

Commission on Growth and Development  
Findings and Closing Session

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# CGD History

- **Began in 2004**
- **Soon to end its 4 year life**
- **Pooling 15 years of research and experience since Washington Consensus**
- **Commissioners: political and policy leaders**
- **Generosity of Academics - 15 workshops**
- **Give it back in a form that is useful to those like the commissioners who have engaged in the long climb of growth, poverty reduction and development**

## **Output**

- **The Growth Report**
- **Post-Crisis Growth in Developing World**
- **Papers by distinguished academics and policy makers**
- **Thematic volumes on key and complex subjects**

## Highlighting Insights

- ❑ Growth is not the objective
- ❑ It is a means to ends that matter to people
- ❑ It is not sufficient but often necessary and when not necessary , it makes it a lot easier

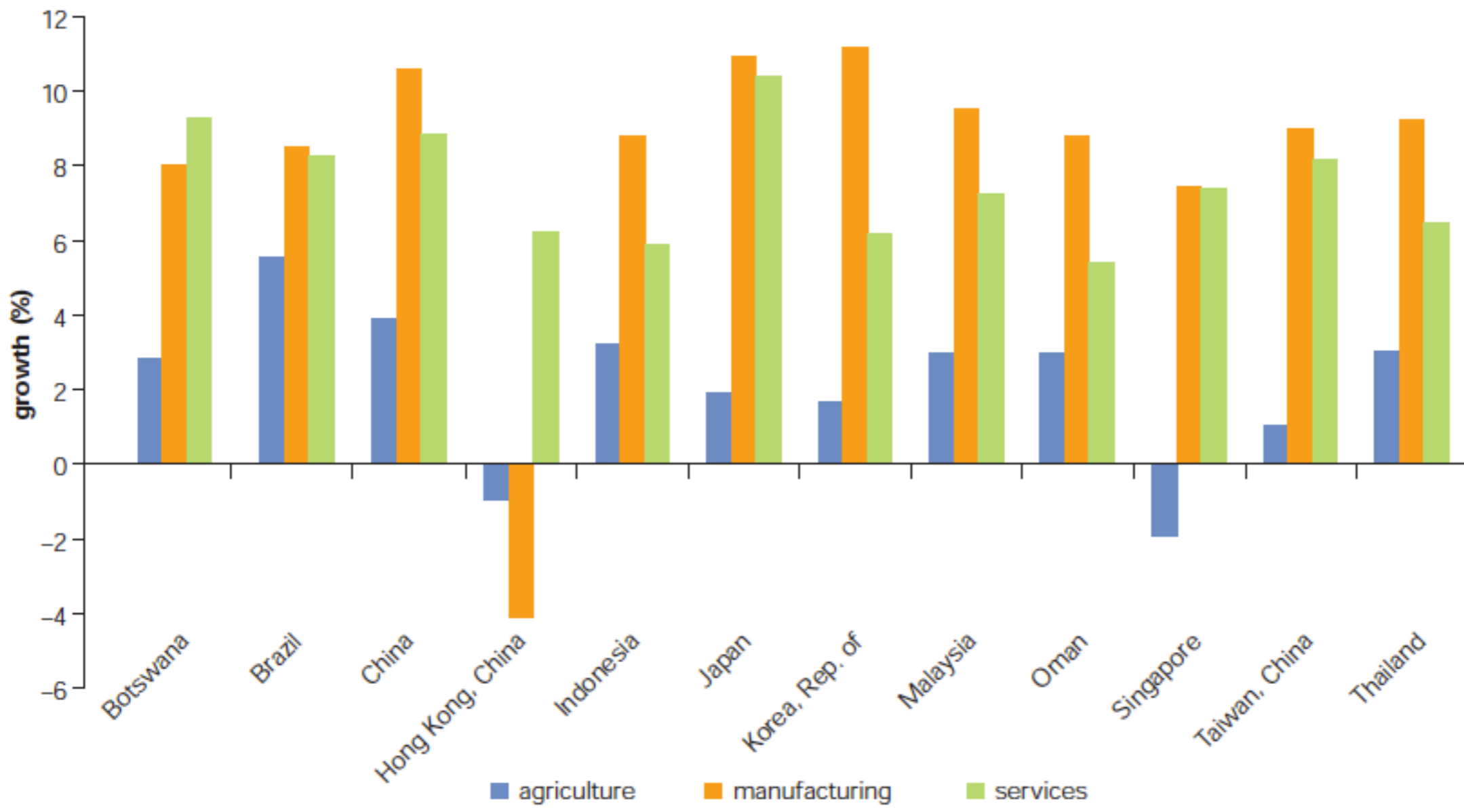
## No Recipes Just Ingredients

- ❑ We do not know the necessary and sufficient conditions for growth
- ❑ It is a long journey with imperfect charts
- ❑ It involves constant change
- ❑ Pragmaticism, skepticism, experimentalism, persistence have high payoffs

# Growth is Really Structural Change

- Economies Grow in the long term by Structural Change
- Economic Composition of Economy
- Urbanization
- Driven by dynamic market forces
- Deep underlying transformation is the shifting and deepening knowledge base of the economy

Figure 7 Growth Rates by Sector

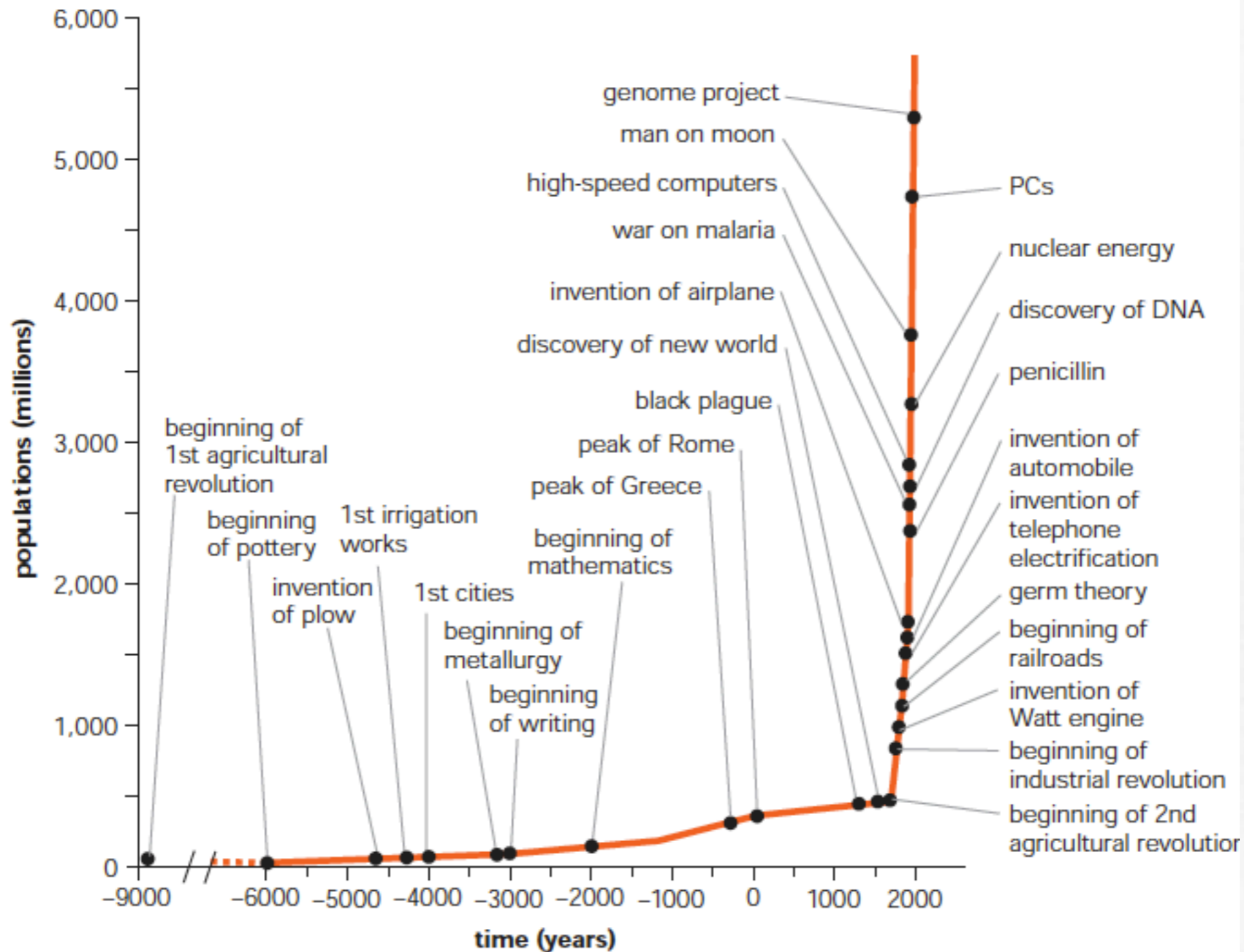


# Washington Consensus

- Fiscal policy discipline;
- Redirection of public spending from subsidies ("especially indiscriminate subsidies") toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment;
- Tax reform - broadening the tax base and adopting moderate marginal tax rates;
- Interest rates that are market determined and positive (but moderate) in real terms;
- Competitive exchange rates;
- Trade liberalization - liberalization of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform tariffs;
- Liberalization of inward foreign direct investment;
- Privatization of state enterprises;
- Deregulation - abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudent oversight of financial institutions;
- Legal security for property rights.

## 1.2 The Growth of the World Population and Some Major Events in the History of Technology—9,000 B.C. to Present

Growth in incomes was accompanied by unprecedented increases in population and exponential increases in the rate of scientific discoveries.



Source: Fogel, Robert. 1999. "Catching Up with the Economy." *American Economic Review* 89(1) (March): 1-21.

**Table 1 13 Success Stories of Sustained, High Growth**

<b>Economy</b>	<b>Period of high growth**</b>	<b>Per capita income at the beginning and 2005***</b>	
Botswana	1960–2005	210	3,800
Brazil	1950–1980	960	4,000
China	1961–2005	105	1,400
Hong Kong, China*	1960–1997	3,100	29,900
Indonesia	1966–1997	200	900
Japan*	1950–1983	3,500	39,600
Korea, Rep. of*	1960–2001	1,100	13,200
Malaysia	1967–1997	790	4,400
Malta*	1963–1994	1,100	9,600
Oman	1960–1999	950	9,000
Singapore*	1967–2002	2,200	25,400
Taiwan, China*	1965–2002	1,500	16,400
Thailand	1960–1997	330	2,400

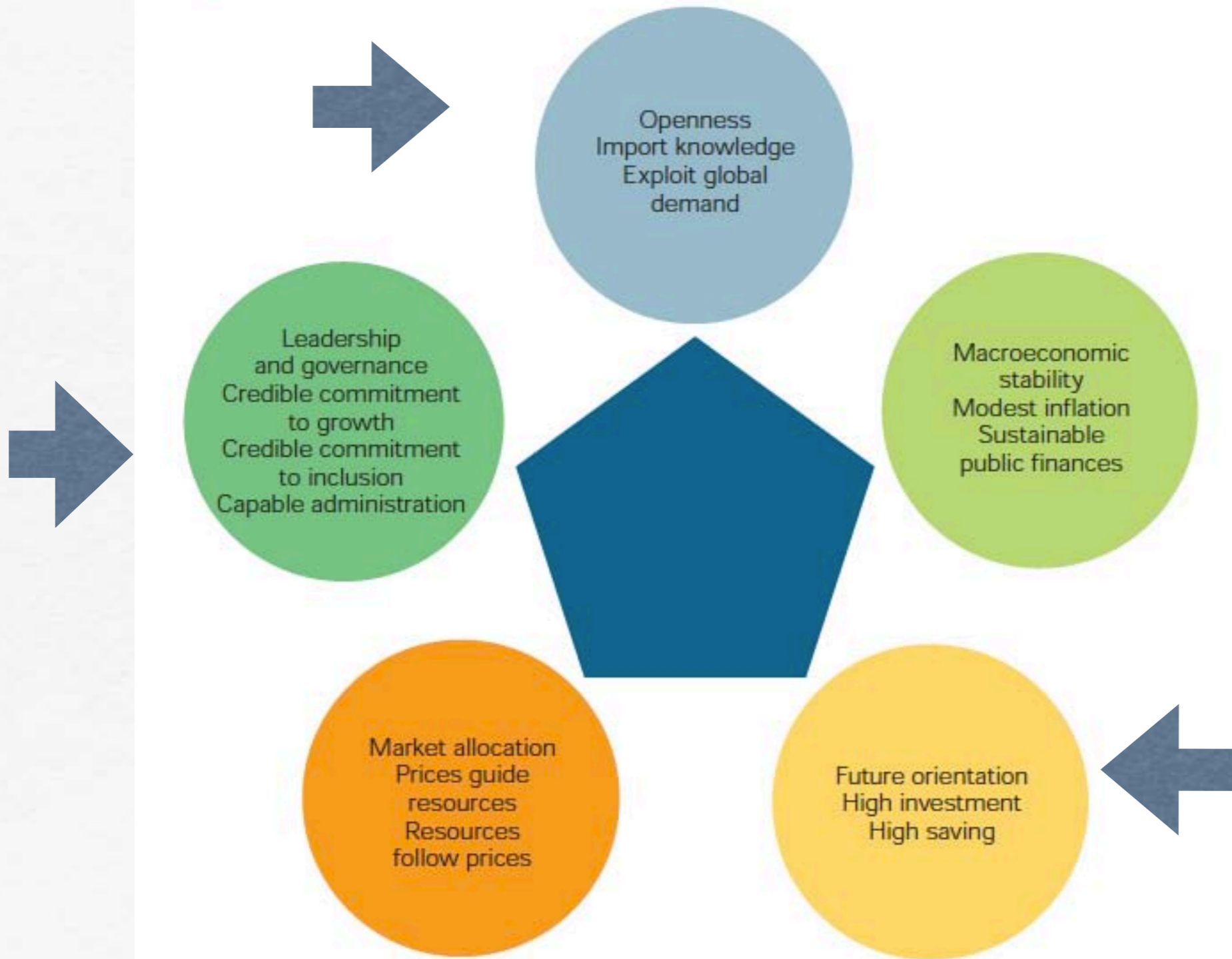
*Source:* World Bank, World Development Indicators.

\*Economies that have reached industrialized countries' per capita income levels.

\*\*Period in which GDP growth was 7 percent per year or more.

\*\*\*In constant US\$ of 2000.

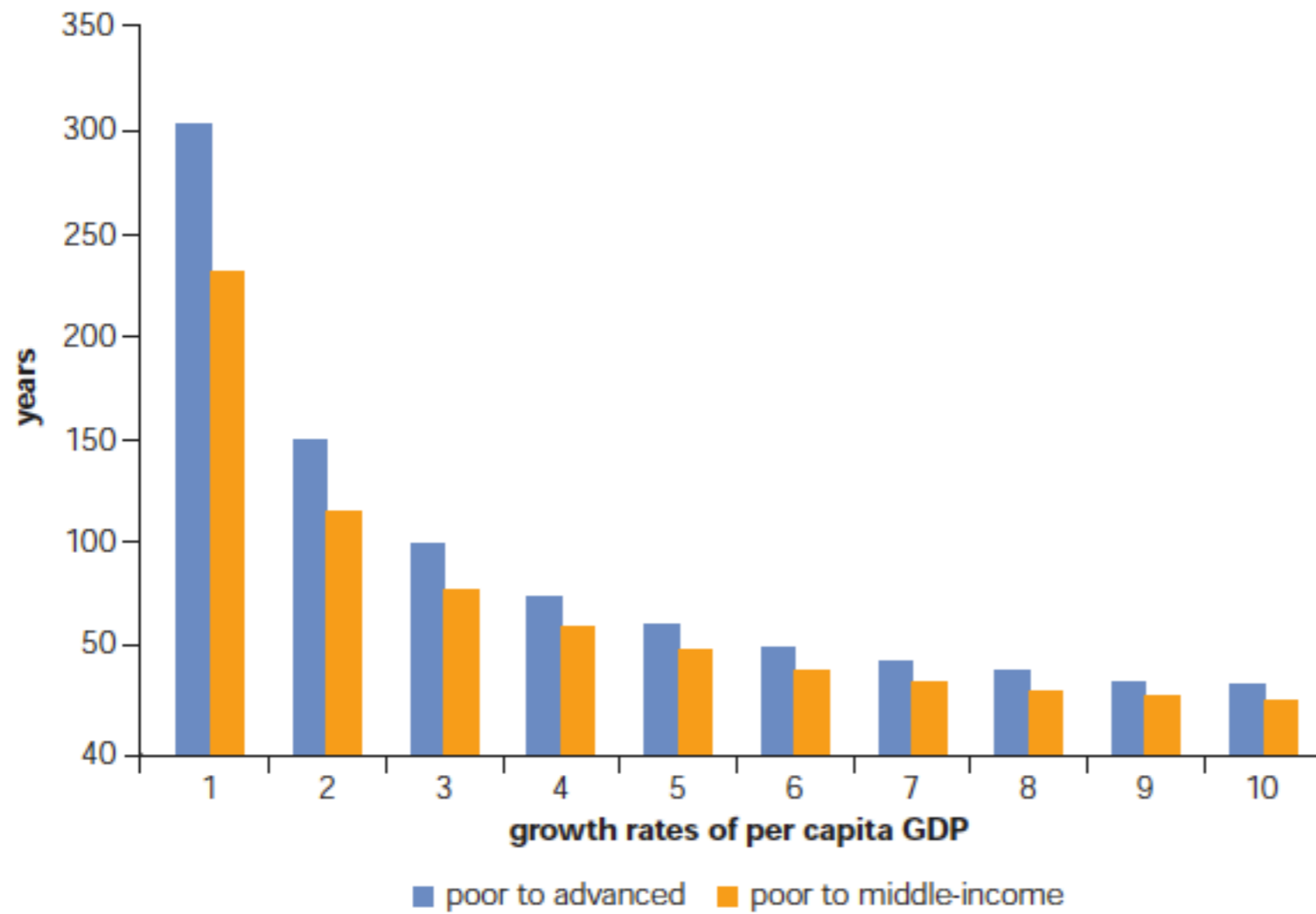
Figure 2 The Common Characteristics of High, Sustained Growth



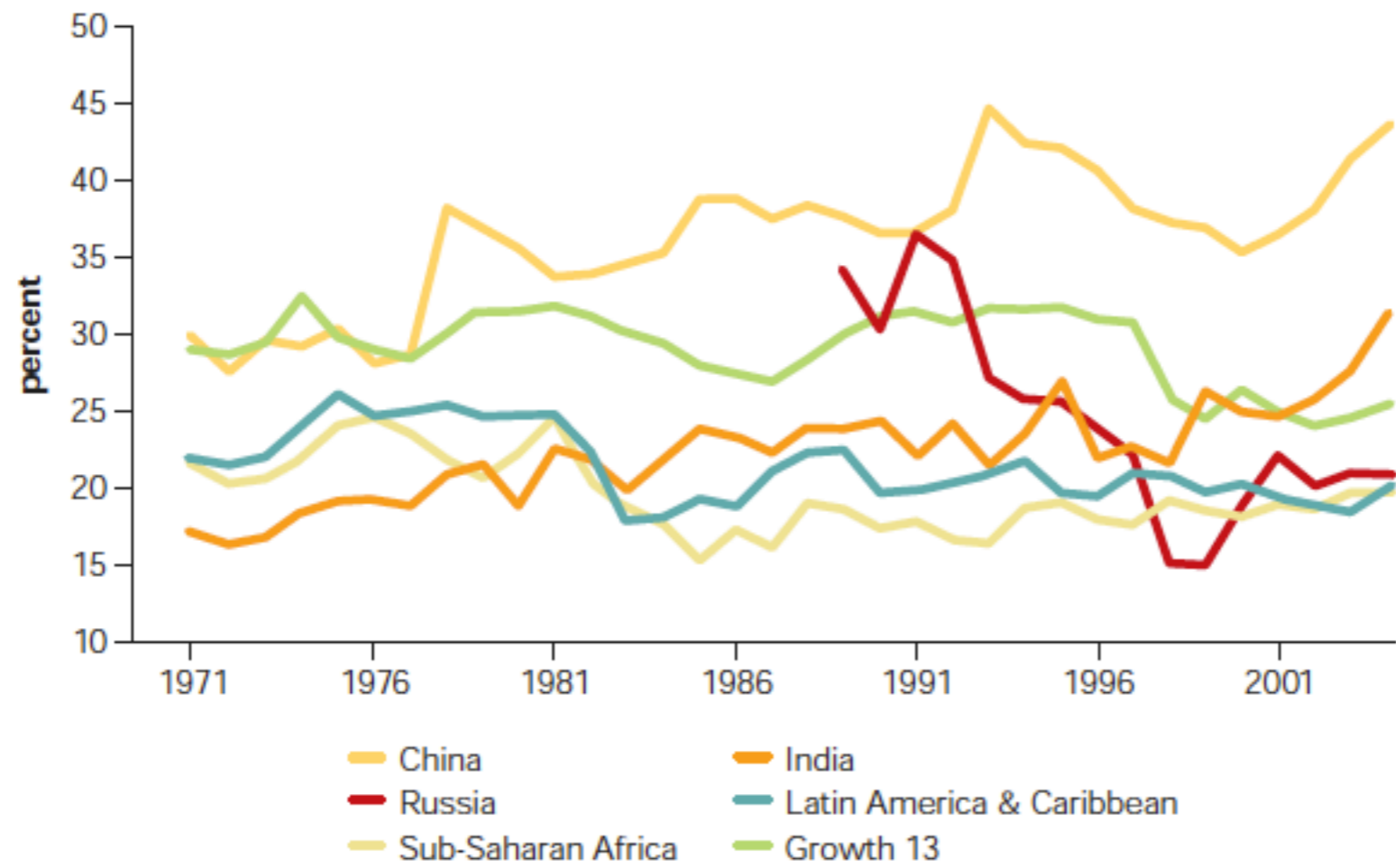
# The Global Economy

- Knowledge
  - Catchup growth
- Comparative Advantage
- Virtually no limitation of specialization by the extent of the market
- And with underemployed human resources - the model becomes essentially linear in a balanced portfolio of investment - public and private

**Figure 3 Transitions to Higher Incomes**



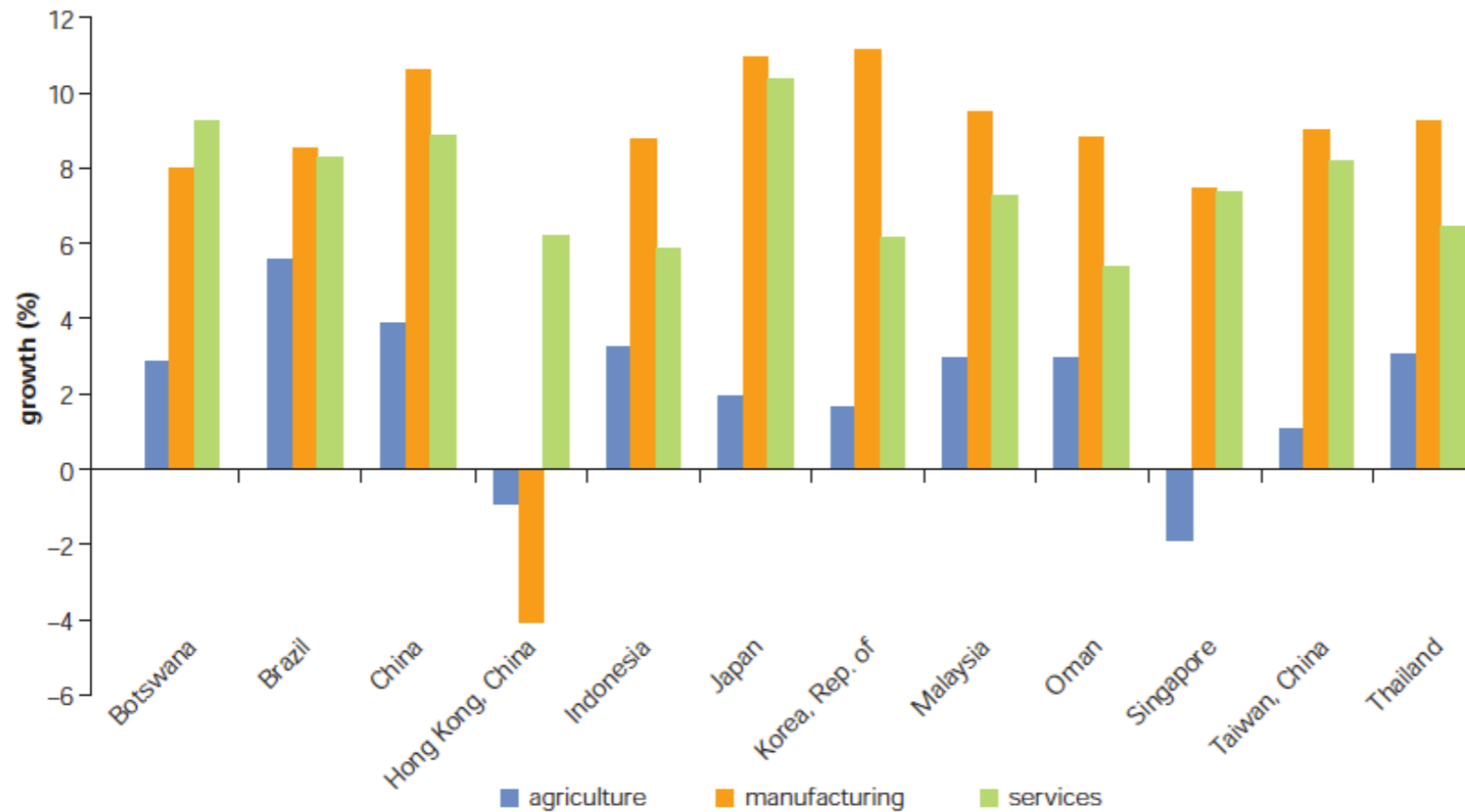
**Figure 4 Percentage of GDP, Investment Rates by Growth 13, 1971-2004**



Source: World Bank.

### 1.8 Rapid Growth Is Urban Based—Decomposition of Growth Rates for the Fast-Growing Economies: Various Periods

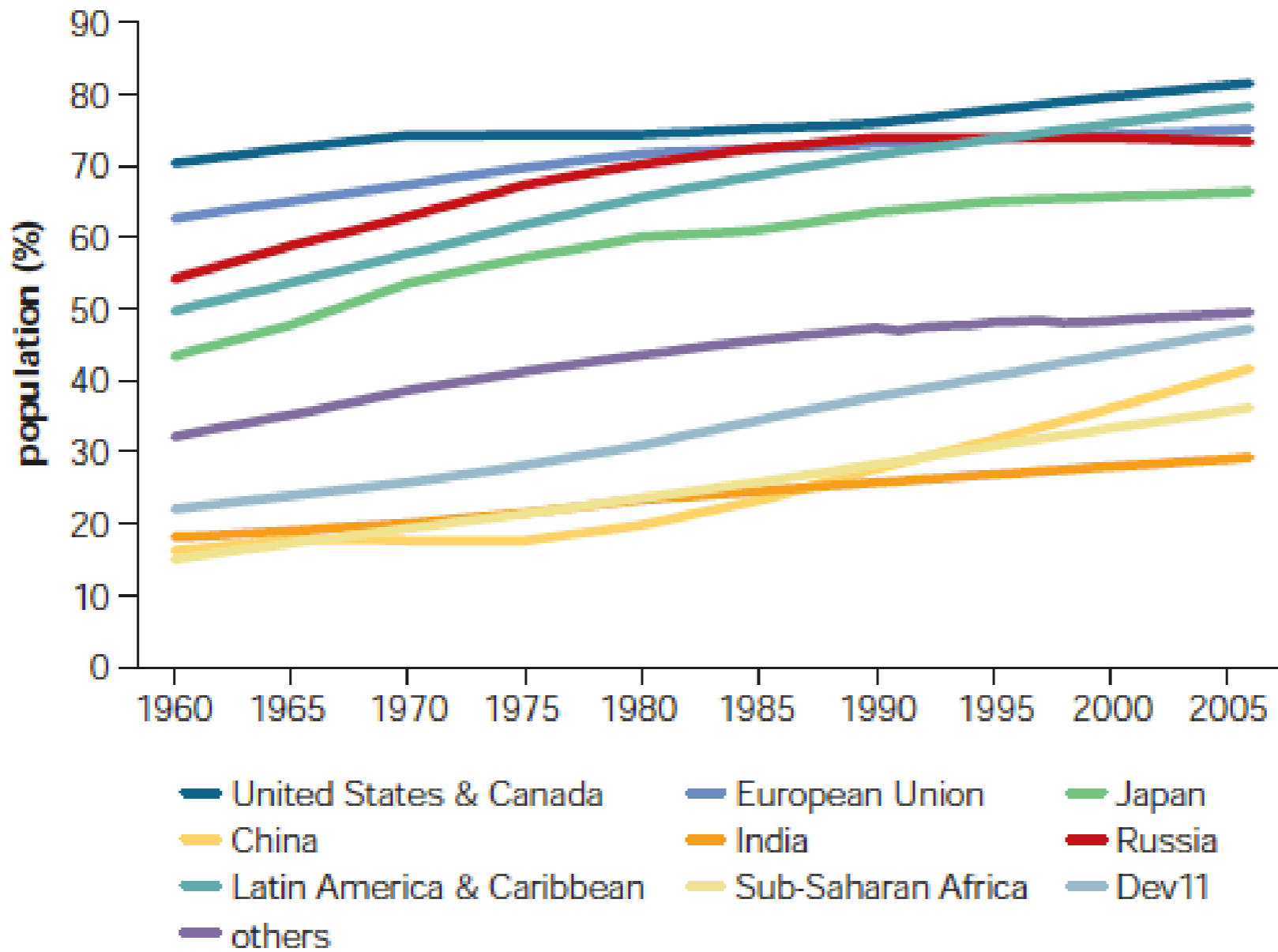
In all cases of sustained high growth (7 percent or more sustained over 25 years or more), it is production in urban areas—that is, manufacturing and services—that led the growth.



Sources: World Bank, World Development Indicators 2007; for Brazil: World Bank calculation using data from World Tables 1976, World Bank, and Institute of Applied Economic Research (IAER), Brazil (<http://www.ipeadata.gov.br>); for Japan: World Bank calculation using data from World Tables 1976, World Bank, and Maddison, Angus, 2001: *The World Economy: A Millennial Perspective*. Paris: OECD.

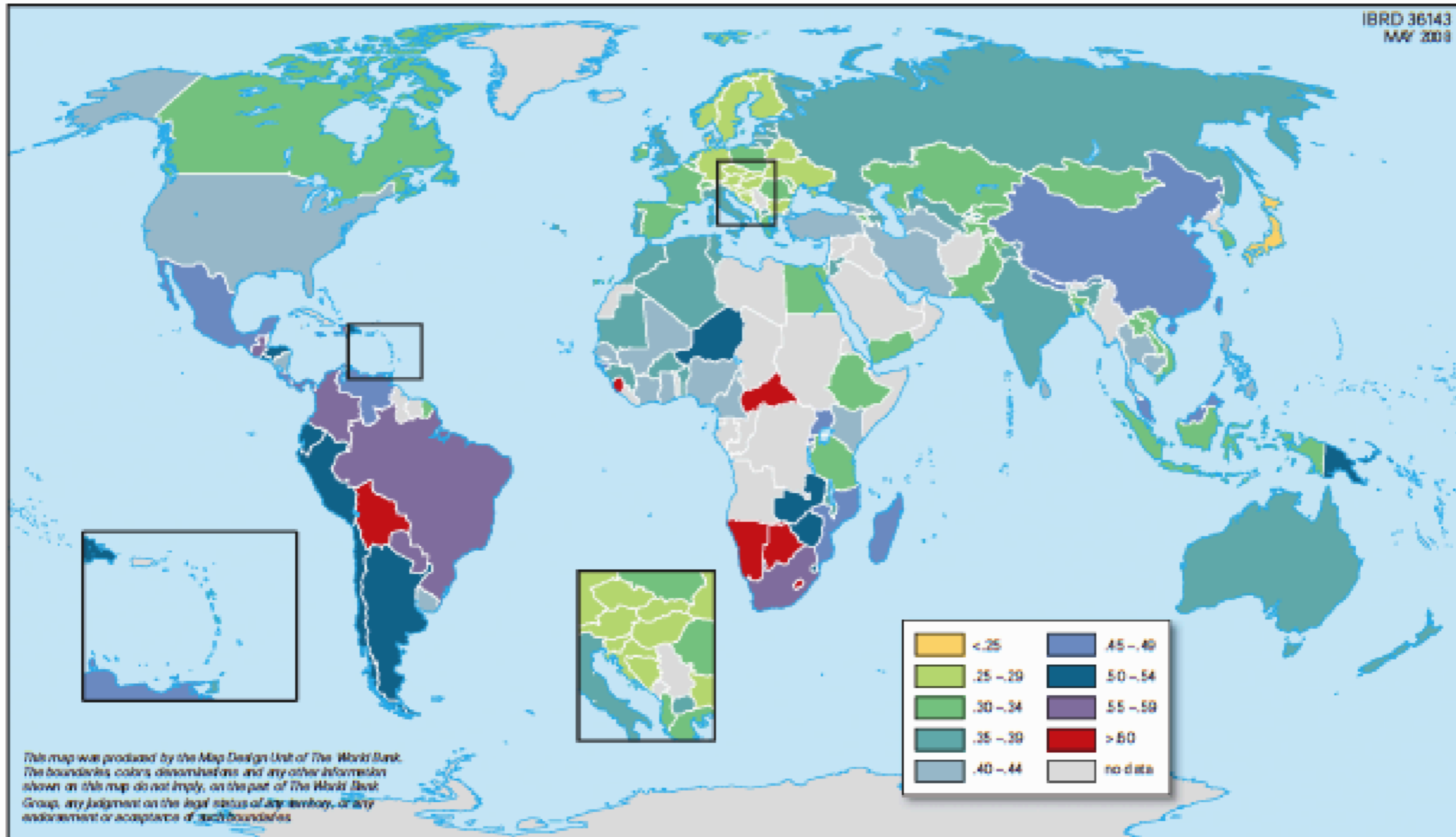
Note: The calculations apply for different periods indicated in parentheses because of different degrees of consistent data availability: Botswana (1965–2006); Brazil (1955–73); China (1965–2006); Hong Kong, China (2000–06); Indonesia (1960–2005); Japan (1955–73); Korea, Rep. of (1970–2006); Malaysia (1970–2006); Oman (1988–2004); Singapore (1975–2006); Taiwan, China (1965–2006); and Thailand (1960–2006).

Percentage of the population in urban areas



### Gini Coefficients from the UN Human Development Report, 2007-2008

IBRD 36143  
MAY 2009



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# Ancient History?

- Instability of Global Economy and Financial System Was a Shock
- New normal in advanced countries
- Deleveraging, deglobalization, re-regulation
- Sovereign debt and overuse of the sovereign balance sheet

"My best guess is that we'll have a continued recovery, but it won't feel terrific. And the reason it won't feel terrific is that it's not going to be fast enough to put back eight million people who lost their jobs within a few years.

[BEN S. BERNANKE](#), chairman of the Federal Reserve.

Current process of starting to restore fiscal balance, accept the short term pain, and lay basis for longer term growth

# Prospects

- Large EM's resilience
- Rapid restoration of GRowth
- Is it sustainable in a multi-speed world
- I think the answer is yes
- [Can Emerging Markets Save the World Economy?](#)
- <http://www.project-syndicate.org/commentary/spence13/English>

# But

- There are global issues
- Rebalancing and restoring global demand
- Financial stability and regulation
- Trade and financial openness
- Extreme instability - restoring fiscal balance
- G20 needs to succeed

## Key Ingredients in Continued Breakout Growth

- Global responsibilities with low incomes – balancing domestic and global agendas
- Major restructuring of demand and supply side of the economy
- Accomodating different models of public private sector interaction
- Intervention with new models of public-private partnership and the management of risk
  - Greece and China?