial policy issues, sequencing issues when it comes to the capital and current accounts. So I think we could probably have a good debate on that, and we could maybe focus on those three inter-related issues for the first part of our discussion.

And then, I think, obviously very high on the list also would be issues of the environment, local environment and national environment. As Michael mentioned, the issue of not being able to just say we are going to grow and then worry about the environment later in a local sense, but also of course the global issue of the environment and the role of developing countries in any deal to achieve global action on climate change.

Finally, and probably then encompassing a lot of our previous discussion, where Africa fits into this, and more generally, what the Commission says or should say to countries that really are struggling with growth.

So, inclusion, sustainability/sustaining growth, the role of the state, the environment—both locally and globally, and Africa, feel free to highlight other issues. But I wonder whether we could at least initially leave those two sides of the environment issue and the question of Africa just to a bit later in the discussion so that we can get a little bit of focus on the role of the government and these inclusion and sustainability issues in the first half of the morning. But that said, this really is very much up to you, and he or she dares first will get the discussion going. If you just say what your affiliation is and where you are coming from when you make your contribution.

**Participant:** I'll kick off first, Seth Thomas from Citigroup. Someone has got to go first, so I'll jump in there. It may sound strange coming from a banker, but just to focus on the issues of equity and inclusion. Something that's been a very successful programme at Citigroup is microfinance. We run it as a business. It's a profitable business for us. It's not a pat on the head or corporate relation sort of issue. One of the

great things about microfinance, and I'm sure you've heard this from many specialist contributors to your report already, is how it empowers women. What Citigroup does in terms of microfinance and developing it is less to distribute loans locally, the \$100, \$150 loans to people in villages, rather than to ensure that the local banks and microfinance institutions get access to the very cheapest funding possible, and they can pass those gains on to the borrowers. But it is incredible that the number of institutions such as BRAC [Bangladesh] that we are involved with, the majority of borrowers are women. By starting up development businesses, not only do they feed their own families, but they provide employment in the villages, and you get this whole sort of spin-off effect. The other important point is with microfinance, which, given some of the sub prime issues we have seen in the major markets, developed markets, so far is it is an almost risk-free business. You give a \$100 loan to someone, and there is pressure on them and there's peer pressure in these small communities to repay all of that loan. I think when we are looking at growth and equity and inclusion, we can't just look at top-down policies. We have to look at the bottom-up role of individuals and entrepreneurs in these communities.

**Participant:** Duncan Green from Oxfam. Some things are really welcome out of the presentation. The idea of growth as a means rather than an end is excellent. The focus on history and not on modelling as the kind of way to actually start the discussion is great, and starting with the Lessons of the 1990s is brilliant. It would be good if you could also start with the Voices of the Poor exercise, which is one of the most interesting things to come out of the Bank. I did get a sense that a multidimensional approach to poverty would help in terms of discussing what the end is. If growth isn't the end, what is? And you need to be clear what aspect of human welfare you are trying to target, I think.

On the equity issue, there are a couple of gaps, I'm sure [they are] in one of your 50 papers, but just to point them out. The whole debate on intellectual property and whether the sort of increasing constraints on knowledge flows are a serious problem, and in which sectors and whether actually we should be talking about an access to knowledge convention rather than tripped [?] would be a useful addition.

The structure was very much in terms of what the nation, state, and other national institutions have to do, which is great because there is too much emphasis on global governance, but I thought it went too far, if anything. So, what are the aspects of global governance which are missing on issues like taxation or migration? And what are the aspects which are probably doing too much? We would argue the WTO is probably too intrusive in some of these issues. So, trying to sort of get the balance right between national and global would be good.

The emphasis on growth is excellent, but one of the readings from Voices of the Poor and other things is that it's volatility of growth and the whole question of shocks and how fast countries can recover from shocks, which has been underrated. So going back to that WDR 2000 on opportunity/empowerment security and actually reframing security back as the real security, not the one we have tended to talk to for the last few years.

Finally, the whole question of the non-monetary economy, there is a big gap if you are just talking about monetary economy and growth in the monetary economy. And

obviously growth policies have a big impact on carers, unpaid work of every kind, and so is that going to be in there? And how on earth are you going to do this in eight pages? You had eight pages on your PowerPoint, let alone... anyway.

**Participant:** Patrick Wall from Action Aid. Following on from some of Duncan's comments, again, I thought it was a very comprehensive and stimulating presentation, but a few questions. First of all, you did talk about the importance of the employment-effective growth. But it would be interesting to what extent you would be looking at the decoupling of growth from employment, which has been a very marked trend in the last 20, 25 years? If we look at what growth was doing in terms of its impact on generating jobs in the '60s and '70s compared with what its been doing in the '90s and this decade, there has clearly been a weakening of that effect in many parts of the world.

Secondly, on inequality you talked about tackling inequality as an effect of growth. I'd be interested to what extent you are intending to look at inequality in terms of its prior impact on growth and how the benefits of growth are distributed? If you look at the experiences of Taiwan and South Korea, there is a lot of evidence that broad-based growth was very closely tied to the initial redistribution of land and universal access to education, which took place in the '50s prior to the rapid growth phase, and that being extremely important.

And then on labour on mobility, to what extent are you looking at how particular types of inequality impact on labour mobility? Obviously the question of gender inequality, but also, for example, the status of several hundred million people in South Asia who are low-classed, what does that mean for their ability to have freedom of choice over employment? Obviously, labour mobility debates are very closely tied to debates about migration, and is there any evidence that richer countries are willing to absorb significantly larger numbers of migrants as part of an overall poverty-reducing growth strategy?

**Mike Spence:** These are all excellent points and we'll take them into account. We, in discussing migration, were told and recognise that you could produce a very large increase in the global GDP and in incomes by moving people across national boundaries from poor to rich, except for migration for work, which is a growing phenomenon and does solve some of the labour supply-demand problems. We are not able to gain any confidence that larger-scale and more permanent migration is likely to occur, and so this is more a matter of realism than anything else because the effect would be so dramatic if it actually occurred. But we can't so far find evidence that there is a consensus that is sufficiently strong to enable this to happen.

**Moderator:** There are many issues that I think we will probably come back to members of the Commission on, but just to take the people who got my attention first. We'll go to Stephanie.

**Participant:** Thank you very much. Stephanie Griffith Jones from IBS. I wanted to continue on the line that Duncan said. I think it's great that you are focussing on what countries can do and that you are focussing on the long term. But I think particularly small countries, but perhaps even larger ones, do face these large international shocks. I was just wondering, as I listened to you. Traditionally, developing countries have

asked the North to give them help and say they want more aid, more access to markets, and so on, more FDI. I was wondering whether now, in the middle of the subprime crisis, they shouldn't be saying, "Don't harm us." Like when you go to the doctor, "Can you cure me? But please don't do the operation wrong." We have, I think, a bit of a problem now because we have this problem of financial instability, and in the same way as you talked about the environment, I think Stephanie made that point, the environment locally and globally.

I think when we talk about liberalising the capital account, we have to talk perhaps not just in the traditional way, we don't want short-term flows and we want long term, but there is all this new kind of virtual economy, where we have all these derivatives and hedge funds. And you can't control capital, even if you have a closed capital account, even less if you open it. But the issues are out there because the guys are in the offshore centres and so on.

I know again there's the same kind of political thing with migration, but perhaps a bit less now because the problems are also here in the North, and so there may be a little bit more consensus to do things that may be necessary. So, because you have such a prestigious Commission, it might be nice to do something on that.

Finally, I have a question which is not really in my field, but a lot of people talk about you should protect people not by protecting jobs, but by protecting them directly. But the question I think is: how you do it, which is where there is less consensus.

**Participant:** I represent a group of UK-based international NGOs that have come together mainly at the moment interested in older people and children and social protection measures. So, it was very interesting and encouraging to see that you are – I think – saying very clearly that a successful growth strategy has to integrate various forms of protection strategies as well, and it was really encouraging when you said that you felt there had to be an emphasis on early child development and nutrition.

But clearly in the poorest countries I think this would have to entail some form of social transfer. I think there is growing consensus on what social transfers can do, both for the elderly and for households and for families, children very importantly. But I think there is less consensus on how on earth you introduce these mechanisms in the very, very poor countries? So, I wonder how you are going to incorporate that belief in the efficiency and the need for those measures into countries, where clearly their priorities are going to be infrastructure and telecommunications and so on?

I don't think any of us would doubt the need for forms of social transfers, and I think it is proved that they contribute to equity cohesion stability, which all in its turn would lead to the environment that would invite investment. I think they have small impacts on local markets, but I'm just interested in how far you would go, without having to make the big jump that they link to growth in the longer term, when we are talking about sustainability?

**Moderator:** There are a couple more people that I wanted to take, but I wonder whether now would be a moment before we go on to them to just throw some of these things back to you Mike. I mean, one of the things obviously that's come up, and indeed the other Commission members might have contributions, is this issue of

security response to shocks, and how do you help people rather than jobs, the issues that Patrick raised about inequality? There's a very interesting issue about the financial sector, but are there any particular contributions that Commission members want to make on those issues?

**Danny Leipziger, Vice-Chair, Growth Commission:** I would like to take a stab at a few of the comments made, which I think were very useful and very helpful. On the microfinance side, I think we are very conscious, outside of the Growth Commission but also in it, of the gender issue, and the fact that there are a lot of income-generating activities that are going wanting because of lack of programmes.

On the volatility point, I think how one deals with risk and how one mitigates risk is a big issue. It may end up being in our top ten of activities that we think we need to comment on. I think there are new measures that can deal with some of the volatility in terms of macroshocks, but I think at the household level, there are other measures that one could look at. So I think the point that one doesn't only look at the growth of income, but its volatility is very important, particularly with respect to some of the mentions of the voice of the poor and others, that once volatility drops you below the poverty line it's very hard to get back out of it.

On the job front, both the elasticity I guess you are implying of employment, with respect to growth, as well as the protecting people not jobs. We had a very interesting discussion yesterday on this about the extent to which one wants to encourage some labour market flexibility, particularly for first-time employees. As Mike said, if you don't get into the formal labour force by the time you are 25, it's probably unlikely you are going to do that. So we are struggling with exactly how we will deal with that issue.

Lastly, on your question Angela on the protection strategies, I think there are examples of very low income countries that actually have invested pretty well in some of the transfer schemes, although they wouldn't be classified as transfers in the conditional cash transfers and things of that sort. But if you look at Vietnam, you're going to be for reforms. A country with a per capita income of a hundred, they were investing quite heavily in primary education and basic health. So, I think in terms of what one does for relatively poor countries, I think it's a question – as Mike said – of governments that are efficiently using their resources, and also have strategies that are inclusive at the ground level. We have papers that refer to this, but I think we will make some direct mention so that it's not a question of waiting till you get to lower middle-income status that you should deal with these types of things because it takes 15 years to see the return, but you have to start investing early on. So, we are quite interested in infrastructure, and we will discuss that when we get to Africa and other countries. But I don't think it's to the exclusion of basic investments that are necessary.

**Ngozi Okonjo-Iweala, Commissioner:** Just on the volatility issue, which I think is a really important one confronting any of these countries, and just to give an example that the reason why it's so crucial to look at this for growth—when we looked at the pattern of growth and pattern of expenditures and revenues from my country, we found a widely volatile pattern. I wish I had the graph here. It was very revealing to me. Probably Nigeria had the most volatile economy, and we knew at once. This

pervaded all the way down and affected households. We knew we had to deal with this issue if we wanted to make any progress, because during the resource booms, oil booms, there would be so much spending. And expenditures would crash when the booms were done. There would be hardly any money to pay salaries, to provide government services, which were already weak anyway.

This would affect poor households even worse, and so we tried to stabilise this at the macro level by applying the fiscal rule, which enabled us to save a budget at a certain price of oil and then save the difference between that and the world price. This really helped tremendously. In 2003, we had 7 billion in reserves. By 2006, we had 38 billion. Now we are at 50 billion. We know that when the prices come down, which they will inevitably, we will have a cushion that will enable us to provide a certain level of services, and this will be a cushion that will also pervade down to the poorer households. So, I think in this growth strategy we just need to look at these kinds of mechanisms that can tackle. I mean, I'm not saying it's a panacea, but it does contribute to this kind of volatility problem.

**Moderator:** Pedro, did you want to respond directly to that?

**Pedro Pablo Kuczynski, Commissioner:** Very, very briefly, microfinance is just getting started really. Sure, it has existed in Bangladesh for a long time and in other places, but basically it is still not that significant. The banks that are ploughing into it are doing a wonderful thing, but they are getting the cream at the top. If it expands too fast, there's the danger that you will get a subprime crisis in microfinance. I don't think we're there yet, but it has to be backed up with an enormous amount of technical assistance.

The IFC calculates that for every dollar you lend in microfinance you've got to spend another dollar in technical assistance, and that isn't going to be so profitable for a commercial bank. We see it in Peru. There is a huge boom in microfinance, with millions going a little too fast. I think the question of aid to children, and nobody talks about older people, which is a big problem as the populations age. For children in Latin America, there are some programmes that are being started like Solidarios, JUNTOS, etc., that are conditional on the mother putting the kid in a nursery, vaccinations, etc. It's just scratching the surface again, but budgets should set aside more money for that. I mean, it is sort of a non sequitur to say that we have a big budget surplus, we have huge reserves and we can't spend half of 1% on these programmes or whatever. So, I think that's a subject worth emphasising.

Now, in the poorest African countries, maybe there are no such surpluses, but in some there are. We have just heard about that just a second ago. As far as the capital flows, to date, the developing world financial capital flows, the subprime has very little effect on that. It is very different from '98 when bank lines of credit were important. Today bank lines of credit are not important. So, it's a problem for the banks, it's a problem indirectly for the developing world because the US is going into a recession. But I think for our report, we are really focussing more on the overall long-term issues rather than the circumstances of the moment because this thing will pass. There will be a cost along the way, but for the developing world it's not the central issue.

**Moderator:** I would just say that there are concerns, because a lot of the money that is coming out of the American markets has been pouring into the emerging markets. I think the equity markets and the emerging markets have gone up 30%. You are quite right with the long-term perspective.

**Pedro Pablo Kuczynski:** Well, they are inflated, and it's putting pressure on exchange rates and that is a problem for central banks. I was just talking to Roberto [Zagha] about Brazil, but I think the issue is very, very simple, and that is, the central bank has to take a very clear position that it will buy the last dollar of surplus money that comes in. And the fiscal authorities should put a tax on it, which they return if the money stays. But if it's short-term capital, it should be taxed for a while until the thing stabilises, because otherwise you get yourself into a situation where you are not just doing a huge reversal of export policies, you end up destroying your industry and agriculture. That is happening in Chile today. It hasn't happened in Peru yet. It's happening in Columbia, in Brazil. It's a huge problem, but I think the authorities have been very weak in responding to this. But again, we're not going to really talk about this in our report, I don't think.

**Moderator:** As Mike raised, those are technical policies that people have to get into in order to protect themselves from these things. I'm going to go to Dwight [Venner] in a second. Seth, you were talking about the Citibank's experience, and I know you have obviously been very big involved in Mexico and other countries doing not just microfinance. Is the microfinance self-sustaining? Is it making money?

**Seth Thomas:** For our particular role, yes, it is. I think it is of importance on a variety of stores. To say that it's a small business or everyone is piling into it, I think is fundamentally wrong. I think this could be a real engine of entrepreneurship and unlocking people's potential and talent in these countries.

But can I just make one lateral point about the current financial crisis? Something that we've seen over the last couple of years is the economics of the world are changing, and they are changing in part driven by the current commodities boom. Where we were seeing lots of investment from the West or the North to South, we are now seeing national champions in some developing countries, or countries still called developing, such as India or China, investing heavily in Western companies and countries. We have also seen the rise of the sovereign wealth funds with huge reserves driven by oil and steel revenues. We are seeing now that a lot of the Southern wealth funds, they don't just invest in the North, but they also invest in other developing countries, and I think that's an important point for the Commission to address.

**Sir Dwight Venner, Commissioner:** I just want to thank the NGOs for their very pointed questions. I think they have caught the sense of Mike's presentation with respect to how we view growth as really an inclusive issue because what is the point of growth unless it's distributed, it's sustained, and of course institutions like your own get to where it really matters. Let me just start with the microfinance.

The CGD, which is Nancy Birdsall's think tank, we've just had a meeting on access, and there are some concerns raised about whether, in fact, microfinance has been overdone, particularly by SEGA [Scientific Evaluation for Global Action]. They think that it's become a sort of boom fact, and there is a lot of stuff going into it, but we're

not sure if that's going to be wasted, which means that in the next round there is going to be a crash.

And so, therefore, you have to manage the microfinance situation very carefully to ensure that the good that it can do isn't overdone by people just filing into the issue. Different methods have been mentioned as to how you are going to treat that. For example, banks like yours, do you wholesale it and make sure that there are regulations and structures and people who actually retail it out there. But there is no doubt that lots of people are being brought into the formal economy by investable bid funds like that, which does make a difference. The thing is that we don't want to overdo it so that whatever little access has been gained is lost.

With respect to employment and growth, I'm very interested in the question. One of the graphs that Mike showed would indicate that, depending on the growth rate, you will see how many years it takes for countries to reach a certain point. I would argue that if you can do that in a short period of time, clearly you have to absorb labour. And there are structural issues there, in terms of whether people in the interim can be prepared for the workforce. But there is no doubt that there will have to be an absorption for labour.

Now, the key issue is where will it come from if you can't get it within the country? What are the prospects for labour moving across boundaries? Certainly in the first major sphere of globalisation prior to World War II there were no structures in the movement of people. In fact, there weren't even passports in some cases. Now, can we realistically move back to a situation where, if the world is to grow, we can come up with the right socio-political arrangements so that can be done? So I rather suspect people like yourselves who have influence in places where we don't have, we can try to see if that can get done.

The whole question of the new international situation, I mean clearly what I would say is that the world is on the verge of what I think is terrific change in terms of structure and transformation. What you see are four pools of funds which are important now. You have those sovereign wealth funds, you have central banks in the East, you have lots of reserves, you have private equity, and then, of course, the other culprit would be the hedge funds, and that is a new phenomenon. But I rather suspect that below that there are tremendous transformations going on in the world economy itself with shifts in poles of power, and how we manage that is going to be very important. I say manage because right now it would appear that certainly in the international financial system, we are on autopilot. I don't think that's a good place to be, and I don't know what we are going to do about it. So the balance between the global and the national I think is something that we have to take into consideration. As a central banker, I don't like the idea of being out of control.

**Paul Romer, Working Group, Growth Commission:** In yesterday's sessions and today's, I've noticed, I think, a small difference in how people use and understand the term growth, and so I want to try and clarify how I think how many people have used it and how I think the Growth Commission is thinking about it. One way to think about growth would be to – since he's on my right – so take the questions Mahmoud Mohieldin [Minister of Investment and Commissioner] faces in Egypt. If you had some additional hundred million dollars in resources you could spend, how would you

allocate them between say investments in early childhood education or nutrition, or the elderly or infrastructure? There is a lot of debate and contestation in the marketplace of ideas about exactly what is the right thing to do next in discussions about pro-poor growth or other types of growth, or partly about how to make those hard kinds of trade-offs. The Commission is not trying to engage in that level of detail and is not focussing on that time horizon. I think the notion of growth that was implicit in the discussions I have participated in and heard is something like this – there's a belief that it's absolutely possible for people living in Egypt to have a quality of life that's like the quality of life that people in the UK have. So, the issue is not what we do in the next five years, but how do we get from the quality of life that people have in Egypt now to the quality of life in the UK. In that broader perspective, certain things like okay, the fraction of people who work in agriculture is going to shift, you're going to have to urbanise. Those kinds of issues come to the fore. So, without in any way dismissing the importance of those decisions that people have to make about what to do in the next five years to ultimately get where we want to go, the Commission's focus is on this larger, longer-term trajectory.

**Moderator:** Thanks, Paul. I think you wanted to respond Mike?

**Mike Spence:** I want to introduce Mahmoud Mohieldin, who is a fellow Commissioner and the Minister of Investment in Egypt, and I guess, disinvestments.

**Moderator:** I have four or five people who wanted to speak.

**Participant:** Thank you very much. Dr. Velda from the Overseas Development Institute. I think this is a very important report. I'm just thinking it had to come a few months to say what is it that you are going to sort of recommend, or what options are going to be available. The first I think is, what I heard is one possible option could be to say well, each country should have a growth strategy, and I'd like to hear a bit more about that. My first job was at something called the Central Planning Bureau. It was set up by Jan Tinbergen [Netherlands] and it was in the '30s. He had heated exchange with kings about whether he can actually plan the economy or not. He believed he could, and he set up the Central Planning Bureau. I have some belief that it is useful for countries and various countries to have a growth strategy or a vision because it might help to overcome market failures, coordination failures. In the process it brings actors together, but I would like to hear a bit more on that.

Then, of course, you come into the detail, what does the growth strategy look like? And then there are again broad options. Are you going for alleviating particular types of growth constraints? So, rather than having a long list of options, you go for this is important in this country? Or are you actually thinking more a big push? You say well actually, lots of factors are coming together in countries, and a couple of years ago there was a heavy emphasis on the big push. Also, 46 years ago, but it came back. I would like to hear a bit more about that as well, what your stance on that would be.

Finally on sectors, I think it is an interesting debate because sectors might fit into this growth strategy. You mentioned sectors, you mentioned agriculture, you mentioned industry, but you didn't mention services. I just can't understand that, because the one thing that we do know is that there is over the last 30 years, there has been this destructive transformation in each single country as it were. There might be one or

two exceptions, but where the surcharges have increased and some countries may want to promote it faster than others, particularly in smaller countries, I suppose that one way out would be services rather than industry because they may depend on scale economies. But services are equally important.

**Moderator:** Thank you, and Gregor, you have been very patient.

**Participant:** Thank you, I'm Gregor McKinnon from the Commonwealth Business Council, working with private sector, and particularly promoting trade and investment in the developing countries. I think my question keys off well, certainly welcome the diagnostic and the analysis that you have set out, and I agree with many of those analytical points.

When it comes to the next step on the key policy priorities and challenges, I am intrigued; you are focussing quite heavily on the role of the state and what you think state and government policy should be in a variety of these areas. Certainly, we agree that is very important. Perhaps I am missing something in the steps along that way. I suppose the first question would be: Are you taking for granted a thriving, viable private sector in all of the countries that we are looking at? And related to that then, what should be the key role of the private sector and how can the role of the private sector in fostering growth, contributing to economic development, job creation, all these areas you have been flagging, how can that be supported and incentivised? And then allied to that, what should be the roles of the state, of the private sector, of civil society?

A number of the key areas you have identified, for example in health and education, there is a debate in many countries. Obviously, NGOs play a key role in delivering services in so many of the developing countries. How should that be supported, encouraged, guided and incentivised? And similarly, as business in many countries is looking at how to ensure a skilled workforce, which is both healthy, well-educated and has the skills that it needs to carry out the tasks, so really perhaps taking a step back to looking at definition of rules and responsibilities, where that boundary should lie? And how that can be encouraged, particularly in terms of support for private-sector involvement in growth in the broader sense?

**Moderator:** Francesco.

**Participant:** So, I'm afraid I might sound somewhat impolite, or not so concerned is not. So you want to give advice to developing country leaders, so poor country leaders, and it sounded to me for representation as if the leader you picture in your mind when sitting down to come up with this advice, was a leader who wants to do good for the country, wants to grow the economy, and wants to make life better in their country, and so on and so forth. And I'm sure that's a realistic picture for some countries, but the desire, and it's a very optimistic vision of leaders motives in poor countries, and I'm sure it's accurate for some countries.

But I think there are other views of leaders motives in very poor countries, and towards the other extreme, the opposite extreme to the one that you seem to have chosen, there is a view that many leaders are almost exclusively self-interested, and

concerned almost solely with preserving power and diverting as many of the resources of the their country to themselves as they can.

Now, the truth is probably in most places somewhere in between these two extreme cases, the very optimistic and the very pessimistic, but I was wondering whether you have thought about this issue at all, this issue of the motives of the people you are talking to, and let me suggest one particular set of issues. So in economic research, in theoretical research mostly, on issues of development, I think one way where there has been some progress lately has been to say, okay, let's set aside this extremely optimistic view that leaders want to just maximise welfare in the society, let's accept that leaders may have other goals, personal enrichment goals, or patronage goals, and let's try to look at policies that are in this, perhaps small but maybe not empty subset, that will be both consistent with a leaders interest, and consistent with the broader welfare of society. There may be a first best growth policy, but you're not going to get that from a [unclear] leader, there may be second best policies that may convince even [unclear] interested leaders to follow.

**Moderator:** Thanks Francesco. Michael Mowlam. And just to remind people just to say your affiliation.

**Participant:** My name is Michael Mowlam, I am a director of a company called Tedcor, which is the Enterprise Development Corporation. We deliver five of the millennium development goals in Africa, through a model of solid waste collection in the very poorest areas of urban concentrations Africa. I like the presentation from Michael Spence very much, I thought it had a lot of very good things, but like Gregor [McKinnon], I missed the reference and the focus on the private sector, and the private sector's ability to generate growth, jobs, on a sustainable basis, basically because they're making money out of it.

And I've visited lots of countries around the world, which are very poor, and everywhere you go, even in the very poorest areas, somehow or other, you find people are having little tiny enterprises. It might be selling some minor service, you know, a box of matches or soft drinks on street corners in Mexico or somewhere like that. There's a whole range of things, but wherever you go in poor areas, you find someone somewhere has come up with some enterprise, if you like, so a lot of people who think that business has to be taught, or it's very sophisticated, I think it's almost an instinctive element of the human condition, that you trade, you provide some sort of benefit for another person, and you get some benefit in return.

And I think the power, particularly of the small business sector, it's very easy to address the big business, because you know who they are and you know who to talk to, and they've got time to talk to you, if you look at small businesses, they don't have time to come to conferences like this, or to meet people, because they're flat out doing their business, and just keeping their heads above water. And I like some of the recommendations, which were in that initial presentation, particularly about governments and how much they interfere, if you like, or assist in the processes of business in general. But small businesses are very disproportionately disadvantaged by any sort of red tape whatsoever, so the general conclusion that you had up there, saying that you don't want less government, you want better government, I agree with the better bit, but I also think there ought to be a lot less government, and there's too

much of it I think, including in developed countries as well as developing, and you can absolutely totally suffocate small businesses with even the minimum amount.

And I think, therefore, the issues of the grey economy, you know, people who are not registered, who are doing business on the street corners and have little tiny informal shops, or even no shops at all, they're just offering services by the roadside – I think those people should be recognised for what they contribute to the economy, and it's impossible to measure, I've asked groups of economists, I'm not one myself, you know, so what do these people contribute to the GDP, and nobody knows. But it's certainly not nothing, and the role they have in terms of the issues about young people, I thought were a very important point, you know, when young people have no jobs and no prospects, what are they going to do? They're generally going to turn to crime. Or a lot of them will, a significant proportion of them will. If they could be involved in an informal economy, then they're going to be doing something helpful for the community. I'd like to see more of that in the report.

**Moderator:** Thanks, Michael. Jonathan Samuel.

**Participant:** John Samuel from Anglo American, which is a mining firm and despite our name, we're primarily in developing countries. I think we'd welcome the focus on capacity development at the national level, because that's a key issue for us, where we have strong local governments we can engage with, both at the national level, regional, local, it generally makes things like dispute resolution or planning much easier, so I think that's welcome.

The focus on resources is an obvious one. I don't know if you're aware, but the mining industry leadership organisation, the International Council on Mining and Metals, has been doing about a three-year research programme in consultation with NGOs, academics, and host governments, and multi-laterals on the issues around mineral wealth and the challenges and possible solutions to that, so if you haven't seen that stuff, we'd be happy to provide that.

And I suppose the final one is you've been talking about very user-friendly guidance with government, which I think is essential. But picking up on some of the private-sector points, business doesn't really get development, and it doesn't really know how to operate in a developmentally informed manner, so I think some guidance for the private sector would be very useful, and obviously big companies like Anglo or Shell, we can afford to develop our own guidance, but even then, we'd admit that it's by no means the finished article. But certainly, when you're getting down to national companies, and certainly down to medium-sized and small businesses, even things about how to procure in a developmentally informed way is quite a challenge, and there is a lot of thinking out there, but unfortunately it tends to sit in 100 page books that are published in English and cost \$50 to buy from Amazon or the World Bank website.

So getting very user-friendly guidance out to businesses about how it should do its housekeeping, how it should do its procurement, I think could be important, particularly for the equity consideration, because when you get big transnational operations in particular, you have displays of huge wealth. You know, a mine manager in DRC will get the same wage as a mine manager probably in South Africa

or North America, by and large, so you've got that discrepancy between people operating in the international labour market, and then the local people around them, so guidance on how that can be addressed practically, I think would be useful to help sell the role of the private sector, and also to ensure better outcomes in terms of equality and equity.

**Moderator:** Mark?

**Participant:** Mark Goider [?], Tomorrow's Company. My name is not on the list; we're a business-led think tank based in the UK. We recently published a piece of work which was entitled Tomorrow's Global Company, which deals in many of the issues from the viewpoint of leaders of major global companies, who are signatories of that report. I really want to touch on two issues. One is sustainability, and one is the role of the private sector.

On the issue of sustainability, I was at a conference of a major Indian-origin global company, where the chief executive started the conference by saying, he quoted Charles Dickens in saying, "This is the best of times, and the worst of times," and I was asked to present in that conference on sustainability. And I said, "I think perhaps a better adaptation of Dickens would be to say that we're living in an era which is both the coolest of times and the hottest of times." And it seems to me that there is a real danger in the excellent overview that we were given by Michael Spence, that I think there's an underestimation of how the economics of growth is going to be affected by carbon constraints. And if we just listen to the science that is being aired around Bali at the moment, I really worry about the, even Chairman, in your own structuring of the discussion about the relegation of the issue of carbon constraints to almost being one section of the total discussion, as opposed to being an underlying question about how far this is actually going to change all the calculations throughout the prospects for growth that you're talking about – particularly when we heard Michael Spence say, at the very long time scales, over which you're really seeking to look. I mean, if we're going to be, somebody will correct me if I get my figures wrong, but I mean, if the developed world is going to be asked to halve its carbon emissions by 2050, and those countries which are emerging into being developed countries are going to be asked to do something that is proportionate to that, it just seems to me that that needs to play a very much more central part in the total calculation.

Which brings me to the role of the private sector in all of this, and I think we've seen a very interesting thread of discussions around the table, from Anglo American whose chairman Mark Moody-Stuart was one of the leading participants in our own work, and from Michael Mowlam, and from Gregor McKinnon. And it seems to me that again, this very important piece of work that the Commission is doing, does need to have in it a very clear description of the potential role of business, whether small or global.

And just to give a couple of examples of the potential. One of the participants in our study was Suez. Now, Suez has been driven for many years by the belief that the private sector has a huge contribution to make to the health and well-being of the poorest around the world, through the provision of high-quality infrastructure. But Suez was forced to withdraw from a massive investment that it had made in

Argentina, basically because there was a change of government, there was a change of the rules, and it could find no compromise with the new government in terms of its sunk investment and adequate compensation for that. So, there is this whole question of the interdependence between that part of the private sector, which wants to be the provider of solutions, and the kind of civic conditions which would make it possible.

We recently had the chief executive of Nestle speaking, and giving our annual lecture in Tomorrow's Company. He gave what I thought was a striking example from health. He had just been at a conference of health professionals, doctors and scientists and nutritionists, and he told us that there is now no reason why people who are undergoing radiotherapy should have all their hair lost. He said that science is there, that the technical answers are there, but the vision that he was offering was one in which we will only deliver those solutions in a big way if in fact, we have a real private sector – public sector partnership, which is harnessing the profit motive, the market side of this, and the social needs side of this, in a combined way. And I'd like to see some treatment of these issues in the report.

The final example I'd like to share, is the example that comes out of the work of Stewart Hart, which I'm sure you're familiar with, who's written a book called *Capitalism at the Crossroads*, and he gives, I think, a fascinating example of the way in which the different players, private sector, voluntary sector, government, investment, are all needed to play their part if we're to have the right kind of development. The one that sticks in my mind is an example from Kenya. The pyrethrum industry, which had been supplying SC Johnson for one of its household products, the Japanese came in with a synthetic product that was 30% cheaper. The normal economics would have said, end of pyrethrum growers, end of SC Johnson as customer. SC Johnson sat down with the pyrethrum growers, and with the NGO that had helped capacity build them, and through a combination of the Quality Board of Kenya, the government, the NGO which was doing the capacity building, and SC Johnson the private-sector buyer of this product, what resulted was actually a growth and a continuance of the pyrethrum growers' contribution to the supply chain of a global company. And it seems to me, that that is an illustration of the kind of collaborative thinking, the shared vision that we need, if we're actually to tackle these issues.

**Moderator:** Thank you very much. I'm conscious that I want to give people a couple of minutes just to go and get their coffee in a minute, but we have quite a list of people. Anna Guthrie.

**Participant:** Hi, I'm from Business Action for Africa, which is a network of about 160 companies that operate in Africa, they're international and African businesses. I think quite a lot has already been said of what I wanted to say, but just to re-emphasise the points on the role of the private sector, and particularly in terms of differentiating the private sector, but yet also not treating them separately, looking at the linkages between large companies and small companies, and how that can really add to growth, particularly when it's build capacity down the supply chain. And just in terms of the role of the state, just issues around the enabling environment, and in particular regional trade, and how regulatory reform can ease that, and I think that's a major driver in terms of regional economic growth.

**Participant:** Thank you. Karen Ellis, from the Overseas Development Institute. Just to start with a quick plug; we're doing a meeting series on growth issues early in the new year, and that will hopefully give us an opportunity to discuss some of these issues in even more depth, as it will look at different issues each time. Hopefully the Growth Commission will be able to participate in some of those sessions as well. I just want to make three quick points on this issue of the role of the state.

First of all, on industrial policy, it sounded like your report is going to come out in quite equivocal terms on industrial policy, maybe I got that wrong, but you said you were going to discuss both the benefits and the risks of that. Obviously a lot has been made of the risks of that, and they are clearly very real, but I wondered if you were also going to look at instances where industrial policy might have been seen to have been successful, and try and explore that a bit, because you also talked about the lack of capacity of the private sector, and perhaps there's a role for government here to at least give the private sector some assurance that it's going to support any private sector initiatives in an area – I don't necessarily mean through protection, but through other measures and improving the enabling environments, so I wonder if there's a role for some kind of industrial policy.

Secondly, on the political economy of growth, you talked about the importance of structural transformation in any rapid growth success, and that obviously creates a lot of job losses, and that can lead to many vested interests opposing any kind of reform, and so I wondered how countries can overcome that kind of resistance. You talked about the importance of leadership from within government to sell the idea that we need to undertake these reforms in order to achieve growth, but is that really all that's needed, and is that what's happened in China? Or is something tougher needed, to actually force through the reforms when there's quite a lot of opposition to them – at least from powerful groups.

And just thirdly, on fiscal issues, I was interested in what Dr. Ngozi [Okonjo-Iweala] was saying about this issue of having reserves. I used to work at the treasury here in the UK, and one of the tasks I had to do was to look at the optimal level of caution in the fiscal reserves, and obviously what you're doing there, is weighing up the trade off between caution to prevent any kind of financial crisis, versus the opportunity cost in terms of investing in state, a public investment, which is obviously very important, as you highlighted, so how do you make that trade off in a developing country where both the risks are higher and the benefits are potentially higher, of investment? So, are you going to be saying anything more about those kinds of trade offs within the report? Thank you.

**Moderator:** Simon Bishop

**Participant:** Simon Bishop from Shell Foundation, a charity established by Shell in 2000. I'd just like to say that I am speaking on behalf of the foundation, not Shell. We didn't have to long argue that growth, entrepreneurship, entrepreneurs, should be promoted at heart of the poverty equation, so we very much welcome your existence. I want to follow on from Professor Spence's remarks, about your audience, that you [unclear] your mandate that says policy makers in the developing world, I hope I'm not maybe too controversial, I include in that and I would think you either are, or if you're not, you should be, the likes of the UK Department for International

Development, the likes of Oxfam, Duncan Green sitting next to me, the likes of [unclear]. They are big players in policy in Africa. I think if I [unclear] to growth, we could literally look at it as the hub of the wheel, right in the middle, with the spokes being education and infrastructure, health and [unclear], and I think that's how it should be, I mean, growth is [unclear] a means to an end, but it is very, a very important, if not the most important [unclear].

However, when it comes to that audience, those policy makers, I think there's a [unclear] term of rhetoric reality gap. So, most, for example, British UK ministers would say growth is absolutely essential, but if you look at what they're actually doing, you look at their last white paper, growth was chapter five, growth in the private sector was chapter five. It started with growth [unclear] saying growth was the most important thing for reducing poverty, but it appears in chapter five. I should say I'm very encouraged with recent [unclear] that have been coming out with the new [unclear] it seems [unclear], but it's a good example of how somehow growth should be the most important thing, and yet, on the ground it doesn't happen. And I would also say this for a lot of the [unclear] you see here at, based in the UK who also do fantastic things, but it's, you have half a century or so in this country, of a rights driven agenda, rather than a growth driven agenda, so is education an absolute right, or should it be an absolute right? Absolutely. Health, [unclear] absolutely. That's not a debate, that's not up for debate, but most of the NGO [unclear] in this country start from a premise that they want to deliver better schools, or deliver schools and health, they don't start from this growth point, this central growth point. Now why is? Well, when you put up Robert Solow's quotes, then perhaps you can understand why, if you said well, growth is key, it might not be the answer, I didn't say [unclear] that had to do it, you can understand why people don't make [unclear] education and health. But that shouldn't be an excuse just because it's hard, that you [unclear] your entire approach to international [unclear] and you might say, you've got to, your job is to come up with better growth, better ideas for delivering sustainable growth, and that's your job, end of story. I would suggest if you do that, you're going to produce a report that gathers dust like all the others on the shelf. So crucial to what you have to do, is you have to influence your audience, and that's going to be very, very difficult. That audience, though they're being both political leaders and also its wider policy networking [unclear], and I think that's something that is absolutely crucial to your thinking on [unclear].

**Moderator:** I'm sure Mike's going to want to respond to that, but we're going to have Danny [Qua] briefly, and just a couple of minutes to get the coffee, and then we can get some responses from the Commission.

**Participant:** Thank you, Danny Qua, London School of Economics. There's so many interesting ideas running around in this pre-report that it's difficult to know where to begin, but I wonder if I could just pick on one particular issue, and that of technology and knowledge transfer.

At some underlying level, all economists have now bought into the idea that in the long run, this is where the action's going to be. And I would welcome greater detail and structure in the discussion here. There's so many interesting things happening in the world in technology, I mean, totally unnoticed by all of us, now poor countries now have more cell phones than the rich countries, and that was unplanned, it just

happened, you know, are there elements of modern technology that we need to be more focused on, than you when you speak to policy makers, you want to emphasize is it, are there certain aspects of the internet, information technologies, is it education, and there are paradoxes here as well.

Many of the poorer countries that perform very well in terms of internet broadband penetration, cell phone usage, and so on, when economists go back and do productivity calculations off of those, we often find that productivity is not high in those countries, and I wonder if the Commission will come back and say, this is our view on technology, this is the way forwards in the long run. Thank you.

**Moderator:** Now, some of you have already done this, but I'm just literally, it's not really a coffee break exactly, but I'm going to call a pause to discussions for about three or four minutes for anyone who hasn't already gone to get a coffee and a biscuit, or taken a comfort break to do so, but we really will come straight back. Thanks.

## [Part 2]

**Moderator:** Could everyone start moving back?

[Overtalking].

**Moderator:** Well, we'll let the others work their way back but there's plenty there in that second round, and I know perhaps Michael [Spence] kick off in responding, and then I know Ngozi [Okonjo-Iweala] and others had things they wanted to say.

**Mike Spence:** Well, firstly I want to say it's fascinating, and I won't try to cover the waterfront, because we'll get too long-winded, so let me just say a couple of things. One, I believe, as an economist, as an investor, as a board member and as a major business process outsourcing firm that there's a complex mosaic of things that have to do with knowledge, the very rapid diffusion of knowledge, completely new, rapidly growing trade and services opportunities, both domestic and international, and we will not ignore those. I don't think anybody can produce a completely accurate map of them, but they probably deserved both be up on the global trends slide, and they will not get set aside.

Second, I was saying to Duncan, maybe the things that are most obvious to us are the ones we don't say. But just, because I guess it is worth saying, we believe that the proximate driver of growth is private-sector entrepreneurship investment, and job creation, and most of the rest of it has to do with creating, in a variety of ways, and environment in which that processing accelerates, and when we say that, we think both domestic and international, meaning foreign investment activities. I take the point that we might want to pay more attention and learn more about or focus on the question of how do you productively engage, from the private-sector side, in this rather complex process? First by understanding it, and then understanding perhaps better where at least well-intentioned governments are coming from, in structuring and negotiating deals.

For example, there are rules and conditions associated with foreign direct investment that can be structured well or badly, and we're intensely aware of that, but I think the

point that we may be in the process of under-focusing, under-projecting on this dimension may be right. I think what Francesco said is absolutely right. He didn't know this, but we've asked two of the leading people in political economy, Daron Acemoglu and Jim Robinson, to write a paper, which is one of those state-of-the-art papers, on the political economy and dynamics of growth and development, and it's a wonderful, new body of research.

There are two ways, from a normative point of view, you can go about this. One is to say, that's the way the world is, in many places, and you find the levers that are available, and navigate with them, and indeed, for the many members of the commission who are leaders in democratic environments, that's what they do every day. There are simply constraints, and you don't get to stand up and do it. The other is, I think, a little softer, but I do believe that there is some set of forces that occasionally arise that cause change in the configuration of political forces, and I'll mention three.

One, we do live in a world in which knowledge is acquired very fast, and so maybe 40 years ago people would not know that it could be different, but it's almost impossible not to know that now, with modern Internet, the communications technology, and so that changes the attitudes of people.

Second, related to that, demonstration effects really do matter. I don't think anybody doubts that while India has been making progress pretty much steadily for the last 20, 25 years, that growth of China had a galvanising effect on the whole constellation of forces in the sense of what the art of the possible was.

And the third thing we've discovered in our research is that there are...this isn't a great way to do things, but crises cause a disintegration of current constellations of political forces. Sometimes they just produce bad results, but occasionally they produce an opportunity for change that isn't there normally because of the things Francesco mentioned, and I think, thinking about it in all of those ways is probably the right way to do it, and not to presume that we're only interested in the benevolent kind of leadership group. But this is a centrally important issue. I think Ngozi [Okonjo-Iweala] wanted to say some things about the leadership question [unclear]?

**Ngozi Okonjo-Iweala:** Yes. Well, maybe just to add to the very good points you've made, but to say that yesterday we also discussed the very issue you raised, the fact that in many countries that benevolent leader may not be there, and in the case of many cases on my continent, you also find that leaders may come in, and remember, there has been less time to practice democracy in many of these countries. I think people forget, and even though we are now in a globalised world, things that you've not practiced for a very long time don't come so easily. And many of these people who do come to power are not necessarily thinking about how to do the greatest good for their population, but simply how to use power differently.

So I think the key to that is then the leadership. And when we talk about leadership, it's not necessarily just the top, but even the next layer, or even at the local level, is to be able to spell out, very clearly, this report could make a contribution for these people looking at it. What are the characteristics of this kind of good leadership? What should a leader who wants to make a sustained effort at growth, and the issue of

sustained is very important, what do they look like? What types of characteristics are important? And then, like you said, being clear that there is a subset of policies that concern both your personal as well as the country's interests. I mean, maintaining a stable macro environment. A leader that is interested in just grabbing power and so on, can do just as well, or better, in that environment, as the rest of the country, and, in the work we did in Nigeria, this was the real, live thing we had to grapple with; there were vested interests in leadership, who couldn't see that reforms, well, could also enable them to benefit, and you had to convince and try to show that in a competitive environment, they could also make it, whilst allowing the rest of the people to make it. Not very easy, and some of them were not convinced. So you are not going to convince every leader of that nature, but some will be convinced, and they'll come along, and I think this report can make a net contribution.

Whilst I have the floor, let me also say a word about the issue of the results and the trade-offs. It's a very good point, and there's no science to it that I know. You have the IMF with the norms it recommends; what is the right level to keep, to insure yourself? But to me, I don't think there's any right answer, so it sometimes boils down to a psychological threshold for the country that they feel, this is enough to buffer us. In our own case, if we stopped that 50 bi-, I'm not going to pretend to give you a formula, if we had 50 billion, and stopped at that, we could ensure that we could handle volatility and crises at least for two years, comfortably, without falling too low in terms of the delivery of services, and those two years will give enough time to adjust, with that level. So I think that's about the right time to say, okay, we stop now, and we move into investments. But it's a debatable issue. The governors in my country don't agree. They want...they think that it's a rainy day now; we don't need all this. Let's spend it all. So.

**Mahmoud Mohieldin:** Right. Thank you so much. My name is Mahmoud Mohieldin. I'd like to just comment first on the issue of the trade offs. I think, when you check the cases of Nigeria, Algeria and Egypt, and all of these cases had been able, during the last few years, to accumulate international reserves; in the case of Egypt, for instance, we are now reaching more than 11 months of coverage of imports, which is higher than the international norm. In the case of Algeria, they paid back all of their external debt, and they increased their international reserves from 15 billion four years ago, to more than 135 billion yesterday, and it is growing.

I think nobody had even thought of the issue of trade-off at all, because the issue goes as follows. First, from the commodity prices increases have surpluses in the balance of payments. You have no capacity to invest as such. You sterilise, you accumulate, and then you say that this is great success by every measure. You claim that you have flexible exchange rate that by very definition they do not trade all of these kinds of international reserves to support, if you are serious about the flexibility of the exchange rate. Normally developing countries do claim more flexibility on their regime than they apply. But even if you have some sort of flexible managed flow system, you do not really need to have 12 months of coverage of imports, and then those international reserves will be deposited at low risk, low return funds, to be invested, again, through some private equity funds, monies fungible.

Coming back again to developing countries, in commodities, in possibly, some industries, like cement, fertilisers, air, steel, metallurgical industry, accumulating

more reserves, and then you cannot really see any kind of an impact. Growth is going to be higher, international reserves are going to be higher; statistics are going to be appraised by the World Bank and the IMF because they are nice indicators of success and comfort positions. But at the same time, I was mentioning yesterday, the FT survey in Egypt, great wealth, but people are not happy that the disparities are clouding the economic progress.

The issue of, as I was mentioning yesterday, it's not growth and development it's growth, disparities growth and discrepancy. What to do in the mid-term, in order to solve that, the issue of having entrepreneurs ready, yes, I agree with whatever you mentioned, Michael, about business not really that complicated, just get people to be allowed, but it helps if you have a class of entrepreneurs, even if they were silent for 40, 50 years, like in the case of Syria, but you open up there, and they get directly the signals, and they grow, because they existed at some stage of time. In the case of Algeria, they didn't exist at all, so they don't even have the tradition of getting into trade, or into business, so it's going to be taking them, all right, they are not organised, they need some help, and then they are suspicious of possibility of exploiting the wells. How can you going to be picking them? They are not really represented well in the society, you cannot pick them very easily, and it's going to be taking a long time.

And then it comes into the issue of the sovereign fund, which was or sovereign funds, is becoming now a fashion. Even countries of our size, we are thinking of having these sovereign funds, as smart a way, possibly, than just accumulating the international reserves, but then you have very complicated models around, and then you have these kind of warnings coming from the EU, so are we going to be doing something that's going to be constrained from the very beginning? And then you will be seeing models like the ADIA Fund, for instance, in Abu Dhabi, that has accumulating, and accumulating without having, so far, any kind of mechanism of distribution. They are reaching the top of the ceiling, but they don't know how to spend it, so they do re-invest and re-invest. There are some other, as you know, better cases in other countries; in Asia, and the Alaska Fund could be a better one, the Scandinavian examples could be better ones, but we are thinking of that. And the idea there is the future generation rights, because all of these funds have been accumulated by exploiting some resources that are not going to be renewable, so put something aside for them. It's politically appealing, and it could be helpful. But are we going to be efficient in order to invest these funds properly or not?

The third point that I'd like to make is about the issue of finance, and access to finance. We need to distinguish between three things. Microfinance is still very poor; many people are talking about it. Many funds are talking about it. Many beneficiaries are doing some good reports about the importance of microfinance and, surprise, surprise, the poor are paying better than the corporates and you are getting all of these \$50, \$100 being paid back by no less than 98%, 2% or less of default cases. Of course, because the money is not really worth it to have any kind of risk of not paying, especially that the mechanisms are being used, including that one in Bangladesh, that is using some sort of tough ways, even more difficult than the fiscal collateral, they are using social collateral. You cannot really live in your neighbourhood if you are not going to be paying. You are losing your social collateral. They are using the shame approach, if you are not doing that. But what is

the end of that? Well, they have been helping in poverty alleviation, but they are not that good in improving the standard of living. Possibly by the law of large numbers, when you have tens of thousands of people who are beneficiaries of these kinds of schemes, you can get the odd cases of skilful, lucky entrepreneurs, climbing up to possibly being a small and medium enterprise.

Then comes into the second stage of microfinance, which is very difficult. There is no issue of accessing finance for micro purposes in Egypt, and in the developing world surrounding us, but when it comes to the small and medium enterprises, here all of the problems are coming, and I wouldn't really accuse the foreign banks and the private banks of cream skimming. It's basically they are victims of the structure that they are coming into. I checked your operations in Egypt. Citibank is doing well. In the case of Mexico, you are doing better, because of a different structure that is allowing you more flexibility. In Turkey, I bet you are doing even better than Mexico and Egypt, in terms of funding the small and medium enterprises. So it is not just the initiative of the provider of the credit; the infrastructure, if you have a rating agency around, if you have a credit bureau to check the availability, if you have enterprises qualified to do that and you have a permitting regulatory structure. Large enterprises in Egypt and in my region do not really have any problem of accessing funds. If you don't get it from Citi in Egypt, they can get it from Citi in London. And you find that today, as in the examples of many corporations investing abroad, and they have possibly more than 50% of their profits accumulated from overseas operations.

The other point, very quickly, is the issue of convergence. I read, three or four years ago that you wrote about one of the Eastern European countries, was it Poland? Yeah. Poland is going to be beating the cases of some of the early comers into the EU. And you put an emphasis not on the quality of governance or leadership, or bad politics or good politics. I think it was about the mechanics of total factor productivity. Well, if we focus on this because it's easier and less controversial than the quality of leadership, are we seeing now, of course you've just have been attending that Europe-Africa meetings in Lisbon, have been talking about the partnership agreement and its impact on the Mediterranean countries, for instance, and all of these bilateral arrangements with more advanced economies. We are not seeing any convergence as such, and even the EU report on the partnership agreements under the Barcelona arrangements, after more than a decade, are saying, well, there is no convergence, but there is no deterioration. So as if those ten years of Barcelona activity had been keeping the status quo as it was. So what are the elements of convergence? Should we be relying on these arrangements or agreements? Or there is something more than whatever is being identified in these partnerships to get us there.

One final point is basically about the whole report; the growth and I'll pick the issue of what was mentioned by Simon on means to the ends. I remember that Professor Laird [?] was assessing the quality of Mrs Thatcher's government, Simon, and I think it was advisor of the Labour Party. And he put something that I cannot really forget about the assessment of public policies. He put four indicators, growth, unemployment, inflation and equity. These are the four indicators that you have to assess the quality of every government. We use it frequently. Then it seems that the performance has been as follows.

Growth has been doing very well during the last five years, to the extent that people are bored with talking about growth, and they do not appreciate us when we go to the public to say, well, we were three, now seven, expecting 8%. So they say, well, so what? Now, with the challenges of the sub prime, and the growth problems world wide, I think people could appreciate again the challenges towards achieving growth.

Inflation, because of different reasons, we have been doing very well, but, again, there are these issues of increases in food prices that are going to be making it difficult to maintain in the future.

The unemployment, well, not bad, but with countries with high population growth like 2%, with more access to the market because of female participation, which is a good thing, we cannot really achieve all targets, but it's coming down. Not as significantly as we wish, but the quality of employment and the quality of returns to the employment, is very, very poor, so it's not just the unemployment, but what employment brings to the household.

The final thing, the equity side, I think this is basically the very complicated area, because of the inefficiency of the fiscal distribution measures that we cannot really make good use of all of these resources. Issues of access to resources in general, issues related to fairness and competition in the markets, so this is the issue. So it is not really very difficult then to estimate that almost 20 years after then, Professor Laird was talking about happiness, because you cannot really get it all. I think he's attributing that to other things, not just equity, but there are other things.

Thank you.

**Moderator:** Paul [Romer], did you want to make a brief...?

**Paul Romer:** Just three quick reactions. One, Mark's [Tomorrow's Company] comments about carbon. I think this is a good illustration of how you can use this notion of what we mean by growth, which is what people in Egypt live like people in the UK do. People in the UK may have to change the relative prices of carbon and make some adjustments, but...and so if people in Egypt are going to live like people the UK, they'll make those same kinds of adjustments. But the fact that we're going to make adjustments in the rich countries of the world, I think in no way diminishes either the possibility or the importance of committing to helping people in countries like Egypt live like people in the UK, and reiterating that this can take decades. This doesn't have to take centuries if we do it right. And global warming does not prevent that, or should not get in the way.

A couple of people emphasised the importance of the role for the business sector, and I think everybody on the commission understands that and there's no debate about that, but perhaps it should bear repeating a little bit more.

On Danny [Qual]'s point about technology being really fundamental in this process, I think this is implicit in much of what the commission has been thinking about, but it's not always brought out as explicitly as it could be. I'll give you one illustration of where it shows up. The Commission, looking at success stories, points to the heavy reliance of exports as a strategy for growth in many of these countries. And we have,

to some extent, neglected the service sector, but many of these countries have focused on exports first. I think this partly reflects an assessment by political leaders that one of the least disruptive...politically disruptive ways, to bring in new technologies is to do it in places where you're going to be doing it for export. So, for example, in Turkey, they allowed in Ikea, which was a good way to bring in new technology, which could dramatically change your service sector, but it of course produced a very significant backlash amongst the bunch of people, who were threatened by changes in the retail sector. In contrast, when China brings in, or say, Vietnam brings in Nike, to hire workers to produce shoes for export, you don't run into the same kind of political hurdles.

So as a first step export...industries that will export may be very good ways to bring in new technology, and Stephanie also asked at the break, well, what about import substitution? Some countries had used import substitution as a way to bring technology in, but we know that the mechanisms used to induce the import substitution will put up barriers, will protect you, meant that you got one off introductions of technologies, which then got stuck. And so in India they were producing Hillmans for 30 to 40 years. So we've very aware of the importance of technology, and ultimately the importance of the service sector, but then in jumpstarting this process that can get things going in a several [unclear] framework. Export led developments, or even an export based strategy, export encouragement, may be the right way to bring in technology, and it may be, Karen [Ellis], in your question about technology policy, one of the more robust ways for governments to try and intervene without picking winners or demanding confidences that they don't have.

**Moderator:** Mark, do you want to come back on that specific claim about the growth?

**Participant, Mark:** Thank you. I think there is something more fundamental, if I may suggest it, than simply saying, this is about choice. If Egypt, for example, wishes to have the standard of living that the UK enjoys, surely the implications of carbon constraints are that the very rules of the economic game fundamentally change, and therefore that the available choices change, so that, for example, you might say, well, what this means in terms of transport is that everybody in Egypt of a certain standard of living would have to have their own personal mobility, and their own personal mobility would take the form of a car.

Now, it would be, I would have thought, irrational, to try and plan on the assumption that those rules haven't changed, and that actually, we need to redefine personal mobility. And what the really smart governments are doing, like the Chinese, they're saying, we have to have a radically different model of personal mobility, given the new rules of the game. Now, surely that has implications for how the commission thinks about growth in the future, which goes beyond saying, well, we generate the wealth, and then it's up to different nations how they spend it?

**Moderator:** Does anyone have anything they want to add on this point of the environment and the...? Duncan [Green]?

**Participant, Duncan Green:** I think you need to be explicit whether you think there's a technological solution, which will get carbon down fast enough to allow you to continue to grow at current rates, or if you think that technology is unlikely to deliver fast enough, in which case, you have to start talking about lower growth. Then the issue becomes one of distribution; who takes the hit on lower growth? But you do have to go one way or the other, and a lot of people are fudging it and just crossing their fingers and hoping that somebody comes up with the technology that will do this. So I absolutely agree with you, Mark.

**Moderator:** [Overtalking] continue the discussion about environment? We will get back to some of these other things, but was there anything specific on that? Because I think it's a very big issue, and I certainly didn't to relegate it. We can't talk about everything simultaneously.

**Participant:** Let me just very quickly, to add to the points that have been made, I mean, I think it would also be surprising if the commission didn't consider the implications of climate change for export-based growth models on the assumption that growth can and should be generated primarily through the movements of goods half way round the world; what that means for carbon emissions, I think has to be taken into consideration.

**Moderator:** You've probably seen it, but there has been quite interesting research that the Anglo-German foundation has sponsored, which involved showing what the essential resource use of the European and the OECD was implied in their imports, relative to other countries. Seeing those kinds of interconnections, Paul [Romer], do you...?

**Paul Romer:** There's a point that you're making, which is correct, which is that there is some fixed...there is some installed base. So the actual configuration, say, of urban landscapes, in Egypt might look somewhat different from the configuration in the UK, because they don't have an installed base. So, fair enough. But there's a real danger that the arguments like that will edge into a claim that, for example, people value enormous amounts of individual mobility. They like to be able to move around quite freely, at their own time and choosing and so forth.

It would be very easy to conclude mobility is expensive in terms of carbon, the way to solve this problem is that in the UK we will keep what we have, but we'll tell Egypt that people there can't have it. We got here first. It's too late; they can't have it. And I think it's very important in this discussion to say that that's just not going to be acceptable. It's politically unviable, people in India and China and in Egypt will never agree to it, and so you have to agree that in terms of the quality of life and the personal mobility, they'll have as much as others. They may implement it technically because they have a different installed base, but the notion that somehow they'll have a lower quality of life because that's what we need to solve the carbon problems is just a non-starter in terms of practice.

And on Duncan [Green]'s question, I think it's pretty clear that with available technologies you can do all the mitigation you want to do on carbon at low cost compared to the kinds of income gains that we're talking about through growth in coming centuries, and even in coming decades. You're talking about...if you look at

countries like China, South Korea, I mean, the tenfold increases in income over a few, a number of decades, within that kind of growth, or even in the UK, sevenfold increases of income over 100 years, within those kinds of increases in income, you've got lots of room to spend two, three, four times as much on energy as you spend right now, and still spend a smaller fraction of your budget on energy. And if you allow for two, three, four, five times the cost of energy, there are technology solutions you could pull off the shelf now, that don't contribute carbon.

**Moderator:** [Inaudible].

**Participant, Duncan Green:** Okay. Basically the current rate of improvement on carbon efficiency is about 1.8% a year, and the global growth is about 4% a year, so the global outputs are increasing faster, obviously. So the question is [overtalking].

**Paul Romer:** But you have to allow for the potential for, what if you increase the price of carbon by factor five?

**Participant, Duncan Green:** Sure. But at current trends you're not going to do it, so then the question is, how much tech transfer do you need to do, how fast? And then you get back to Francesco's point on, what are the political constraints on actually doing that kind of tech transfer in the next ten years?

**Paul Romer:** That's a political issue, not a technological one. I mean, we know how to produce zero carbon energy at prices...take ten times current prices; we can get you all the zero carbon energy you want at ten times current prices. And so it's not a question of technology, but it's of politics. We might politically not decide to do anything about global warming, and that might be bad, but I still hear...maybe in this room, and certainly outside, a kind of chain of logic that goes something like, sure there's a technological solution, but politically we're incapable of implementing it, so therefore let's make sure that people in Egypt don't move around, because it's a big pain.

**Participant, Duncan Green:** But that's a misrepresentation. That...

**Moderator:** Michael [Spence], do you want to make just a broader point about the...?

**Mike Spence:** Yeah. If I could. I mean, I think we crossed a threshold recently, where people accepted this was a major global challenge. We're now going into a much more difficult period, in which we have to decide on inner temporal targets, and define a system that's both relatively increasingly efficient, provides the right incentives, and fair, and I believe we are going to look at this from a developing economy point of view. If we don't deal with the fairness question effectively, then they aren't going to sign up, and we will not have a solution. The point I want to make here is you can't deal with the fairness question unless you separate the abatement location from who pays for it.

If you make the implicit assumption that the absorption of costs will occur in the place where the abatement occurs, then you can't solve the equity problem, and therefore nobody will sign up. Now, there are lots of ways to get there, and I'm afraid I believe they are going to stumble in Bali, because there are too many proposals

floating around that are proposed target emission reductions for developing countries. And as long as the unstated assumption that goes along with that is that we're not sure, or you will absorb the cost for that, they'll get off the boat.

A global carbon credit and carbon trading system does the cost absorption separation job, in the allocation of the initial credits. There are other ways to do it. But sitting around, telling developing countries what their long-run emissions, I'm going to give you an example to cement this case.

The UNDP report was recently released in India, and had a very serious negative reaction from a fellow Commissioner. It proposed a 20% reduction, on a 40-year time horizon, in emissions in India, and an 80% reduction, on average, in advanced countries. It sort of sounds fair, right? Okay, well, now I'm going to do the math for you. India's per capita income is about a fortieth of the United States', its carbon emissions are about a twentieth of the United States', and if you do the math, and the United States reduces by 80%; let's call it 90, because we're so out of line anyway, and India reduces by 20%, and then you go out and ask, what's the per capita emissions in India? At the end of this process, it's one-sixth of the United States'.

Now, how can anybody take that as a serious...? Surely, the going in assumption has to be that by the time you get to advanced country income levels, the per capita allocation will be approximately the same? And so, what I'm really trying to say is, this is a major stumbling block, right now, in the negotiations, and what we hope to contribute is not to try to redo all the work that other people have done, because it's a massive problem, but to come in and say the developing countries really do intersect this, on two grounds, one, there are some that are very vulnerable, and they need to be engaged and protected, and second, the rapidly-growing big ones have to be part of the solution, and we have to solve this equity problem.

Now, I'll say one final thing, and I know I'm being a little long-winded. There are lots of flaws in the current, quasi-fragmented, voluntary system, but the one feature that is characteristic of many pieces of this fragmented system, which is actually very beneficial, is that you are allowed to do your abatement in another country. And so actually, to the extent that any fair system of allocation of carbon credits would be non-binding for the developing countries, we're already doing it. What the developing countries have to sign up for is not absorption of the costs, but willingness to participate in the abatement processes that are generated by these CDM-like Kyoto Protocol conditions. But I have to tell you, based on what I've been reading, and the writing that's been done, I'm fairly pessimistic in the short run about the reaching of an agreement because of a lock up on this question of equity.

**Moderator:** Stephanie [Griffith Jones], did you...? Because we are running out of time, if everyone could be brief, that would be great.

**Participant, Stephanie Griffith Jones:** Just on this, I was just wondering how much you will touch on the issue of assuming that there is the technology available, as Paul [Romer] said, and Michael, what are you going to do on financial mechanisms, both domestic and international, on aiding this process? Obviously the incentives for prices are very important, but also issues of how you can channel, perhaps part of the sovereign wealth funds, institutional investors' assets, in the best possible way

towards low carbon technology, both developing countries and developed? I think maybe a big challenge is to facilitate this process, and if that process starts moving, maybe the conflicts will diminish as well?

**Moderator:** I was just about to call on [inaudible]. Are you running out? You have to go?

**Paul Romer:** [Inaudible] anyway. [Inaudible].

**Moderator:** All right. I suspect that the answer will be that that is beyond the scope of an already wired report, but I won't presume. Mark, did you want to come back again?

**Participant, Mark:** Thank you. I just wanted to [overtalking].

**Mike Spence:** Oh, Mark, just let me respond to that quickly? I think there's a very good chance we will suggest that whether it's an existing institution like the World Bank, that you need an institution that presides over whatever we agree to, and has two capabilities. One is to ensure that the monitoring systems that underpin any effort to deal with this are in place, because you need an accounting system if German companies are going to do abatement in China, you've got to be able to verify that it's actually being done. And second, if...by whatever means there has to be international transfers of payments associated with cost absorption, then an institution is going to have to be the master of it, and I think, because of our interest in the developing countries, we will probably, without trying to design it, say, the existence of such an institution is terribly important.

Sorry.

**Participant, Mark:** Thank you. May I just say, I very much appreciate the spirit in which this debate has been allowed to go on, and the spirit of challenge? In that spirit, what I would say is I believe there is a tendency to take the statement that the rules of the game will change, and to translate it into a statement that there is an issue of equity.

I'm not talking about the issue of equity, and by the way, an HSBC study this year suggested that the three countries in the world where the populations had the highest sense of urgency about climate change were China, India and Mexico, and the two countries with the lowest sense of urgency were the United States and the United Kingdom. So that's the background for these debates. But I think the issue here is not about equity, it is about what assumptions are we making if we're looking forward to a carbon-constrained world? Never mind about who's bearing the burden globally? Let's just imagine for a moment we're talking about a world in which national governments are wanting to tax on the basis of carbon constraints, and so on, all the other implications of climate change, what does that then do to our assumptions about growth?

**Mike Spence:** The answer to that is, nobody knows. I mean, people have suspicions, and if the effect's large, then you're absolutely right; we don't need to debate it. I mean, if the effect is large, it will slow global growth, and that will slow the

development-...I mean, any sensible development strategy will produce lower growth. It may not be quite that dramatic, because the developing countries grow by essentially taking the market share in certain industries, so it may not be the bad. But point taken. I think that's right, and I don't think we know the answer to that.

**Moderator:** If there wasn't anything specific on that, I would let...well, Seth [Thomas] has been waiting a long time. Do you still want to say anything about the...your previous point?

**Participant, Seth Thomas:** No, the point's been made on climate change.

**Moderator:** All right. And I know you wanted to mention on services?

**Participant, Seth Thomas:** If it's not disruptive of the flow of the meeting? So the implicit answer by Paul [Romer]; he's now gone, but the implicit answer on the question about services, he suggested that an export-goods-led strategy needs to be done first. That implies a particular sequence of how growth occurs, so you have an export-led strategy and that will import certain types of technologies, and that will foster growth in the services sector, and I'd like to question that a bit, that it's not all trade in goods that matters.

There is also trade and services that matters and it depends a bit on what definition of trade and services you use, but trade and services are already 25% of total trade, so it is going to be important. It will also be important for developing countries. And for some countries, it's more important, the focus on services, than it is on industry and agriculture, and it just depends on the country which type of strategy is going to be more important, I suppose.

And then of course, linking back to the discussion on energy use, certain types of trade and services are very...don't use a lot of carbon. If you export a product online, and if you're a landlocked country, and you export products online, that helps your growth, and it helps drive growth as well, for a country, so in that sense the services sector shouldn't be unemphasised. I'm not suggesting that it is the big thing, or the only thing, but I just hear that it's unemphasised.

**Moderator:** I guess I would add; I'm interested, I think probably this will be the last round, but I was wondering, when you talk about how China has changed the rules of the game for labour intensive manufacturing, I mean, does that...obviously at some level it's changed the game for labour intensive anything that could be traded, but is there a niche on tradable services side for African countries, which has been less affected by China? I mean, just to relate to that.

**Mike Spence:** Yeah, I mean, I just want to say, I don't think...I mean, I'll answer that in a sec. I don't think Paul [Romer] is in disagreement with you, and I certainly am not. And if you want, by way of agreement, a clear counter example to the, you have to do things in sequence, you take India. I mean, India is a precise reversal of the conventional sequence, the trade and services industry is growing at 30% a year, is an enormously important driver of growth, and they're probably going to add the labour intensive manufacturing. So you're just clearly right. It's big, important, and I suspect, and have said, in a number of places, both domestic trade in services and

international trade in services is as big opportunity for a lot of countries, including, and I'll turn it over to Ngozi, I suspect, a number of countries in Africa. In fact, I think it's already starting.

**Ngozi Okonjo-Iweala:** Yeah, I just wanted to say that I don't think the report would disagree with that at all. I think it's important, and in fact many African countries are trying to encourage that. Rwanda, landlocked, is looking at models of trade in services, and what can it do to join that as a way of escaping its natural constraints? Even in my country, Nigeria, we recognise that one of the wonderful services that hadn't hit us is in entertainment industry, and we found ourselves, and the government had absolutely nothing to do with it, exporting the most popular, albeit sometimes horrific videos all over the world, and I tell you, it only hit me when I went to a meeting in Uganda, and I was walking down the hotel corridor, and somebody ran after me, and said, are you from Nigeria? And I said, yes. Oh, I love your movies. And I rushed home and watched one, because I never had.

Then we began in our strategy. This was shortly before we crafted a three-year, medium term strategy to look at this, and saw that it's very good for employment of youth, young university graduates. And we began to try to promote it in a way not to interfere with it.

So I'm just using that as an illustration that there are many possibilities. I think it's a strong area, and if the impression was given that somehow this is not important, that's not the case at all.

**Mahmoud Mohieldin:** [Inaudible] one thing is these very ideas could be relevant to the landlocked regions within countries as well. It's not just the countries. In the cases of many countries in my region, including mine, you reach a governorate called Sohag, within seven hours or something like that, while you can be in London within four hours, so it's the idea of logistics, infrastructure. It would take five years at least to reach these areas with good road networks and all of that. The same is relevant for many countries in Africa as well. It's not even if the country with access to seas and ports and all of that. Some of the regions within it could be benefiting from the same argument.

**Moderator:** I won't go round all the commissioners for final comments, because we genuinely don't have time for that. And my only real duty as chairman is to make sure that it finishes on time, because that's the only thing that people really want you to do, but I will ask, I think, if there aren't any more pressing things from the commissioners, I will just ask Mike [Spence] to, not sum up the last two hours, but maybe have a couple of last comments, and also to obviously thank people for their contributions.

**Mike Spence:** Yeah. This has been enormously helpful in providing guidance to us about where you think opportunities are, where there may be missing pieces that we could usefully attend to. There are a number of things that were brought up that I have in my notes. I just want to reassure you. I think this question of risk and risk mitigation is centrally important. We didn't come back to it, except in the context of the reserves on the fiscal side, but that's terribly important.

I think, if I get the overall strategy here, or the thrust of the conversation right, the thing we need...I think the hardest job for us is to absorb the full range of things that really do affect growth, especially the sustainable part of it, and then try to sort through, and prioritise up to the point that you can get before you're at the country level. I mean, the main lesson of the 1990s is, there aren't any silver bullets or formulae that you can paste on, and so, at some level, the commission stops and a particular case with a real strategy starts, as many of us have said to each other. You don't have a generic strategy that applies to the General Electric, Citigroup, or subdivisions of them, and the same is true here. But I think we've got a great deal more of a sense from listening to you about the things that affect equity and inclusiveness; the local entrepreneurs, the access, those kinds of things.

So I take away, one, we need to pay attention to the risk. Two, we need to provide more detail and understanding, or at least provide a guide to getting it, in the world that you all live in, with respect to how do you actually deliver on the inclusiveness and equity front? And I think I take away that we need to be...not just to put up a slide that says, these are the global trends, but to really pay attention to the global context and it's shifting around. We've done a little bit of that. There's a section in the report as currently written that tries to identify the worst cases of adverse trade provisions, rules of origin type stuff, just to focus attention on how badly small countries can be sideswiped by this kind of thing, but we need to do more of that. And clearly Danny and the folks at the World Bank helped that a lot, in helping us understand that.

But we thank you enormously. Let me close by saying that I would love, as...I mean a discussion like this is always a little bit constrained. If you have further thoughts, I'd love to both hear them and interact as we go along. It would help us try to be helpful.

**Moderator:** The email address as well.

**Mike Spence:** Yeah. My email address...

**Moderator:** Well, I think in your packets there's an email address to send papers, other further contributions, and they are very much urged and welcomed by the Commission. Even some of the examples that you've referred to today, I'm sure will be very helpful.

**Moderator:** It's probably still available [overtalking].

**Mike Spence:** Yeah, absolutely. I think I'll post it on the web, on the Growth Commission website. Is that right Maya? But those of you who would like it faster, I tried...can I tell a funny story? This is embarrassing.

**Moderator:** A short funny story.

**Mike Spence:** DIFD very nicely put up that we're having our first real consultations with all of you on their website, yesterday, and there was a nice link to the Growth Commission website, which I punched in. It didn't come up. So I thought, well, that's annoying. They put the wrong link in there, so I went and called up the Growth

Commission website directly, and I also couldn't get in. So either my hotel's the nuisance, or the website's down for the Growth Commission. So if you need it directly, I'll send it personally.

**Participant:** Is there going to be a draft with the reports [inaudible] version?

**Mike Spence:** We haven't really decided that. There is no current plan to try to produce a draft of the report, partly because you can get a lot of comments on it, but you can't really interactively draft something. I suspect we're going to have to stand or fall on how well we've understood what you all have said to us, in the course of this.

I'm going to let everybody go, but I heard the point, Michael [Mowlam], about...and a number of us are aware of jobless growth, the dual economy problem, and it's too late in the day to address it, but that one is definitely in our gun sights. It's a serious problem. Thank you all very much.

**Moderator:** Thank you very much.

[Applause].