CENTER FOR GLOBAL DEVELOPMENT

Presents

The Growth Report:
Strategies for Sustained Growth and Inclusive Development

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Nancy Birdsall: Pleased and honored to be hosting the Washington launch of what has been come to be known as the Spence Commission Report or the Report on Growth. A report that is bound to have a long half-life. I suspect that what this report says will insinuate itself into the hearts and minds of development and practitioners everywhere and into the curricula for some years in graduate schools and undergraduate courses in Economics, in Politics, in Development and so on.

So, it's a very important moment in the field in thinking about the issue of growth and development. We have a stunning group of speakers today to welcome. And I'm going to start by introducing Danny Leipziger, a member of the commission report. He will present it. And then I will introduce our other discussant speakers and discussants.

Danny is well known, I know, to many of you in Washington audience in particular. Danny was or is the Vice Chair on the Commission of Growth and Development. And he's the Vice President, of what I like to think of, is the most important part of the World Bank, the Poverty Reduction and Economic Management part of the bank. Which is where the new thinking occurs.

Danny is an old friend of mine and a colleague from way back in the late 80's when I thought of him as primarily an expert on Korea. That is a very good idea for someone who is the Vice Chair of the Growth Commission. Danny really knows about Korea. He had many other assignments in the World Bank which I won't report. They have been many and distinguished. And he also earlier, has provided public service in the United States Department of State in the Policy Planning staff. So he has a little bit of a feel for how domestic politics can matter in thinking about policies.

Danny, you have ten or fifteen minutes, I think, to present what is a very long detailed nuance report. So I wish you good luck.

Danny Leipziger: Well, good afternoon. Thank you very much, Nancy. And thank you to the Center for Global Development for hosting this Washington launch of a project that has taken us a year and a half to complete. As you will see from the cover, this is the result of deliberations by a group of 21 individuals. Two academics, 18 policy makers, including Alejandro Foxley who is sitting here and will follow me. And it's been a great experience. We have a Web site up in six languages which has all the background papers and a lot of the thinking that went into the report. The report is being launched this month in a variety of locations. Last week in London and New York and Cape Town and Cairo. This week here and pretty soon in Beijing and Delhi and Rio. So it's making the rounds and people are beginning to talk about it. And pretty soon Bill Easterly will attack us and then it really will be famous. So we're waiting for that moment.

So, you're probably wondering what this report is and what it isn't. So let me give you the quick version. What it is is a report that is independent of the World Bank. And this frequently gets misunderstood. That's not to say we didn't work hard and long behind the scenes. But it is an independent report.

Number two, it is set of observations about what drives long term growth. It is not a blue print in any sense of the word.

Thirdly, it is made up – the commission is made up, as I said, mostly of policy makers. Many from developing countries, who are talking to their peers. And the way it was discussed in our commission meetings was this is the generation of policy makers that have been in the trenches and have done the hard and heavy lifting. Giving their best advice to the next generation of policy makers. So this is in no way a rich to poor or top down kind of advisory report.

Fourthly, it hopefully has a minimum of ideology in it. And I think we tried hard and like Spence, our Chairman, was instrumental in keeping it as non ideological as possible. And hopefully it passes the reasonableness test without being boring. But you'll have to be the judge of that.

And lastly, it's not about development assistance. With due respect to Nancy and the CGD. This is not giving advice on how to design better or more effective foreign aid. It's about what foreign countries themselves can do.

So, let me give you the five or six take away messages of the report. Obviously we encourage you to read it and we have plenty of opportunities including a blog that started where you can voice your opinions. I can't guarantee that Mike Spence will answer it personally. But, you have a pretty good chance, because he's very conscientious about it.

So, what does the report say? Well, number one it says that growth is central to welfare improvements and poverty reduction. And that the centrality of growth has perhaps been understated in recent years. It talks about growth that is inclusive. It talks about growth that is sustainable over decade upon decade. And it looks at thirteen countries that manage to sustain 7% plus growth for 25 years. Just as a starting point. But it recognizes that growth is not an end in and of itself. And that it is a means to improvement in welfare and poverty reduction. So, the first message is the centrality of growth, as you would expect from a report that is known as The Growth Report.

Secondly, it stresses the important role of government. And I think this is perhaps a nuance different from what one has heard over the last decade or so where people perhaps have said get government out of the way, government is a problem. I think this commission tends to find that political leadership and vision are very important. That a single mindedness with respect to growth has paid off. That it requires a lot of hard work from policy makers. And but, we're pretty agnostic as to the size of government. We're not agnostic with respect to the effectiveness of government, however. And so, it stresses very much the importance of policy making. It stresses the importance of experimentation and being pragmatic. And it also says there's no single paradigm that we are espousing. An implication of this is that we are not saying there is a particular model and that that model should be transplanted. That is true and we have looked at these particular cases. And these cases, Korea being one of them, but we are not saying this should be a model to transplant.

The analogy if you want from books these days on dieting and food - where everyone is looking for that one magic diet that's going to solve their problem - is that there is no single silver bullet or magic diet. But also that you can't transplant a recommendation. So the fact that the French tend to live long, and they drink a lot of red wine and eat a lot of garlic, doesn't mean that if you put a lot of garlic and red wine into the American diet with a lot of fast food, you are necessarily going to get French longevity. So, don't think that we are proposing a single paradigm that should be transplanted.

The third point, the first was growth, the second was government. The third point has to do with leveraging the global economy. I think that the analysis that was done and the view of the commissioners is that to speed, catch up, and to drive growth for decade upon decade. It is virtually impossible to do this without leveraging the global economy. So globalization is not an option, it is a necessity. The question is, how do you link to it. And what do you need to do to benefit from the system? And the corollary is that the system needs to be receptive to countries that want to participate. This has led to two subsidiary conversations. One has to deal with whether or not there is an adding up problem in the sense that Bill Cline wrote about 25 years ago and more recently. Which is, if everybody followed this advice would there be enough space. And I think Bill may disagree. But 25 years ago he probably didn't anticipate that China would be the power engine that it is. But, given that it has done so well, it opens up a lot of space. Because, as China moves on there is going to be a lot of space for other countries to take its place in certain industries.

The second subsidiary point which Mike Spence and I have written an editorial about, is that we don't think it's reasonable to blame globalization for the inequalities or inequities within societies. You can transplant that to the political debate in the US today. But, globalization should not take the rap for inequalities.

Let me move on then to the fourth point, which I wanted to stress. Which is that where we talk about a variety of policy interventions, we talked about the importance of infrastructure for example. We talked about the importance of investment and notionally say that countries that have really grown very rapidly, have tended to invest perhaps as much as 25% of GDP in investment. That what is really needed is a multi pronged approach. The policies have to add up and be consistent. And this is very much in the tradition of the work that Ricardo Hausmann and Dani Rodrik have done. And on the commission this was best put by Professor Bob Solow. He said that he understood very well the ingredients of long term high growth, but he didn't know the recipe. And I think that's pretty much the approach that we took in the report.

Let me move on now to where we are putting new emphasis. Nancy was kind enough to say that she hoped this would have a decent half life - whether on the shelf or on the Web. So, it's kind of relevant to say what's new and different in the report. And perhaps, where are we somewhat controversial. I think on the "where do we put emphasis" side, I would like to mention infrastructure. Which I think is in some quarters had fallen off the radar screen. We are very cognizant of the fact countries that have grown rapidly for long periods of time have invested heavily in infrastructure. But we also make a big deal about early childhood nutrition for example as being a very smart investment and one that you miss the boat, you have a generation that is under performing.

We have some strong statements on climate change, which I think the commission feels comfortable with. We distinguish between efficiency and fairness. In other words we are talking about the need to mitigate emissions, but we also distinguishing that from who pays for mitigation. And we don't think that developing countries should be the ones to bare the cost of additional mitigation. So, the chapter that deals with climate change and I think in a persuasive way.

We are very strong on the issue of urbanization and the need for investment in urban infrastructure. I think the current food prices not withstanding, which does lead some observers to wonder if we've invested sufficiently in agriculture. But, I think if you look at things over the

20,30,40 year period, the urbanization trends are very clear. And the transformation that it requires and the amount of investment also are very clear. And we're also pretty straight forward about demographics and what it means for migration. There are certain areas of the world that are obviously going to be producing more people than jobs. And there are going to be other parts of the world where it is going to be in reverse. And the question is, can the international community come up with more organized ways to match people and work.

Let me move now to potential controversies. I think if one looks in the report one would probably say we take an open minded approach to the issue of industrial policy. I think that we recognize the importance of a coordination of a public and private sectors and we think there's no one prescription that fits all country circumstances. And we think that there is a role for industrial policy properly designed and properly defined. We are also somewhat flexible on the issue of capital account opening and exchange rate management. And we talk about sequencing and pace. And don't disagree with the final efficiency argument. But we do think there are different ways to get there. And I think that perhaps is a little bit different than conventional thinking.

We are open to special trade preferences for Africa. And in fact I should say the report has four separate sections. One dealing with Africa, one with landlocked and small states, one dealing with regional developments, so growth issues within an economy. And the fourth, with middle income countries which I won't talk about, since probably Minister Foxley will address those. But on Africa I think we are quite sympathetic to the Collier Venables argument that trade preferences for Africa may make sense. And as I say, we also are lament both the increasing inequality that occurs within countries so that we think part of it is inevitable in the growth process. But what is not inevitable is government indifference to increasing inequality. And we, as I said, do not think that policy makers or the public should confuse globalization trends with inequality trends.

And finally in the area of controversies. The report says that we think there's room for better coordination between countries on a whole range of economic issues. Whether it's climate change or migration or avian flu or whatever. And that global governance can be improved. One can read between the lines of those statements about what the commission thinks about the current structure of international governance.

There are a few other things that you might pick up from the report and let me just mention a few things that people have remarked about as we've gone on a round discussing it. One is why do you only focus on the fast growing countries? You know, what's the preoccupation with tall people? Or successful growers? And the best answer that I heard in the commission was by Paul Romer who is attending a number of our meetings. And he said, “Well when you go into a plant store and you see all a bunch of plants that are the same plant. And one is remarkably taller than the others. Aren’t you curious why that plant happened to grow so much faster?” And basically that’s the intellectual argument for why we are focusing on those that have been successful.

A second kind of comment that has come up from time to time, is well, does – what’s the view of the commission on this famous trilogy of stabilize, liberalize, and privatize? Is that something the commission believes in? Or is that passé? I think as true international civil servants, many of us, we are somewhat in the middle on this. We do think there’s a role for stabilization and macro prudence etc., etc. But we also realize that there’s some intertemporal trade offs that governments need to make and we don’t believe that they should be hindered in making these trade offs to focus only on stabilization or liberalization. We also think that growth is a main – should be a main preoccupation of governments. And those governments that have really made it a central feature of their administration have tended to be more successful.

And then we’ve gotten some questions about what do you think of jobs, labor markets? And this was an area that was potentially controversial in our group. You should realize that we have, if you look at our membership on our commission, we have a wide spectrum of economic opinion on some issues. And labor markets was one of those issues. And we dealt with it by saying we were going to look at protection of people, not protection of jobs. And that we were very concerned about the creation of new jobs, particularly first time job seekers and for women. And that this was a central role for government. We did not take a view on labor markets, per se.

So, in finishing up, and I think I’m at the end of my allotted time, I would say if Mike Spence was here, who is our Chairman, he would say that we have the great fortune to have a fantastic set of commissioners, who represented a wide spectrum of the globe and had great experiences. But, the common features were, one, that they were academically and intellectually rigorous. Second, that they worked in policy circles for a long time and they really knew what we were talking about. Supported by workshops, a dozen or so, where we brought, what we hoped, were the best and brightest in the fields to bring what they could to the commission. I’m cognizant of the fact that we had one on climate change, which I thought was probably the best one we’ve ever had. With Bill Nordhaus and a bunch of other people giving us, you know, really strong insights. And that helped shape the report.

And finally, I think we were benefited by the fact that we had a chairman that was extremely open minded. And perhaps also benefited from the fact that he came to development economics late in life. So, he didn't have 20 or 30 years of baggage, that many of us do, where you have a lot of priors. So, as a micro theorist he was able to start afresh and really look at things. And also having been a Dean at Harvard and at Stanford, he was able to deal with large egos. Not Alejandro Foxley of course, but others on our commission who might have been a challenge, but not for Mike.

So, I encourage you to read the report. And I encourage you to look on the Web site because there are probably 75 papers or so behind the report, in the working paper series. And I hope to have some good questions from the audience as we go forward.

So, Nancy thank you very much.

Nancy Birdsall: Thank you, Danny. That was indeed masterful. I want to say two things: first, Danny mentioned that we may be disappointed at the Center because the report is not about development assistance. And, let me say that for any of you who don't already know about the Center. I want to emphasize that although we are obsessed with development assistance and its difficulties and the development of the aid industry, we're also concerned with and obsessed with global governance, climate change and many of the other issues that this report clearly is raising.

And it's raising it obviously in a way that my mother would say about diets. There is a diet that is a magic bullet: all things in moderation. And we can see from this report that it's capital, liberalizing capital in moderation, labor markets in moderation, tax policy in moderation. And it's tough to be in the awkward middle. And I like to think the Center is often in the awkward middle. It sounds as though this report manages to be in the awkward middle without being at all boring.

So, now we come to the great moment for me. The privilege of introducing Alejandro Foxley, who is indeed as Danny said, the power dogmatic amongst the commissioners. Scholar practitioner. Alejandro Foxley is the Minister of Foreign Affairs of Chile. He was the Minister of Finance in the first democratic government post Pinochet of Aylwin, and really shaped many of the policies by knowing and understanding his local politics that were so important in Chile in that key period in the early 90's I think. He has been a visiting professor at Sussex, Oxford, University of California at Berkley, among other places. Has honorary degrees from places where he has spent time himself, University of Wisconsin, Notre Dame, PHD in Economics from the University of Wisconsin. All of these things are just deep background for a person that really is, for me, the model policy maker who understands politics. So I'm very pleased to have the chance to hear from Alejandro. Who also is from a country, like Korea, that has this fast growing tall plant, to use Danny's metaphor?

Alejandro?

Alejandro Foxley: Well, thank you Nancy for those very kind words. Let me start by saying that in one of the first stages of my academic career I tried to become an academic entrepreneur and working on building institutions and particularly think tanks. Let me say how much I admire what you, Nancy, have achieved with the Center for Global Development in such a short period of time. It is extremely impressive not only the amount and quality of publications, but also how much these publications are quoted in the media. Generally speaking, it is a terrific job you have done.

Let me also say that I've been a member of the commission but unfortunately a short time after I was – I became a member I was appointed to my government job. So I couldn't really participate very much in the discussions. So, perhaps I'm more a commentator than an author of a report. But, I have also to say that the role that the World Bank played in this report should not be underestimated. Particularly the (PREM), group, Danny Leipziger, Roberto Zagha, who is not here, and all the supporting staff. It's really something that stunned me how much effort, creativity, attention to detail they were able to put in a two year span. Even perhaps a little bit more than two years. And at the same time I was always very impressed by the freedom by which the nations were tackled. Not only in this report, but in some of the previous publications by the World Bank, too. Which I certainly recommend.

So, that's as an introduction. Obviously I'm going to speak not as a person in my current job. But, as an individual who read this report, who is basically a practitioner, doing a lot of different things, none of them very well. But, here I am. So, let me react to the report.

From the point of view of what my experience has been, middle income country. I come from a middle income country. One of the first things that the report outlines and stresses is that there are these 13 countries that have grown very rapidly for three decades. But, at the same time in the report, it's stated the obvious fact that very few countries show the capacity to sustain the high growth once a middle income status is achieved. Some people have talked about the twin peaks, where you have a lot of countries that have grown very fast at the beginning, they reach this using a current name given to them. Second World Status, with sort of low middle income and middle income and high middle income. There are quite a few countries there. And then you have another peak of the very few developed countries. And in between you have nothing.

What’s going on? What happens? Why these countries were able to grow very fast for say a decade or 15 years, and then it becomes so difficult for these countries to do the last part of the job. And I think this is an extremely relevant question today. When, you find these middle income countries, not only Latin America certainly Latin America, but in Eastern Europe, and in certain parts of Asia.

So, the relevant question, obviously, is how to sustain growth in spite of the things that happen once you are in the middle income status. You got to middle income perhaps after say two decades, or maybe three decades of persistently going in one direction. Asking people to defer instant gratification to save more to work harder. So, when these countries get there, most of them have a sickness which is called reform fatigue. The countries are more open. And the more open they are the feeling of more economic insecurity; this is a topic that Nancy has wrote a lot about. Middle income groups that feel they, you know, they feel they have a lot of opportunities and they feel more insecure than before. And more vulnerable.

And then, given that things are not going so well. People start arguing, “How can I get a larger share of the pie?” And these trivial issues become central to the political process. This situation is, I think, one of the most interesting and exciting to study. And try and get some answers. Then the report, what I like, well, what I like more of the report, are the sort of, non-orthodox things that are said. Because that means fresh air. I think for too long the discussion has been polarized. If you go to Latin America today you know, I could be accused of being a new liberal and the rest are the good guys, and you know, it’s sort of a very polarized, simplified discussion. And the report picks up on something which is relatively obvious for any practitioner. And that is that there doesn’t exist in real life a single set of optimum policies. That what you have to do always is to deal with very complex situations, with lots of simultaneous pressures, with movements in different directions in the political field and social pressures and so on and so forth. And you need to have antennas to try and determine what is feasible and what is the right time to do a certain policy which sounds reasonable.

So, in fact, what we are saying, and it’s in the report is that you need adaptable public policies. That what you could call the correct, the right model, changes over time. And that for you to be successful you have to have the capacity, the sensitivity, the political skills to move a long with often with some optimum policies and try not to get away from the main objective, which is growth.

So, if I want to make a sort of provocative statement, I would say that the prevalence of the optimal policy approach, which implies an excess of fixed solutions, excess of orthodoxy, leads to sub optimal growth performance. That's a pretty strong statement. And I'm going to illustrate with some topics, very specific topics that are out there in the report which are just examples of what we have in mind.

Orthodox policies mean sound fiscal policies. Okay, we've been doing that in Chile for 20 years. And it's worked very well and I'm not against sound fiscal policies. But, I'm worried as I report this something that Danny just said, very often you have – you reach balance in your fiscal accounts. And if you look at the type of investment that the government is doing you will very often find that there is a systematic underinvestment, particularly in infrastructure. Why? Because to reach the balance and since you do not have very high tax revenues, you cut expenditures. Where you cut? You either cut social expenditures or infrastructure. You usually end up cutting both. So, if you look at East Asia, you have government investment in infrastructure would be around 70% of GDP. In Latin American countries it will go beyond 72% of GDP. And then you have all the problems you can imagine, urbanization, you go out to big city in Latin America and you will see the terrible consequences in under investment in infrastructure. In terms of the quality of life in neighborhood, quality of housing, security in streets, etc., etc.

So, it's okay to talk about sound fiscal policy but it could be even better if you look at the other side, which is how do you focus at the same time on the tax base, on the tax returns you're getting. And particularly on the insufficient tax base that most of these countries have. Most people will say that well, we do not have political conditions to raise taxes. Well, look at the tax evasion on the high income groups. You don't need – many times you could solve that with an administrative means. And that's where you could get the resources to increase the infrastructure for example. Not much is said about these things. Middle income groups in middle income countries do not pay taxes or pay very, very little taxes.

Exchange rate policy. This is a lot of fun. Because we are going to miss – you know, we always like certainties. And you know, we fight each other, write papers, so on and so forth and finally a group of us says "This is it. Fix exchange rates." Okay. Dollarization. That's what you have to do. Then that doesn't work in two or three countries. And then we start discussing and we'll say "Free floating rates." Okay, so free floating rates. So everybody is doing it. Before coming here I was talking to the general manager of one of the wine exporting companies in Chile. We are supposed to be pretty good at it. And we have been moving upscale in the market finding new niches. We are not particularly inefficient in one production. Actually, we are quite efficient. And this guy gave me a figure that 80% of the wine producing, wine exporting companies are having big losses. And only 20% are still in bloom, with profits. And why is that? Well, look around almost any place and you will see that because we now believe – we, the economy – believe in free floating exchange rates. It becomes very suspicious and almost extremely dangerous that you tell the Central Bank go and accumulate reserves so why don't you put the tax on short term capital interest. You just don't do it.

So, you have appreciation, very fast appreciation of the exchange rate now, particularly those countries which are commodity exporters. And, the what you see, is a severe damage to the new exporters that do need to diversify your export basket. It hits particularly the medium size, small size firms, who are just learning to export their – they're getting to know the markets, establishing networks for distribution and so on. People will say, we'll tell you know, we cannot go against the market so that will be it. Well, at the end of the road if this cycle goes for three, four, five years. We will end up with the prophecy – self fulfilling prophecy – that again, we will be exporting those two or three key commodities. And when the price of commodities goes down, we'll be in trouble, again. So, what I'm saying is that from a practitioner's point of view there should be a very strong argument for managed exchange rates. Tax capital influx, active role in Central Bank in buying foreign reserves, accumulating foreign reserves when it is needed and so on, and so forth.

Another provocative topic. Central Bank autonomy. Okay, Central Bank autonomy is very important. It has worked quite well in Chile. So I'm not criticizing what we have as an institution, but very quickly. In problems, potential problems. When we think Central Bank autonomy, Central Bank defines goals. The goal is inflation target. Well, if its only inflation target, what happens to the roads? Somebody would say, always low inflation will in the end bring higher growth. I'm not sure. In practice when Central Bankers feel forced by law to look at only one specific number, they will tend to over do it with respect to that number and forget a little bit of the rest. In other words, it tends to create a biased – a certain biased against growth in terms of trying to reach a growth rate closer to their potential. And the risk is becoming underachievers. Well, I want to leave it there. The other point is too polemic.

Let me take just an entirely different topic now. And I will, and that will be it. It's interesting that the report says that what works better in terms of institutions or governments, is strong governments and hopefully dominant political parties. The report says that makes higher growth more likely. Well, okay. You can say that. But if you live in a democratic environment, there is a high likelihood that you will not have a strong government and that you will not have a single strong government party.

In fact, in most middle income countries you will have minority governments because of the electoral rules or whatever. Minority governments are prevalent. And we political systems tend to produce uncooperative policy making. That's a problem.

So, how do you get out of that dilemma? Well, I think it's important to stress the role of what they would call "adaptable institutions". The discussion about institutions usually says well you have to have transparency, fight corruption, rule of law, property rights and so on. That's all right, that's the kind of foundations for growth to occur. But, the thing is that when you are at middle income status, if you have this reform fatigue, if you have this fight for distributive issues and people feel discouraged about the state of affairs. How do you generate a space to produce a more permanent consensus regarding the growth strategy? If you're at an intermediate stage, you need perhaps 15, 20 more years to get pass this threshold to become a developed country. And you don't seem to have the political condition for that. How do you solve that dilemma?

Well, I think that those countries that have been very imaginative in developing adaptable institutions through time, to meet the new challenges and the new problems are those that are more successful. We have been studying comparative study of the foreign office in Chile, of what we like to call "Like-minded Countries". And we've looked at Finland, Ireland, New Zealand, Australia, Korea. And see how they solve this problem. And you will find, always find, either you have a very well functioning political system where, a parliamentary system – where parties develop and the congress and you elect the prime minister and if you have a majority you can go ahead. But, if you have majority governments, what do you do? You have to bring in the main stakeholders in the development process. In different instances. So that even if there is a political election and somebody else comes to power, you have established conditions to persist in the certain direction in terms of your growth strategy.

If you look at the productivity commission in Australia and how it works, the Economic Development Board in Singapore, the Economic Planning Board in Korea, The Irish Social Partnerships what you find is that they've built some embedded mechanisms where people interact the main actors, where the main policies are realized and updated. As a consequence you have a sort of basic acceptance by the relevant stakeholders about what has to be done. And at the same time you have created an efficient coordination between their stakeholders, the government agencies and the ministries.

In our own experience in Chile, let me just very briefly tell you as an anecdote. When we started in 1990, there was a tremendous goodwill all over the political system to build consensus and to reach agreements on the basic policies. I was Minister of Finance at the time and I was lucky to find that atmosphere because you could go to a congress, discuss, listen to people in the opposition and finally reach a consensus on increasing taxes, on opening up the economy more and so on and so forth. But, after reform fatigue comes, you go to a congress and you don't have the votes. And people won't listen or listen with a lot of hesitation. How do you create the space for them to have to listen? In the case of Chile, we have just almost by, not by design; we've been creating these commissions for the main difficult problems. For example, the last one is the Commission on Equity. There was a lot of noise about wages being unfair, about you know, labor being mistreated and so on, and so forth. Taxes being too low. Very different forces clashing.

President Bachelet created a commission you know, with a mixture of labor leaders, some from the private sector. A lot of think tankers, of people in think tanks across the board. You have perhaps 40 people there. And people thought, you know, this is going to be total chaos. And after two or three months of work, they have produced a report which has almost a general consensus and which becomes almost a mandate for the congress to act. You have a very strong technical input, political sensibilities and the voice of people in the labor sector. So, when the political system seems to be incapable of producing the general consensus to sustain growth, you have to be creative, imaginative and find the space to create instances where the main stakeholders, come, talk and agree on something. And this I think is in these democracies would generally have minority governments; this type of instance often is more important and more significant than strong leadership.

I just wanted to make those two points. There are many others in the report, but I hope that in the future these topics of middle income countries becomes very central, because more than, around a hundred countries can be called second world middle income countries. And, the problems are much more difficult, much more complex, but much more challenging and stimulating too. Thank you.

Nancy Birdsall: Let me invite Danny as well as Alejandro to the stage and while I introduce Ricardo Hausmann. Now, you've just heard from a sober realist. Now, we have the opportunity to hear from Ricardo Hausmann, some people might call him a wild eyed dreamer, I'm not sure. Ricardo is a professor in the Practice of Economic Development. And a Director in the Center for International Development at the Kennedy School at Harvard. And he is a former and the first Chief Economist of the Inter-American Development Bank, where I had the great pleasure of getting to know him very well. He is a man full of ideas and imagination. And I'm sure he will find something to complain about in this excellent report that's in the awkward middle. So we start with comments from Ricardo, then we have just a little bit of discussion amongst those of us on the stage. Then I look forward to calling on all of you.

Ricardo.

Ricardo Hausmann: Thank you, thank you, Nancy. And thank you for reminding me of those four years we spent together. I became the first Chief Economist of the Inter-American Development Bank because when Nancy became the Vice President, she wanted to have a Chief Economist. So, you got your way and you got me here also, so. Thank you for both.

And also thank you for the World Bank team and Danny Leipziger and Roberto Zagha, that we've been collaborating over the last few years on this and other endeavors. And thank you also, Alejandro. Alejandro and I were Ministers at the same time. Alejandro is from the Christian Democratic Party, so when I was Minister I asked him to go to speak to the Christian Democrats in Venezuela who were in the opposition. And he actually made a big impact on them. Saying you know, you have to reach consensus and cooperate and behave more constructively. So what he just said was very much in line with his long standing behavior on this.

Now, in I'm very happy that the World Bank decided to have a report on growth. And they called it a Growth Commission. They didn't call it a Shared Growth Commission or a Sustainable Shared Growth, its just growth. Because growth had become in the development community a four letter word. It had become a four letter word. And when I was invited by the Department for International Development in London, I was for a seminar on growth – I was impacted by the fact that the Minister, Hillary Benn at the time, took sort of like the introductory 15 minute mark, kind of like apologizing or justifying or why have a seminar on growth. Because it rubs many people in the aid community the wrong way. But, you know, they just have to be you know, to take some analgesics or something. It is really, really important that growth be again, at the center stage of the development agenda.

When I took over the Center for International Development, I created the Growth Lab, we call it. There were plenty of voices saying "Woah doesn't sound right to me. Doesn't have the right ring." So the fact that you are making growth legitimate again as a focus of discussion I think it's very, very important.

Secondly, I think that it is also very important the emphasis that report makes on engaging the global economy. That poor countries cannot make it unless they participate not just in ideas, capitalism, but especially in exports, to the rest of the world. It is impossible to grow in a sustainable manner unless you have a significant changing, transforming package of exports. And that I think is very important.

But engaging in the global economy does not mean free trade. It means export promotion and so on. It doesn't necessarily mean free trade. And I think that the report is in an effort to strike a balance there. I also find it extremely interesting that the report has focused on the issue of urbanization. I mean, Latin America is a basket case in terms of the quality of urban life. And I think that it is due to several reasons that should have received much more policy attention then and I think they should receive much more policy attention going forward. And there are a couple of things that I think are important to note.

One is that as cities grow they need to supply more services. We haven't thought too much about how it is that supply and demand for services match up. Because most constitutions limit the capacity of city governments to tax. They live on central government transfers. Now the system of central government transfers has no mechanism to have supply respond to demand. A city that is growing faster does not get more resources than a city that is growing more slowly. There is not automatic mechanism, there is no marking mechanism to equate supply with demand. So, you are going to have growing cities, stagnant budgets, and increased demand for crime control. No supply, you go to a very bad equilibrium of crime without any control.

So, we - the issue of urbanization, I mean we know that urbanization allows the division of labor, allows for complexity. It's fundamental in the development process. If you just take the rate of urbanization, it explains like 70% of the variation in corporate capital in countries across the world. So I mean there are obviously these things co-evolve very seriously.   So I think that that's an important focus. There's a connection that the report doesn't make here that I find in my mind helps me understand many things. In – are your export jobs in cities? Or are your export jobs way outside of the city? Because if your export jobs are in cities, then as your exports grow, demand for labor grows in the city. And you can have – I mean, if your labor force is integrated to global economy, wages and dollars are going to be set by your competition with the rest of the world. So, that's sort of, going to put a floor on your wages. It's going to regulate your wages. And as you improve your exports your dollar wages are going to go up. And life in the cities will evolve with that labor demand, elastic labor demand because you're integrated this large global economy through your goods.

If export jobs are in the countryside, as you increase the number of people in cities who are producing more and more nontradeables that are bought by the other people around. So, each one of them is going to face a much faster declining demand curve. These things are not going to be scalable. And to me, the difference between the fact that in East Asia you had rapidly growing cities around export jobs and in Latin America, you have that exports are lower around the cities. They are somewhere in the boondocks. Explains a little bit of the different roles that urbanization has played in terms of sustaining the growth process. So I commend them the report on that chapter which I found very enlightening.

Now, since I didn't come here just to be nice. Because it would be boring, you know. Let me tell you the areas where I'm less happy. It's not that I'm less happy with the report per se. It's that I'm less happy with the way the world thinks, general, about policy. And I classify kind of like if you're – and you can look at the report and classify paragraphs in these two issues. Do you want kind of like a list of policies or policy ideas? A to-do list. So, I want to grow, tell me the to-do list. What's the exchange rate regime? How much should I tax? How – what should I spend the money in? How much in infrastructure? How much in education? So, tell me the formula. Tell me what it is I need to do and I do it. So, I need a list. Like if you wanted John Williamson – around ten items, do these ten items, right? That's one approach.

The other one is to say hey by the way, and do it democratically. Well, wait a second if you do it democratically, then you don't do that. You'll do whatever emerges from the democratic process. You can not over determine the system, right? You either want that list and know what the list is or we're talking about a policy process.

So, when you think about the policy process it's unclear what the authors of the report have in mind when they are thinking about the policy process. But and it's very hard for them to write a report about the world, thinking in terms of the policy process. Because we know that the policy process is super radically different in each country. And Alejandro has just explained how given the reality in Chile, he has you know, they have come up with this idea of having these commissions and let this commission process and so on and that will affect Congress in a certain way and so on. Let's think a little bit about how the US does it. The US has 435 members of Congress, of the House of Representatives. It has 100 Senators. They belong to parties, but not to parties that any Latin American would recognize. Right? They vote along their own lines and they vote one way or another depending on how they feel like or how their constituents feel. So it's not that they're voting the party line. So they become pretty much entrepreneurs, political entrepreneurs, 535 of them. On the other side you have something like 22,000 registered lobbyists, 22,000 registered lobbyists who care about stem cells, they care about acid rain, they care about having the legal framework to sell music on the Internet. Right? They care about foreign aid; they care about and have think tanks and stuff, right? So there's a whole community around them on the other side. And out of that process emerges policies.

Nancy Birdsall: Sort of.

Ricardo Hausmann: Now some people might say, some people say, "We have to change Washington." It's popular and political campaigns that say "We have to change Washington." I'm more in awe of Washington. Because this is a process that allows you write and rewrite and revise hundreds of thousands of pages of legislation that affect a myriad – all of possible economic activities. Now that is the reality of the policy process. The economist's interpretation of that is that is all a waste of time. That is not important. That you know, you would have the Internet, you would have cell phones, you would have everything, anyway, even if Congress did not exist. And I would radically disagree with that interpretation.

What I would say is that growth, activity, depends on that infrastructure. But that legal infrastructure is a social outcome with many, many participants. And when you try to come up with this list, this to do list, you forget that what is really important is how society institutionalizes all these things that it's going to do. Society needs to search the space of possibilities, it needs to identify obstacles, needs to identify what economists would call second best interactions. That if were to change this legislation here, it might have an intended consequences.

How does that happen in the US? Well, you know, there's some lobby group pushing for legislation and they're all – a lot of groups reading whether they like the impact if they like the impact that legislation might have on them, right? That is a process whereby a lot of information is revealed that no expert body would be able to peruse.

So, the process whereby policies get a formulated, improved, implemented and so on is I think key to the growth process. The reason people like to invest in Singapore, it's not because the legal framework in Singapore is super clear. It is because people think if there's a legal problem in the framework, there's a problem in the regulations, there's kind of like the political consensus and the process to fix it. While in other countries they say look, I'll go in, I don't know what I'm going to find, but I'm pretty sure that if I find a major impediment, I'm going to get no traction in terms of trying to fix it, because the system is not focused on that. The conversation mechanisms are not there.

So, when the report for example, talks about industrial policy, the way I think about industrial policy is simply to have the bandwidth between government and the private sector to identify all these hundreds of thousands of pages of legislations. All these hundreds and hundreds of agencies that governments have for very good reason. To understand how to redeploy them, how to adapt them, how to fix them, how to report back to them and so on. That process is what really is going to come up with the recipes that eventually get implemented. I think that now with Web 2.0 and you know the Facebook generation and so on. We understand so much better how networks work. And I looked at the report, I couldn't find the word network in it, and the network of policy making. And the ecosystem whereby the policy making process operates is not there. And so there is this tension between the experts feeling the responsibility of saying do A, B and C. And the experts knowing that nothing that they say will travel particularly well. And that I think is the tension that we find when doing the report.

Thank you very much.

Nancy Birdsall: Thank you, Ricardo.

Now before I turn to some discussion and then questions. I want to make a special invitation to Arvind Subramanian who's here in the front. Arvind is a Senior Fellow here at the Peterson Institute and here at the Center for Global Development as well. And he's been in communication with an additional commissioner, Montek Ahluwalia, and I asked him to say a word about the issue that Montek and he have been raising, which is related to some aspects of the commissions report in terms of the views of globalization.

Arvind Subramanian: Thank you, Nancy. Well, Montek has a nice way of phrasing this particular issue. And he calls this, or rather the question that he poses, is is there an intellectual climate change in the rich world in terms of the attitudes to globalization. And his concern or one of his concerns, I guess which he expressed internally as well, is how much of the report actually addresses the fact that on the one hand now, you know, you say that integration into the global economy is essential for growth. But, what if that is jeopardized on the other side. And what needs to be done on this side, the OECD side, especially in the United States with all this – with the background here of stagnant wages, rising inequality, healthcare being so dicey? And what that could do potentially to the environment for globalization. Whether globalization is going to be attenuated and what the impact is going to be.

So, this whole question of you know, intellectual – so it's not just the substantive issue of will these markets be open for developing countries in the future. But, what about the intellectual climate? The opinion makers who determine this - is there a shift going on there and should we be addressing this issue. So that is the question that Montek has posed.

Can I ask another…

Nancy Birdsall: No, but I'll go back to you when …How about if we – we have plenty to talk about up here and then we will return to you. Thank you very much Arvind. I think basically Montek's question addresses in a different way Ricardo's point, we could have a lot of bandwidth in Washington and in the United States and still somehow not have the appropriate wisdom of crowds that might result in principle from all of that bandwidth.

Danny, I hope you'll think about this question from Montek and Arvind, but I'd like to ask you an additional question that arises from some of the remarks of Alejandro and Ricardo. And, particularly, Alejandro, in talking about these economies that are stuck in the middle ground. He used some words that we didn't hear from you, and of course it's not fair, it's you had to do a very short summary. But, democracy, middle class, he didn't use the word fairness, but I think it's a word that conveys something about the process in terms of the issue of equity and inclusiveness that fairness says addresses the process which Ricardo was also addressing, as opposed to the word inequality which is about an outcome sometimes, or we think of it as an outcome.

In particular he raised it in the context of tax policy. So, I wondered if you could say a little bit about what, whether the report says anything about tax policy, what it says, particularly for middle income countries that perhaps because of inequality in the distribution of wealth and income end up politically where it's difficult in a situation to tax the rich, therefore difficult to generate the revenues that would allow the investments in infrastructure, education and so on that you referred to. Tax policy.

Danny Leipziger: Okay. Well, I'll take a crack at both. I think on the globalization risks I did allude to the fact that I think it's reasonably consensual point in the commission that we don't think that globalization should be blamed for inequalities. And the flipside of that is all the surveys that one sees, from the Pew Foundation or others, indicate that people are dissatisfied with globalization. And they attribute a lot of their dissatisfaction in terms of employment or industries leaving the country to globalization. Whereas the reality is something quite different.

Now, whether the intellectual – I mean I've seen the paper that you've done. Whether or not there is some sort of a sea change in terms of moving away from commitment to open markets and liberalism, I don't know. But what I do think is that the inability of other countries, including this country, to deal with some of the inequality issues is leading to some negative views on globalization which are unnecessary and in the context of this report, which would be unhelpful for a lot of developing countries that are trying to use this growth path. And as Ricardo said, it is the only growth path that is out there. So, I think it's a valid point.

On the fairness issue. I think it applies a bit more to some developed countries than necessarily to the middle income. But, I think we make certain points about what expenditures are necessary and the fact that tax revenues need to be commensurate with that. I don't the report is particularly prescriptive on the tax policy side. So I think I have – we would accept that as a criticism.

I think in terms of the middle class, the reality is that for many of the policies to take hold of the type that Minister Foxley referred to, you need a broad consensus. So if you figure that 10% of the distribution is the elite who are looking after themselves. And in a typical country perhaps 30% are below the poverty line whose voice is not heard. The question is, what happens with that middle 60? And I think in a number of countries if you look at the net result of expenditure and tax in the old way that Joseph Peckman used to do it across the street at Brookings. You would probably find that 60% in the middle in a number of countries are doing less well than in the past. The problem with that is you need the support of this middle 60 in order to overcome what Alejandro referred to as the reform fatigue.

So, I think these are interesting observations. I think the way we deal with it in the report is by highlighting the fact that you need a strong political consensus around a set of policies that the bulk of the population believes will improve their standards of living and the standards of living of their children. So that means that to make some intertemporal kinds of decisions governments have to have some credibility with their own public, that they can deliver on some of the future promises that they're making.

So, I think this basically is very similar to Ricardo's point about the political economy aspects of growth.

Nancy Birdsall: Okay. Let me just put down a marker. I won't talk about it because it's not the right moment. But I think that it's a little simple minded to assume that globalization is only about trade or capital movements, when in fact a lot of the technology changes that in fact are - account for much of the problem of inequality and growing inequality. The vehicle for their rapid transfer diffusion is in part through trade and capital movements. So I think sometimes on this issue. The public might know, the voters and the public might have some sort of a vague insight about all of this that is a little different from the way we define it academically. I think that's something that we should return to at the Center. This whole issue.

Let me ask Alejandro about industrial policy. Which came up, both in what Danny said and what Ricardo said indirectly. You know, you have this – I hope we will soon hear more about your study of like-minded countries. And you emphasize for those countries the development of this consensus is there anything you would say about the extent to which they were strategic say, in bringing together the government in the private sector or used what is sometimes crudely called sometimes industrial policy, to get ahead?

Or Chile. Maybe you want to say something about Chile. I'm kind of reminded of all this, because I first got to know Danny, in fact, better at the time in the World Bank when he and I were both involved in the report on the miracle of growth in East Asia. And one of the points of that report, way back in the very early 90's, was that there was a strategy. I think that because it was a World Bank report, the words industrial policy did not appear. But strategy became a kind of euphemism for some aspects of industrial – what we would now more comfortably call industrial policy. In the new more open environment.

Sorry, Alejandro.

Alejandro Foxley: Can I say a couple of words before about the previous issue on globalization?

I think globalization will be a topic of discussion in political life all over the place, here and all over the place. But, I'm going to say something really obvious, globalization is a fact. It happens. Then an anecdote, we were in Vietnam with President Bachelet, for the APEC meeting. And of course we went for a formal visit with the Secretary General of the Communist Party. By the way, when we were leaving, President Bush was coming to meet with the Secretary General of the Communist Party. And so we started arguing came about the Vietnamese mode, you know economic mode. He was extremely assertive, saying, you know, what we learned is that if you want to catch small fish, you fish close to the shore. If you want the really big fish, you go out in the ocean and try and get it. So, that's what we're trying to do.

So, very simple basic approach to explain why they have the Communist Party there ruling all aspects of life except globalizing the economy and all the changes that go with it, which are much, much different than just trade. I mean, if you look at what happens in businesses, small business, medium business, large business. It's a revolution. So, the point is then globalization and equality. And, I'm going to say all something very obvious too, globalization…and no serious, responsible, knowledgeable economist will ever argue in the region for industrial policies. He will be, you know, without a job. It just happens that we need them. Now, how do we do industrial policies for a twenty-first century with very open economies where the main actor is not the state, but the private sector, where the people who are going to innovate and create another traditional enterprises the commodity producers that are already exporting for two or three decades. How do you detonate the process of creativity where public, private combinations allow you to provide the right incentives, and something happening in terms of moving into a knowledge based economy? That's the topic of Professor Hausmann. He's written some wonderful new stuff.

Nancy Birdsall: Okay, well I see—I hope that most of you are able to stay for another ten or fifteen minutes, because I just realized I didn't pay enough attention to the clock, and in principle we should finish, but because time is a little bit short, I hope that you'll stay. We have a reception afterwards—if that tempts you a little bit more—in a lovely open space. So what I'd suggest, since we've taken too much time up here, is that we take a number of different questions and comments including [Arvind's] and then I give the last word to each of you for a very quick, one minute, you pick what you want to reflect on. We have a lot of people in this audience who have thought for decades about these issues, so I open it up. Yes, please, and if you'd introduce yourself.

David Crocker: Yes, my name is David Crocker. I'm at the University of Maryland in the School of Public Policy. I find a disconnect between the presentations and then the discussion when you're seated in chairs. I don't know if there's a reason for that or not—and that is a disconnect on the issue of ethics or values. Is there an ethical vision in this report? One would think not when the discussion was, "Well, this is ideologically neutral or not ideological." The focus is on growth.

Nancy Birdsall: Okay, it's a great question. So we have time—

David Crocker: Okay, the question is growth for what? What are the ends involved? It was mentioned as a means, but then nothing about the ends involved.

Nancy Birdsall: Right, great. Thank you very much. Arvind, let's go to you. You had a question.

Arvind Subramanian: Very briefly, on Africa it would have been nice if the report could have talked a little bit more about the fact that Africa is now facing a massive relative price shock. The relative price of quantities has gone up and manufacturers has come down. And we know from a growth experience, that commodities are a doubtful way out of poverty and manufacturers are a way out of poverty, and yet the relative price has gone exactly in the opposite direction, so doesn't that make Africa's challenge that much greater. I found both the framing of the problem and the possible, you know, addressing it maybe more could have been done in the report on that.

Nancy Birdsall: Why getting globally integrated—Africa getting globally integrated may exacerbate inequality of income across countries anyway.

Steve Lauren: Steve Lauren from ACOM.

Nancy Birdsall: Go ahead, and then…

Steven Lauren: I just had a real question. I'm afraid I went right to the list—the bad ideas list, because we really should have a how-to manual with these things. I'm a little bit confused. In the measurement issues are what I want to ask you about and see if you have any comment on it. You have a lot of comments on bad ideas, but each of these bad ideas have some kind of qualifier, or they have some kind of measurement issue, or judgment involved highly vulnerable. For example, reduce fiscal deficits as long as they have, but don't do it if they have a large social return in the long run. Protection for limited periods of time. Quality of education and excessive appreciation in the exchange rate. Do you offer any guidance as to how to measure any of these things?

Nancy Birdsall: You want numbers. You want ranges.

Steven Lauren: Some numbers are—this is a growth idea, that's great, but so what?

Nancy Birdsall: Right. Akbar, I think I saw you.

Akbar Noman: I really like the eclecticness—

Nancy Birdsall: Please introduce yourself.

Akbar Noman: Oh, sorry. I'm Akbar Noman known to Nancy Birdsall and to some of you, but I'm at Columbia University in New York. The question is you know this one of—relate a little bit to the last one, your over-eclecticism, and that's a great message clearly of the report that great growth requires eclectic mix of policies and that its context specific depends on the context—what the right policy mix, and so on is, but is there some kind of stylized stuff one can derive for country that different typologies and stages? If you are a middle income country, high or middle income, and that's the way you face a certain set of issues, which are quite different from what you face as an African low income country predominantly agriculture very small manufacturing sector. Do you attempt, or does the report already do any kind of stylized typologies and then you can come at some kind of—go a bit more than say be eclectic? You know, if you are in this sort of situation, these are the kind of things you might think about doing. You get more of a dos and don'ts list without just leaving the message at, you know, be eclectic. I mean I'm not being fair to the report; I have not read it. Thanks.

Nancy Birdsall: Thank you, John? John Williamson.

John Williamson: John Williamson. I'm here at the Peterson Institute. I was living in one of these countries at the time of its great success and growing up, more than 7% a year for more than 30 years, and I remember during that period, I came back to Washington and—

Nancy Birdsall: This is Brazil that you're—

John Williamson: —that was Brazil. I announced that the rate of inflation had gone back over 40%. I noticed that one of the stylized facts you give is that these countries all did five things right, and one of them was macroeconomic stability. Would you count 40% inflation as doing things right?

Nancy Birdsall: All right. Yes, in the back, and then Peter.

Ernesto Riqueda: Thank you. Ernesto Riqueda and I'm an Associated Press reporter for Latin America. I have a question for Minister Foxley. Chile has grown very impressively in the eighties and nineties, but in the past few years it seems its economic boost has been stalled. The Peruvian president has just said less than two weeks ago, during the Latin America EU Summit in Lima, that probably is going to take at least another ten years for Chile to give an economic leap like in the past two decades. So today, you spoke a lot about reform fatigue, so my question is do you think Chile is been something like a casualty of reform fatigue?

Nancy Birdsall: And Peter.

Peter [Botelli]: Peter [Botelli] at John Hopkins, SAIS. You stressed the centrality of growth as the first message in the report. What does the report have to say on the quality of growth? Nobody has mentioned efficiency. Rate of growth is important; clearly how you achieve it, especially effectiveness. You cited Solow to begin with the quality of the growth process, the efficiency, the productivity is just as important. Is that dealt with in the report and how?

Nancy Birdsall: The last question for you, Danny, does leadership matter? Has it mattered? How important is it for a country to have the good luck of a good leader for an extended period?

Now, you don't have to answer everything. You get to pick what you want. I think sometimes the questions are as interesting—they wet the appetite for people to read the report, but take your pick and then we'll ask Alejandro and Ricardo to say anything they want. Danny.

Danny Leipziger: Okay, well thank you for the questions. I'll try to hit all of them, but I'll be brief. I think obviously in a 15-minute presentation one can't cover everything adequately, but I think we're very clear that growth is not the end in itself and welfare gains are. We have a number of ways measuring welfare gains. So that should be clear. It relates a bit to Peter's point on the quality of growth, because you could look at efficiency, but you could also look at who benefits from the growth. I think we have some conversation about inequality and whether or not it's unavoidable or can be dealt with, but don't let the title of the growth report throw you away from what the ultimate goal of the Commission on Growth and Development is. The ultimate goal is development and welfare improvements for the bulk of the population. We think that growth is the means to that end, and we're trying to focus on it in a way that some of the commentators have said.

On the typologies, we do mention four groups of countries, because we think there is certain characteristics that are worth noting, and so we have separate sections on Africa, on landlocked countries or small states, on resource-rich economies, and then on the middle income. But we resist the temptation, although people may see lists in the report, we resist the temptation of giving a set of prescriptions. I think we're trying not to do that. That's not to say that, you know, every idea is equally good, and I think the purpose of the bad ideas section—which we can talk about later—was to actually say, "Look, there are some things there is a pretty good consensus around that these things don't work or these are not good ideas." So I think we're trying to both stay away from being overly prescriptive, but also not say that everything in the range of possible policies will have an equal probability of success.

On Brazil, it's an interesting case. I mean what I was going to say to John is that the inflation went up when he left Brazil, so the obviously policy conclusion is he should have stayed in Brazil. But originally, to be truthful, we had twelve countries on our list, and at the insistence of Edmar Bacha, we increased it to thirteen because Brazil did have this long period of high growth. The trouble is it's in the past and it's not in the last ten to fifteen years, so it's a bit of an anomaly because of that.

On the issue of manufacturers versus agriculture, it's interesting that this report comes out at the time when the food price crisis is out there. Whether or not this is a sea change and you know Raul Prebisch is smiling from the grave, I don't know. But we do think and the report does make the point that for all the economies that we have looked at, there has been a rapid transformation and movement of people from the rural economy to manufacturers. That doesn't mean that you don't continue to produce agriculture and the agriculture shouldn't be efficiently produced. Now whether or not for some countries there is a better mix now between potential markets in agriculture versus manufactures remains to be seen. It's not at all clear that the benefits go to the rural producers even in economies that are producing well, so the notion that export taxes are creaming off a good deal of the benefits of rural production is still there.

On leadership, we do make a big effort to talk about leadership, and the difficulty with that is it gets you into conversations about democracy and one party states, etc., which is not where the Commission wanted to be. But we do identify leadership as indispensable. We have had a number of workshops where we brought in successful leaders, and not only the ones that you would think of, but President Mkapa from Tanzania was there, and Cardoso from Brazil, and tried to get a sense of how they saw the problem and what they did in order to get consensus around certain sets of policies. So we think that leadership is very important and leadership beyond one administration. I think that's where the Chilean experience is extremely relevant, because there is no way in a four-year period or five-year period, that you're going to be able to make the kind of investments and do the kinds of policies that will get you decade upon decade of growth. You've got to have this ability, whether it's through institutions that Alejandro mentioned, or through other political means, you've got to have leadership which transcends the individual administration.

Nancy Birdsall: Ricardo?

Ricardo Hausmann: I wanted to answer Montek's question first—has there been an intellectual climate change. I think that there has been a huge—I don't know, I mean sometimes I attribute it only to the single effort of Lou Dobbs. He's every day of the week for an hour, and so if you are a candidate like or Hillary or Obama and so on, you have, you know, 15-second sound bite, do you want to in that 15 second, change the intellectual environment created by sort of like a diet of protectionist thinking? So I am appalled at hearing at Hillary and Obama when they talk about trade, and really appalled—and I'm appalled at their position on the Columbia Free Trade Agreement. I'm appalled on Hillary's idea to renegotiate NAFTA and so on. But I'm even concerned that my colleague, Larry Summers, is trying to find a way to accommodate intellectually, so yes, I think it is an important—it's very worrisome. It's very worrisome and I, you know—the Kennedy School is full of advisors for Hillary and Obama and you know, they tell me—

Nancy Birdsall: Ricardo, Hillary and Barack or Clinton and Obama.

Ricardo Hausmann: Agreed, agreed, sorry.

Nancy Birdsall: Por Favor.

Ricardo Hausmann: I'm not a citizen, so—but the point is that they all tell me, "Nah, this is just for the election. Afterwards, you'll see." No, it doesn't work that way, because there is—it's very hard to do policies that do not have public support, so I think that there is significant damage done here, and I think there is change.

Second, on this issue of leadership, that's the part of the report I like the least kind of like, honestly. I don't believe the story that you have a leader, he has a vision, and his role is to communicate, help that vision. I mean the vision is sort of like he's trying to find something that resonates—

Nancy Birdsall: —or she.

Ricardo Hausmann: Or she. There is no—I don't like the model that we're going to have all these individual leaders in each country so that we can tell them what to do and then they will communicate it to the rest of their society. I think that that's a top-bottom approach. I don't think it works. When you asked some of your questions, do you think you should touch the rich and the middle class and the poor and so on—who are you talking to? Who is the subject that is supposed to react to your question? You know, there might be a political leader who wants to get votes and he's going to offer a platform, and so on. So it has to be through that process, so I think that we're imagining some agents that don't exist in the world. That's my second point.

My third point on industrial policy very quickly. What I advise government, you know, ministers of industry and trade to do is to set up the communication structure with a private sector, and to have the rules of engagement with a private sector. So I say, "Look, this is not about subsidies. Don't come to here to talk about subsidies. This is about regulation, certification, infrastructure, public goods, public inputs—things that you cannot produce on your own that you are dependent on government to produce, and I don't have a clue what they are, and I need this communication for you to tell me what they are. For you to tell me where the opportunities lies, for you to tell me where the problems are. I'm not here to communicate with you. I'm here to find out where the problems are." And so that's the first thing, you need to have your communication infrastructure to be able to know where problems are.

Secondly, you have to be able to respond, because the typical thing that happens to a minister of tourism is that he needs the private sector, and they tell him, “Look, first, tourists are not coming because you demand visas and we don’t have consular service to give the visa, so how do you want the guys to come?” Secondly, they come, they cannot drive because all the signs are in Cyrillic and these guys don’t understand Cyrillic, right? And number three, we don’t get building permits. We need building permits to build hotels. We have the investors; we don’t have the building permits. And the minister of tourism in good Clintonian manner is going to answer, “I feel your pain. My ministry has nothing to do with visas, nothing to do with traffic signs, nothing to do with building permits, but I feel your pain.” So that is the problem of government to deliver to all these public goods that could have created a spectacular tourism industry that is not there because the government does not have the capacity to provide the specific public inputs that underpin all the industries that are out there or could have been out there.

A final point, if you are at the World Bank, you always get this question: does your report cover my area of interest? Well, it doesn’t need to cover that area of interest in this report, right? But for some reason, the report decided it had to do with global warming. I don’t know if people said, “Oh, we cannot come out at this time and not discuss global warming.” But you’d say, “Well, why here?” Anyway, but if you are going to talk about global warming, you can talk about biofuels, but if you are going to talk about biofuels, biofuels is a hugely a potentially—

Nancy Birdsall: —mess.

Ricardo Hausmann: No. It’s a huge growth potential for Africa—

Nancy Birdsall: Mess here.

Ricardo Hausmann: But it will require, you know, infrastructure to expand the agricultural frontier. It will require, you know, standards for cars so that, and for the distribution of gasoline and so on, so that people know that there is a market, etc., etc. Now here, the mess that you are talking about goes back to the original point I was making about Montek’s question because the biofuels mess that you have is based on protectionism. It’s based on the idea that the U.S. does not want to create a global industry of biofuels, so that biofuels are produced where it’s more efficient for them to be produced. It is done through a closed economy model where you want your corn and your stuff and with very huge barriers to trade to the countries that potentially could have a comparative advantage in the production of biofuels. So I think that yeah, there is an intellectual climate. These things cannot happen without some government policies.

That is what a industrial policy reform is about, and there is no way of avoiding it. You are doomed to have it.

Nancy Birdsall: Alejandro.

Alejandro Foxley: Well starting with your comment on the candidates of the Democratic Party may be saying about trade. I have a much more optimistic view about what will eventually happen. I don't think the U.S. will be able to withdraw from a very close economic interaction with the rest of the world, because look around and those countries not really doing better. They are more open and they are basically competing and trying to increase the total productivity, or the factors of production, and you know, that's reasonable it will happen here also in spite of the election and what people are saying in the election. That's my own impression and feeling.

This is very much based on our own experience in Chile, where you have a very open democratic system. You know, that anybody can speak their minds. A country that has still a lot of inequalities, and yet for 20 years, income per capita has tripled in democracy, poverty has gone down from 55% to 13% in democracy. We've been increasing exports, you know, at a very, very fast rate. So the question about reform fatigue I think in any democracy what you have is not necessarily reform fatigue but you have the need to continuously—to be continuously rebuilding agreements, continuously reshaping policies and facing new challenges.

For instance, what Ricardo was saying, when you grow 6% or 7% for fifteen years and the state doesn't modernize itself at the same pace as some of the companies who are forced to restructure because of competition, that's a problem. And to reform the state, it's not easy. For instance, education. The quality of education in Chile is not improving at the speed it requires. Why? Among other things, because teachers and teacher's union do not accept to be evaluated according to their own performance in the class.

Reforming the state is very difficult in Chile and anywhere, so it's a new problem. Energy vulnerability. You know, right now, why Chile is growing 5% and not 6%? There might be several reasons. One very important one is an extreme, but really important—energy, and the price shock with an autonomous central bank whose only goal is to reduce inflation forces to cool down the economy perhaps more than would be optimal from the point of view of growth. John is skeptical about that I think. So you have to set out some of the problem of energy and really diversify energy sources, etc. difficult. It's not easy.

Then the private sector issue. If you look at exports in Chile, which are growing very, very fast mind you. There is a study by the World Bank that shows if you look at the increasing exports, about 80% of the increase is related to traditional commodity exports. Essentially, company is increasing the scale of production, but doing more or less more of the same. About between 10% and 15% are increases in exports related to free trade agreements. We just signed yesterday with Australia with a free trade agreement—with 54 different countries, 3.8 billion people. What's the challenge there? We have companies used to exporting first to 16—a market of 16 million people—then a market perhaps of 50 million people, and now we have 3.8 billion. How do these companies react? Do we have entrepreneurs which are capable of understanding that they have to associate themselves with companies in other countries, that they have to find new ways of increasing the scale of invest—everything is new when you are developing and when you have to pass the threshold to a developed countries have started.

To summarize, I have a very optimistic view of what will happen with the Chilean economy and Chilean society in the future, but I have to accept that we will not every single year, grow at 7% a year. That's impossible. But as long as you feel dissatisfied and you feel that you are in—development is a continuous learning process. You don't know all the answers. You are learning all the time. If the political system is able to respond to that, then you will a little bit up, a little bit down, but globalization works particularly when fairness is an essential component of globalization.

Nancy Birdsall: What an excellent final summary. Thank you, Alejandro. Thank you to all of you for participating. Let me say, because of Obama and Clinton and McCain, that we are preparing an agenda at the Center for the next U.S. president that will be development and growth friendly, and we will be publishing it sometime in the next couple of months. I look forward to seeing all of you growth experts and aficionados back here then. Thank you to all of our participants, and I hope you will all now read the full report of the Spence Commission. Thank you again.

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