



## **PRESS RELEASE**

### **Commission Identifies Policy Ingredients for Successful Growth**

*“The Growth Report” says developing countries can achieve fast, sustained, equitable growth if they engage with the global economy and have committed leaders*

**Cape Town, 21 May 2008:** Fast, sustained growth is not a miracle – it is possible for developing countries, as long as their leaders are committed to achieving it and take advantage of the opportunities provided by the global economy. Developing countries also need to know the levels of incentives and public investments that are needed for private investment to take off in a manner that leads to the long term diversification of the economy and integration into the global economy. These are among the key findings of the Commission on Growth & Development’s report: *‘The Growth Report: Strategies for Sustained Growth and Inclusive Development’*, launched here today.

*“At a time when industrialized countries are experiencing a sharp slowdown in growth, many of the world’s poorest countries have found growth to be elusive. It is our belief, however, that sustained, high growth can be explained and repeated,”* says **Michael Spence**, Commission Chair and Nobel Laureate. *“By bringing together (on the Commission) the economists and the policy makers who have had to make the hard decisions for their economies, the Growth Report provides a decision-making framework for achieving inclusive, high growth.”*

*‘The Growth Report’* identifies some of the distinctive characteristics of high-growth economies that have been able to grow at more than 7 per cent for periods of more than 25 years since World War II and asks how other developing countries can emulate them.

**Spence** argues: *“The Growth Report also kills off once and for all the misguided notion that you can lift people out of poverty in the absence of growth. Growth can spare people en masse from poverty and drudgery. And*

*with India needing to grow at a fast pace for another 13-15 years to catch up to where China is today, and China having another 600 million people in agriculture yet to move into more productive employment in urban areas, growth will lift many more people out of poverty in the coming decades.”*

The Commission is the result of two years work on the requirements for sustained and inclusive growth in developing countries led by 19 experienced policymakers and two Nobel prize-winning economists. Its work has been supported by the Governments of Australia, Sweden, the Netherlands, and United Kingdom, the William and Flora Hewlett Foundation, and the World Bank Group.

The Report notes the current threat posed by rising food prices, calling for prompt action to protect poorer people from price increases, and warning that malnutrition and reduced incomes will reduce long-term growth prospects.

Actions recommended by the Report to combat food price rises (once the current emergency situation is dealt with) include an end to export bans; more effective safety nets and redistribution mechanisms to protect people vulnerable from sudden shifts in prices; and a revitalization of infrastructure investment for agriculture. The Report also urges that policies that favor bio fuels over food be reviewed and, if necessary, reversed and that reserves and inventories be accumulated to relieve temporary shortages.

In addition, the Report calls for establishing a mechanism to coordinate the policies of the growing number of influential countries and to safeguard the stability of the global financial system. Given the increasing economic importance of new global players, the document argues for a rebalancing of global responsibilities and representation.

Just as the current credit crunch is affecting advanced economies, the Report also stresses the importance of a strong financial system in developing countries and argues for careful supervision of the banking sector to prevent banks expanding credit too far, and the removal of capital controls only in step with the financial market's maturity.

Other key conclusions of the Report include:

- That growth is a crucial part of poverty reduction and the improvement of people's lives. It is impossible for poor countries to lift large populations out of poverty without growth. Equality of opportunity and a focus on individuals and families, gender inequalities, and economic security, however, is critical to maintaining the support for growth oriented policies.

- That growth is a long-term challenge that requires leadership, persistence, stamina, pragmatism, transparency and the support of the population.
- That growth requires engagement with the global economy to import knowledge and technology, to access markets, and to generate a strong export sector – critical in the early stages of growth.
- That growth must be inclusive. The Report highlights the importance of sharing the benefits of globalization, providing access to the underserved, and dealing with issues of gender inclusiveness. It notes the importance of infant and childhood nutrition to avoid long-term impairment in acquiring cognitive and non-cognitive skills, ensuring that they derive greater benefit from the education system and become more effective in the workplace.
- That resources, especially labor, must be mobile. The Report also recommends a bridging of the divide between the formal and informal labor sectors by allowing export-oriented industries to recruit workers on easier terms than prevail in the formal sector but with the same essential worker protection in the areas of health and safety, working hours and child labor. It highlights the need to better manage the migration challenge and the results of changing demographics.
- That growth requires high rates of investment, with the Report suggesting that overall public and private sector investment rates of 25 percent of GDP or above are needed.
- That investment in education and health are particularly important. The Commission also calls for greater research into the measurement of students' abilities in literacy and numeracy, and increased opportunities for women in the education system.
- That money spent subsidizing energy consumption in developing countries is often misspent. Better to invest the resources in education and infrastructure. In addition subsidies bias the capital investment in long-lived assets away from energy efficiency and may negatively bias the structural evolution of the economy, the Report says.

Finally, the Report says that mid-century environmental mitigation targets are impractical, with 10-15 year time spans more feasible so that the true cost of mitigation can be calculated. The report also recognizes that developed countries are the globe's largest per capita emitters of carbon, and it rejects calls for emerging economies to shoulder the full cost of mitigation until their per capita incomes approach advanced country levels.

According to **Michael Spence**: *"Growth requires leadership, persistence and engagement with the global economy. It also requires advanced economies to play their part as well – bringing an end to the current focus on energy*

*subsidies and bio fuels and an end to protectionist policies which limit developing world access to the global markets that are so central to growth."*

Professor Robert Solow, Nobel Laureate and fellow Commissioner observed that

*"The evidence in our work pointed to a number of findings: That competition is absolutely essential at every stage of economic development, that access to world markets is very much a lesson for the rich countries as it is for developing countries, and that the more equitable the growth, the more sustainable it's likely to be. Leadership and governance can only work when it is supported by wide parts of the population."*

The Growth Report recognizes that countries are not homogenous and one set of policies will not work everywhere. Nevertheless, it highlights focus areas for four sets of countries: African countries, small states, resource-rich countries, and middle income countries where growth has stalled.

Recommendations include:

- That industrialized countries finance the expansion of Africa's tertiary education to make up for Africa's brain drain. The report also recommends that industrialized economies implement promptly the time-bound trade preferences granted to manufactured exports from African countries to help them overcome the disadvantages of being late starters.
- In small states, the Growth Report recommends greater regional economic integration, and a spreading of the burden of public services, through partial union, helping reduce the high per capita costs of effective government. Good governance is also an important foundation on which regional cooperation and multinational integration can build, the Report says.
- Better governance in resource-rich countries, and more balance and transparency between the returns to the entities exploiting the resources and the governments in resource-rich countries.
- And increased investment in higher education and innovation as economies transition from middle income to high income status.

The Commission's Vice-Chair, **Danny Leipziger**, added: *"We are acutely aware that there are no silver-bullets to create long running, inclusive growth, and that no single paradigm exists. Nevertheless, the Commission has sought to identify those indispensable elements that need, as Professor Solow has said, to form the ingredients of the growth recipe underlying inclusive development."*

The Growth Report was launched today in London, Cairo, Cape Town, New York, and St. Kitts., and will be the focus of numerous regional discussion events in the coming weeks.

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