Speech by World Bank Group President Jim Yong Kim on a "New Approach to Economic Challenges"

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Transcript

I thank you so much for inviting me. We've talked a lot about the disappointment with the growth numbers. And, you know, I've only been making predictions on growth for four years, and every single time we have downgraded our explanations of growth. And so I really look forward to the day when we can do the opposite, but unfortunately not yet.

In recent years, even our modest expectations were repeatedly disappointed, and we had to downgrade our growth forecasts on a regular basis. Moreover, several risks to world growth remain tilted to the downside.

Moreover, not only have our relatively modest expectations been disappointing it seems like there are now more risks and they are all tilted to the downside. Longer-term challenges are also quite clear in that the most important one is that of productivity growth. Countries around the globe have experienced not only a slowdown of GDP growth but also a slowdown in growth in output per hour of work, labor productivity. And yet there seem to be ample opportunities to accelerate growth and productivity increases. We've extensively discussed the measures needed to do so in conferences and international fora, including here in Chengdu.

Measures include -- and (inaudible) mentioned many of them that are (inaudible) as well. Fiscal and monetary policies to support demand, more investment in infrastructure, further integration in the world economy,

structural reforms in labor markets, the financial sector, and the business climate to better allocate resource, and investment in innovation systems to accelerate technical change. Economists agree all these measures are needed to spur growth.

And while nothing in this reform agenda is easy to achieve, none of them are altogether more difficult than the policies that have prevailed for decades and that have led to unprecedented prosperity, and a rapid reduction in extreme poverty over the past several decades. Today, though, opposition to the very reforms that can accelerate growth and boost prosperity seems to be growing around the world.

It's clear that one of the key drivers of this discontent is growing inequality. Rising income inequality, or even just the perception of it, has undermined a consensus for the policies and measures that are needed to increase prosperity. The lack of shared prosperity is undermining the basis for creating prosperity, and sometimes undermines the very fabric of societies.

At a global scale, according to my former World Bank colleague Branko Milanovic, income inequality among all people in the world has actually come down in recent decades, in part thanks to the phenomenal success of China, and to a lesser extent India and other developing countries that grew rapidly.

At the top end of the global income distribution, the richest 10 percent, the richest decile has also made major gains in income. But scores of people around the globe did not benefit, most specifically, the middle class in advanced economies. Real incomes of that group, which is around the 80th to 90th percentile of the global income distribution, were stagnant in the decade ending in 2008. In fact, the average worker in the United States saw no real income gains over the last three decades.

And while in the majority of developing countries' income inequality came down, especially in Latin America, in most developed countries, and some important developing countries such as China, Indonesia and India, income inequality overall has gone up, according to our latest Global Monitoring Report on China, that specifically what we all know is that the overall income went up so much more quickly that even the poorest in distribution inequality, their life went up dramatically.

I want to propose among my colleagues here that the two trends, productivity slowdown and rising inequality, are related, and that it will be hard to tackle one without tackling the other. The challenge then is to create wealth, and to ensure a reasonably equal distribution of this wealth, so as to maintain the momentum for reforms.

Now both (inaudible) and I are speaking to countries in general and I'm certainly speaking about developing countries in general. This might not all be relevant to China, but let me share with you our thinking and specifically what this means for people like you who are also members.

First, we have to find a way to help those who do not immediately benefit from policies that are set to improve overall welfare. We have to design appropriate safety nets that protect those who lose out on trade reforms and help workers who lose their job to move to a more productive one by matching structural reforms with active labor market policies and retraining.

Second, we need to invest not just in infrastructure, but in infrastructure that connects people with opportunities created by reforms. More than anywhere else, China has shown that connecting people with economic centers is a way out of poverty. People need roads to get goods to market, they need robust internet access to allow the creation of the next Alibabas, and people need access to electricity that enables children to do their homework at night.

I believe access to the internet will be particularly powerful for ending extreme poverty and boosting shared prosperity in the future. Access to the internet means access to markets, as the famous Alibaba Villages have demonstrated here in China. Internet access also means access to world class education offered, for instance, by the Khan Academy based in the U.S., and the online courses of world class universities from around the world such as MIT, Oxford, Tsinghua University, and the Indian Institutes of Technology –- all for free. But access to the internet remains challenging. Six billion people do not have high-speed broadband internet, almost four billion do not have any internet access, and nearly two billion do not have a mobile phone.

Third -- and this is very important for us -- we need to invest more in people. Now this is something China has done just brilliantly. Investment in physical infrastructure is much discussed and recognized, but investments in human -- what I call "gray matter infrastructure” is too often overlooked -- gray matter being the brain. It's important for future productivity and health of

individuals, and it's critical to the economic competitiveness of nations. Globally, every additional year of schooling raises earnings by 10 percent a year throughout their lifetime.

Moreover, private returns to schooling -– what individuals receive directly in the labor market –- have been increasing. Returns are increasing by more than 20 percent in Africa and more than 14 percent in East Asia and the Pacific. A child's early years are an opportunity to influence long-term learning and earning gains for children. Ninety percent of a child's brain development occurs before the age of five. If we don't invest in her during the early years of her life, she is fated to learn less, earn less, and likely remain trapped in poverty. Unfortunately only 18 percent of children in low income countries attend pre-primary education. Barely half of children in middle income countries do.

Now I want to get specific here because I think it's very important. We know a lot more now about childhood stunting. Rates in China were very high, but with improved nutrition and greater focus China's stunting rates are now below 10 percent, which is (inaudible) contrast. India has a childhood stunting rate of 38/7 percent. And what does that mean? The definition is very simple, two standard deviations below height for age. But we know that every child born in the world is genetically capable of growing 25 centimeters in the first year and 12 centimeters in the second year. This does not vary from country to country. Some countries will say well that doesn't apply to us because we're just shorter. Not true. In the first two years of life all children have the capacity to grow at the same rate. Now this is new and the insights we have are new because the science is better. We have better imaging techniques and deeper understandings of how neurons work and connect to each other. And we know that what happens to stunted is that they have fewer, literally fewer neuronal connections that children who are not stunting.

Now, what does that mean? It means in countries like India -- and I've said this directly to Prime Minister Modi -- that you are walking into an uncertain future where almost certainly every single job will require more digital competency, and you're walking into that future with 38 percent of your workforce unable to complete in that digital environment. Now this is one of the enormous advantages that China has. Despite being a developing country, despite having to (inaudible) to this 25 percent of the United States, stunting levels, life expectancy, is already very close to OECD countries. I can't emphasize more how important this is. Indonesia, 37 percent childhood

stunting, Pakistan, 45 percent childhood stunting. And to each of those heads of state, I walked in the room and I said, you know, this is an emergency. If you don't get these levels down you are not going to be able to complete.

Now the great news is that at the World Bank Group we've learned that by doing one extra thing that we didn't understand before -- this is just in the last six or seven years -- by stipulating demand side, by giving direct pass transfer to poor women, we can bring stunting rates down quickly. In Peru they brought down the stunting rate by half in just seven years. They had been working for 30 or 40 years to try to reduce stunting, but simply by adding another intervention with the supporting and demand side, we brought it down by half in 7 years. Every country can do it; it's an emergency.

Finally, the last thing that I want to say is we have to have just much more honest conversations about how we're going to pay for all of this first. We're going to have to make the difficult reforms in country after country that will be required to increase domestic resource mobilization. With David and the IMF and with (inaudible) we've been offering technical assistance to every country in the world to do this. Sometimes it's as simple as just a lack of capacity in the tax bureaus. Sometimes it's more politically complicated.

And then along with that -- and this is what developing countries tell us very clearly, the flip side of that is that we in the developed world have to commit to stopping illicit financial flows. And I think (inaudible) work at best has been among the brightest spots that we can imagine because it's bringing transparency to the way people pay their taxes. Now we have to do that.

Second, I think we just have to be honest about how we use grant-based ODA, official development assistance. So much official development assistance goes for the pet project of the new leader of the new development agency. We see hundreds of millions of dollars, and sometimes billions, going for those grant-based aid to small projects that last for a few years and then go away. I think we're going to have to take every penny of grant-based ODA that we have and leverage it -- let institutions like ours, the multilateral development banks, go out and raise money in capital markets, take whatever grant money is available, blend it, provide developing countries -- and I mean all developing countries, including China -- concessional finance to achieve the goals we want to achieve, whether it's climate change, whether it's enforced displacement. We cannot sit around assuming that grant-based ODA is going to expand forever and will take care of all these

problems. We've got to leverage and then make best use of that leverage. The way to leverage it even more is to provide concessional financing. Again, 15-20 year money at 0 percent, but only if they use it as risk capital to crowd-in private sector investments. Therefore you get a small grant, you leverage it with our loans, and if you leverage it again, by crowding-in the private sector, that's what we have to do if we're actually serious about these achievements.

Now, in closing, I just want to remind people about how far we've come. And I don't have to tell you every year in this room from China what that means, but let me tell you what it means for me. I was born in 1959 in the Republic of Korea. The GDP per capita at that time was less than $100. The number of people who have (inaudible) was less than 10 percent. The literacy rate was around 25-30 percent. And when I took over at the World Bank Group I went back and I got the assessments that World Bank staff had done of Korea in '59, '6, '61, and '62. And in those four years, it's hard o believe now, but what they were saying is Korea is a hopeless case, too much Confucian influence, not enough Western influence, they had no entrepreneurial spirit like they had in Taiwan. But in order to get to where the Philippines is -- because the Philippines had sufficient Western influence -- this is what we were saying in World Bank documents. And because of that from '59 to '62 the Republic of Korea didn't even qualify for (inaudible) interest. They were rejected from receiving the loans, zero interest, the ones that we only give to the poorest countries.

Everywhere I go now they say to me, well, we don't think we can do what China did, they're so big, they're so powerful. We don't think we can do what Japan did because they had high literacy rates in the 1890s. But we think we can do what Korea did. Everybody in the world wants to go through the phases of development that Korea went through, but more quickly. Now one, because of the increasing digital complexity I'm not sure that those paths will be open anymore. I'm not sure that improving agriculture productivity will provide livelihoods for rural people like it did in Korea because I think agriculture is going to become more capital and technology intensive. I'm not sure that televisions and light manufacturing is going to be open to these countries because again light manufacturing is going to become more capital and technology intensive.

But not matter what everybody wants this and not everyone has a smart phone, but everyone just about has access to a smart phone. And so

everyone knows how everyone else lives. So for me the only morally defensible way of working as a World Bank Group is to commit to creating a world in which truly there is equality of opportunity. That means ending stunting and providing every child in the world with what they need to become competitive in the global economy.

That's precisely the mission of the World Bank Group and I look forward to working with all of you to make it happen.

Thank you.