



THE  
**GROWTH**  
DIALOGUE

**Annual Report**  
**June 2011–June 2012**

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**The Growth Dialogue**





**Annual Report**  
**June 2011–June 2012**

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# **The Growth Dialogue**

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## Credits

This Annual Report was prepared by Diana Manevskaya, Communications Manager of the Growth Dialogue. Danny Leipziger, the Managing Director, oversaw the work on the report. We appreciate the contributions from Shahid Yusuf, Ines Garcia, Sachin Anand, and Erika Baty.

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# Message from the Managing Director

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The Growth Dialogue project has taken on momentum during the past year as we convened several academic-policy symposia, increased our partnerships, and produced and disseminated more growth-related knowledge products. We were able to do this and to increase slightly our staffing due to additional support from the U.K. Department for International Development (DFID) and the Canadian International Development Agency (CIDA), who both joined our original funders, the governments of Sweden and the Republic of Korea. We appreciate this support. With a year of full-scale operations under our belts, we are ready to take on further challenges.

The issue of generating economic growth and worrying both about its sustainability and distribution has never been higher on the global agenda. National governments are struggling to deal with low-growth outcomes accompanying high unemployment, rising fiscal deficits, and unpredictable capital flows. Even the fast-emerging market growth engines are slowing, and Europe is mired in deep and debilitating crises. The role of political economy is crucial as the state is being asked to solve the growth problem without enlarging itself or threatening macroeconomic foundations. Many fundamentals have weakened and disparities of fortune have grown. Questions have emerged as to the best growth and development strategies in light of some fundamental global realignments. This tumultuous situation opens a wide array of subjects of potential interest to the Growth Dialogue. We hope to make solid contributions to the ongoing debates on policies that can assist in producing sustainable and widely shared economic growth.

A handwritten signature in black ink, appearing to read 'D. Leipziger', written in a cursive style.

Danny Leipziger  
Managing Director  
The Growth Dialogue







## I. Overview

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The Growth Dialogue has been busy, and, despite its small staff, has managed to deliver on its mandate. We launched conferences on Africa's regional infrastructure; the new geography of innovation; green, city-led growth; and changing growth paradigms. Initial evaluations of these activities have been extremely positive. We inaugurated our Policy Brief series and featured views by noted academics. And our Web-based postings of shared ideas by notable commentators like Mike Spence, Bob Solow, Philippe Aghion, and Mark Carney have added to the Dialogue's promulgation activities. Our partnerships include the OECD, the World Bank Institute, the African Center for Economic Transformation, and Think City of Penang. We continue to reach out for other collaborative arrangements that will expand our reach.

Looking forward, we anticipate continued emphasis on the following thematic agendas: (i) innovation for growth, (ii) the links between green and city-led growth, and (iii) the implications of China's foreign direct investment (FDI) for national and regional development strategies. In addition, from our Bellagio conversation, we have taken away mandates to seek new ideas in the areas of employment creation and growth, the links between growth and the distribution of income, and on the new role of the state. We hope to foster debate and make contributions in these areas through further academic work, conferences, and Web-based activities. Finally, we have launched our Policy Connectivity work, through which



we hope to help connect policy officials facing challenges to policy makers who have “been there and done that.” We have created an impressive roster of advisers to support this work.

Our staffing has increased slightly with the addition of a Director of Operations and a Research Analyst, in addition to our Chief Economist and Communications Manager. We will seek to expand our reach and our recognition in the media and on the Web. Now that we are in full-scale operation, we hope to use our International Advisory Board further, and we were pleased that a number of Board members could join us at the Bellagio Growth Conference. Our Bellagio White Paper on New Growth Paradigms has been disseminated and posted on both the Growth Dialogue and the Brookings Institution websites. We are initiating new partnerships with the Brookings Institution, Harvard’s Asia Center, the Institute for Policy Dialogue at Columbia University, the North-South Institute (Canada), the Rockefeller Foundation, and the Institute for International Economic Policy at George Washington University as we continue to seek opportunities to expand our reach and maximize our impact. We continue to receive solid support from George Washington University’s School of Business. We have high aspirations for the coming year, and we hope to deliver on them.





## II. Events

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During 2011–12 reporting period, the Growth Dialogue launched a number of large-scale international events in partnership with respected international organizations and local think tanks that attracted more than 500 people in total. The Growth Dialogue’s team invited distinguished academics, senior policy makers, and practitioners to deliver presentations in the area of their expertise and to share their considerable experience. Our events were perceived positively. According to the evaluations completed by participants, all Growth Dialogue events were rated as satisfying the objective, with an average score of 4.5 on a suggested scale of 1 to 5. (Further details on survey instruments and outcomes are available from the Secretariat.) We have been pleased with the participation from many emerging and developing countries, and we continue to promote our knowledge products that emanate from these activities.



*Participants at the Paris Symposium on New Geography of Innovation and the Impact of the Economic Crisis*



# Forums and Symposia

## High-Level Policy Forum on Regional Infrastructure Constraints to Africa's Growth

June 7, 2011

Lisbon, Portugal



Panelists at the Lisbon Forum (from left to right): Dr. Okyu Kwon (Republic of Korea), Dr. Danny Leipziger (United States), and Dr. Eduardo Bitran (Chile)

### Event Overview

The Growth Dialogue, in collaboration with the African Center for Economic Transformation (ACET), hosted a “High-Level Policy Forum on Regional Infrastructure Constraints to Africa’s Growth” in Lisbon on June 7, 2011. The forum was a side event of the Official Series of Seminars, which preceded the annual meetings of the African Development Bank (AfDB). It was chaired by the Managing Director of the Growth Dialogue, Danny Leipziger, and was attended by 120 participants. The strong attendance and lively discussion underscored widespread interest in the topic. The forum discussed the growth-promoting role of infrastructure in the African context

and the need to identify ways of mobilizing additional resources. Three distinguished speakers outlined the major issues: Professor Antonio Estache of the Free University of Brussels, Professor Okyu Kwon of the Korea Advanced Institute of Science and Technology (KAIST) and former Deputy Prime Minister of the Republic of Korea, and Professor Eduardo Bitran of Universidad Adolfo Ibanez and former Minister of Public Works of Chile. They defined Africa's urgent need to deepen infrastructure investments, conveyed the lessons of experience, and spelled out some of the options for mobilizing additional resources. In particular, the speakers focused on the scope for enlarging the resource envelope through expanded public private partnerships (PPP). Drawing on international experience, the speakers demonstrated how much additional leverage could be derived through such arrangements and indicated ways in which countries such as Chile and the Republic of Korea had effectively harnessed supplemental private funding by tackling institutional, policy, and pricing issues, which helped improve the infrastructure investment climate.

Two discussants—Dr. Yaw Ansu, Chief Economist of ACET and the Hon. Franklin Bett, Kenya's Minister of Roads—commented on the presentations. Dr. Ansu pointed out the need for regionwide



*Audience at the Lisbon Forum*



coordination of major infrastructure projects; the desirability of creating national agencies to screen and manage infrastructure development; and the importance of strengthened legal institutions, streamlined procurement practices, standardized bidding procedures, and a deepening of construction capabilities. Mr. Bett emphasized the need to increase local participation and capacity in infrastructure projects, including the negotiating of contracts with the private sector, as well as increase the flow of FDI. He saw green infrastructure as a priority for Africa and felt that such an orientation should become an integral part of development strategies.

Other seminar participants suggested that PPPs were more likely in port and airport projects but that private investors were looking for high returns—on the order of 20–25 percent. Hence they saw private investors providing no more than 30–35 percent equity investment, with the rest being supplied by foreign donors and the public sector. Low-cost, long-term debt financing by donors was seen as a way of priming the pump for PPPs, with risk-mitigating measures and investment guarantees offering additional incentives for other parties. Although PPPs could augment the resources available for certain types of infrastructure, the sense from seminar participants was that private investors were likely to be wary and under current institutional circumstances were unlikely to provide more than a small fraction of the needed resources. This highlighted the need for public infrastructure investment to underpin growth, which was one of the key recommendations of the Spence Commission on Growth and Development. The AfDB has indicated an interest in continuing to work with the Growth Dialogue on this area.



## Symposium on the New Geography of Innovation and the Impact of the Economic Crisis

January 19–20, 2012

Paris, France



*Participants at the Paris Symposium on New Geography of Innovation and the Impact of the Economic Crisis*

### Event Overview

The Growth Dialogue, in cooperation with OECD and the World Bank Institute, organized a “Symposium on the New Geography of Innovation and the Impact of the Economic Crisis” at OECD headquarters in Paris on January 19–20, 2012. Participants included policy makers, academics, and experts on the topic of innovation. They came from a wide range of countries, including Argentina, Brazil, Belgium, China, Colombia, France, the Republic of Korea, Malaysia, the United States, and Vietnam. This distinguished group deliberated on various aspects of innovation policy and its link to economic growth. They reviewed country experiences and identified some critical policy issues for continued globalization that are applicable to the global economy.





The following four policy issues were considered most important:

- Is it meaningful for countries to target R&D spending in order to raise growth and do they have the policy instruments to achieve results?
- Does the composition of R&D spending count (for example, basic vs. applied, manufacturing vs. services, high-tech subsectors vs. others) and can this be influenced by policy?
- How might policies enhance the potential of R&D to stimulate innovation (by inducing the entry of new firms) and the productivity of spillovers from innovation?
- In a world where research activities are integrated and globe spanning, does it matter for innovation and productivity gains in any one country where research is actually conducted?



*Professor Philippe Aghion of Harvard University presenting at the Paris Symposium*

Symposium participants helped to flesh out some of the answers to these questions, identified the issues deserving further attention, and illuminated the known unknowns. Their work is reflected in the Symposium Key Messages note, which gathers themes that featured prominently in the presentations and discussions during the Paris Symposium. In particular, the note focuses on issues that were presented in a new light or whose policy importance was deemed on the rise.

*Please refer to Annex 1 for the Paris Symposium Key Messages.*



## Symposium on Greening Urban Growth

February 20–21, 2012

Penang, Malaysia



*Participants at the Penang Symposium on Greening Urban Growth*

### Event Overview

The Growth Dialogue and Think City, with support from Khazanah Nasional Berhad (Malaysia) and the World Bank Institute, organized the “Symposium on Greening Urban Growth” in Penang, Malaysia on February 20–21, 2012. The symposium brought together economists, urban planners, city administrators, environmentalists, and national policy makers, who debated and shared their knowledge on the topic of green urban growth. They agreed that to help the best carbon abatement solutions emerge and to capture the dynamism of cities that increasingly is driving economic growth, the various disciplines of green growth need to connect better and earlier. Fostering unbridled growth and dealing with the environment later is costly and suboptimal. Ignoring cities in the development of national growth strategies is shortsighted and inefficient; and focusing on cities without thinking regionally and spatially misses out on many productivity-enhancing investments that can spur economic growth. Hence, one goal of the Greening Urban Growth Symposium was to break the siloed approach.



Cities provide both the laboratory for innovation as well as the indispensable location for dealing with the three objectives of urbanization, carbon management, and economic growth. By bringing together administrators from cities and experts who advise cities and regions, the symposium sought to increase the dialogue among various protagonists. Conversations with private sector stakeholders indicated that most leading-edge companies are in fact highly focused on the city market. They are able to provide a range of efficient technical solutions for carbon abatement, for example, in ways that are supportive of economic growth in productive, city-based economies.

Two things became clear from the symposium. First, specific city experiences demonstrate possibilities for reversal from brown to green, even in heavily industrial cities. These green renewals often use advanced recycling methods of “circularity” (for example from waste to energy) that are innovative and efficient; the city of Ulsan in the Republic of Korea is such a turnaround story. On the side of consumers, the U.S. city of Portland, Oregon was seen as a case of capturing a green dividend from transport planning and revised land use patterns. The use of master plans in Ahmedabad, India and environmental planning for the future in Haiphong, Vietnam are current examples of anticipating problems and advancing lower-cost solutions by acting earlier rather than later. The notion of growing first and cleaning up later was seen to be an anachronism, a lesson we now see in the policy shifts in China.

Second, national-level planning on green growth can be highly effective in providing guidance to individual cities and incentives to act, at times based on competition among cities. The Republic of Korea’s national green growth strategy, Malaysia’s efforts in this direction, and Singapore’s strong planning ethic all provide regional examples of how the green growth agenda can be effectively pursued in East Asia. Nations will pursue the green agenda in their own self-interest, and the faster and more effectively they do this, the better will be the global climate change outcome. It is inevitable, however, that the action involve and indeed be led by cities, which contain the largest and still-rising share of population as well as a preponderance of both global output and global emissions.

*Please refer to Annex 2 for the Penang Symposium Key Messages.*



## Symposium on New Growth Paradigms

April 18–19, 2012

Bellagio, Italy



*Participants at the Bellagio Symposium on New Growth Paradigms*

### Event Overview

The Growth Dialogue hosted “The Bellagio Symposium on New Growth Paradigms” at the prestigious Rockefeller estate on Lake Como at Bellagio, Italy, on April 18–19, 2012. The symposium was chaired by Nobel laureate Mike Spence and co-chaired by Professor Danny Leipziger, Managing Director of the Growth Dialogue. It brought together leading academics, policy makers, and thinkers to discuss how the challenge of generating economic growth should be tackled in the current economic environment and for the future.

Today’s economic environment is in many ways unprecedented and the pursuit of economic growth is proving quite intractable to standard policy prescriptions. The combination of weak demand, lack of consumer confidence, and declining asset prices is challenging fiscal policy tools, which are themselves limited by increased indebtedness of government in many advanced economies. Despite expansionary monetary policy, investment levels are



low in the OECD. The spiral of slow growth—combined with joblessness, structural dislocations, and widening income disparities in major economies—is cause for global concern. The implications for developing economies are that export markets are stagnant and capital flows less predictable. Moreover, under pressure from emerging market economies, some countries are more inclined to resort to nationalistic policies at the expense of globalization. Firms that once saw the global market as borderless are increasingly being pressed to consider national economic goals first. The seeds of poorly conceived economic interventions have been sowed, and the risks to the global economy have risen. Major OECD economies are under stress. These are the conditions that limit international growth prospects in 2012 and beyond.

The symposium provided an ideal opportunity for leading researchers and practitioners to focus on concepts and policy initiatives to promote sustainable recovery of the major engines of growth. In particular, participants concentrated on factors—technological, institutional, and others—that would jointly spur growth, maximize employment gains, and contain if not reverse adverse trends in income distribution. The discussion culminated in a lengthy and fruitful debate on the future role of the state in stimulating growth through industrial change, innovation, urbanization, and infrastructure development, while at the same time efficiently deploying active labor market, education, and social policies to ensure that growth outcomes benefit the majority. Two days was much too short a time to arrive at detailed recommendations. Nevertheless, the participants explored the frontiers of current thinking and identified some of the more promising avenues for both research and policy making.

The discussion was summarized in the “The Bellagio Symposium on New Growth Paradigms: A Growth Dialogue White Paper,” which is available on the Growth Dialogue’s website: [www.growthdialogue.org](http://www.growthdialogue.org).

*Please refer to Annex 3 for a List of Distinguished Participants at the Bellagio Symposium.*



# Colloquia at The George Washington University



Participants at the Colloquium on Medium-Term Growth Outlook for China

The Growth Dialogue, in cooperation with The George Washington School of Business, launched a series of colloquia to address the current growth issues.

Four colloquia were held during the reported period:

- **The Medium-Term Growth Outlook for China (October 19, 2011)**
- **The New Geography of Innovation (October 28, 2011)**
- **China: Inward and Outward FDI and Developmental Implications (December 5, 2011)**
- **The Future of Economic Reform and Growth in China (April 23, 2012)**

They each attracted 30 people on average, including university professors, students, and university staff.

Invited speakers included distinguished professors from Harvard University, the Massachusetts Institute of Technology, Georgetown University, the University of California-San Diego, American University, and the University of North Carolina at Chapel Hill.

*The Growth Dialogue plans to resume the colloquia series in the fall of 2012.*

*More information about the colloquia, including background documents and presentations, can be found at our website: [www.growthdialogue.org](http://www.growthdialogue.org).*



## Speaking Engagements

During the reporting period the Growth Dialogue's Managing Director, Danny Leipziger, was invited to deliver speeches at various think tanks and academic institutions around the world. Among them were the following:

- North-South Institute (Canada)
- University of Toronto (Canada)
- Center for Development and Enterprise (South Africa)
- Mauritius Institute of Directors (Mauritius)
- Korea Development Institute School (Republic of Korea)

The Managing Director was also invited to speak at the World Bank on several occasions. These engagements included participation in the Debate on Jobs, organized by the Human Development Network of the World Bank, and a presentation on global trends and challenges, organized by the 1818 Society of the World Bank.

The Growth Dialogue's Chief Economist, Shahid Yusuf, represented the Growth Dialogue at large-scale events in Malaysia and Singapore, as well as at Harvard University and the World Bank. His speaking engagements covered a number of topics including the current economic situation and multilateralism, development policy, and new growth paradigms.



*Speakers at the Colloquium on New Geography of Innovation: Dr. Shahid Yusuf (The Growth Dialogue), Prof. Maryann Feldman (UNC-Chapel Hill), Prof. Carl Dahlman (Georgetown University), and Dr. Danny Leipziger (The Growth Dialogue)*





### III. Publications and Website

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Events are helping raise the Growth Dialogue’s profile and make it known to the international community of scholars and policy makers. We are also becoming known through a steady stream of knowledge products, including policy briefs, working paper series, ad hoc publications, and via our website.



The Growth Dialogue website



# Policy Briefs



In September 2011 the Growth Dialogue launched its Policy Brief series. These are short notes on “hot” topics in the area of economic growth, and have become quite popular. They are posted on the Growth Dialogue’s website and also disseminated at George Washington University, during Growth Dialogue’s exclusive and partnership events, at speaking engagements, and in public forums.

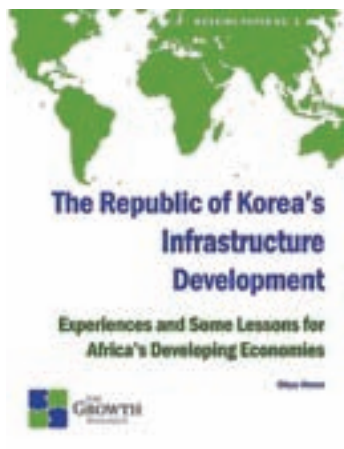
The following Policy Briefs have been published to date:

- James A. Hanson, “The Euro-Zone: Slow Growth, High Debt and Pressures on Banks and Official Financial Institutions,” September 2011.
- Barry Naughton, “China’s Medium-Term Growth Prospects,” November 2011.
- Shahid Yusuf, “The Changing Geography of Innovation, the Current Crisis, and Implications for Economic Growth,” January 2012.
- Danny Leipziger, “What Do We Know about Green Growth and its Policy Implications?” February 2012.
- Shahid Yusuf, “China’s 12<sup>th</sup> Plan: Big Challenges, Vast Opportunities,” February 2012.
- Carl Dahlman, “The Changing Geography of Innovation: The Rise of the BIC—Challenges and Opportunities,” March 2012.
- Danny Leipziger, “The Competition between Western Capitalism and State Capitalism as Drivers of Economic Growth,” March 2012.
- Shahid Yusuf, “The Changing Landscape of Innovation after the Economic Crisis: Notes from the Paris Symposium,” April 2012.

*Please refer to Annex 4 for Policy Brief abstracts.*



## Working Paper Series



The Growth Dialogue's Working Paper series was inaugurated in June 2011 and first presented at the African Development Bank's Annual Meetings in Lisbon, Portugal. These papers are commissioned from distinguished academics, policy makers, and practitioners on the topics of economic growth and development.

The following papers have been published to date:

- Okyu Kwon, "The Republic of Korea's Infrastructure Development," June 2011.
- Shahid Yusuf, "Growth Economics and Politics: a Fifty-year Verdict and a Look Ahead," June 2012.
- Philippe Aghion, "Growth Policy and the State," June 2012.

Please refer to Annex 5 for Working Paper abstracts.

## Other Publications



### **Ascent after Decline: Regrowing Global Economies after the Great Recession**

*Edited by Danny Leipziger  
and Otaviano Canuto*

The Growth Dialogue teamed up with the Poverty Reduction and Economic Management Network of the World Bank to produce this thematic volume that examines how to promote post-recession economic growth.





*Marcelo Giugale and Otaviano Canuto of the World Bank and Danny Leipziger of the Growth Dialogue at the launch of the book *Ascent after Decline: Regrowing Global Economies after the Great Recession*.*

This book was co-edited by Danny Leipziger, Manager Director of The Growth Dialogue, and Otaviano Canuto, Vice President for Poverty Reduction and Economic Management at the World Bank, and was published in February 2012.

In wake of the 2007–09 recession that left economies around the world struggling with unemployment and debt, the book assembles views from more than a dozen scholars on the global economic outlook and how policy choices will impact regrowth.

This publication is a joint product of the Growth Dialogue and the World Bank.

## Website

Launched in January 2011, the Growth Dialogue’s website—[www.growthdialogue.org](http://www.growthdialogue.org)—is intended to be a knowledge-sharing hub and information repository for Growth Dialogue activities. All events’ background materials (including



papers, PowerPoint presentations, and key messages) and publications are featured on the website and available for download in Adobe PDF format. The website also features a blog titled “Shared Views” where International Advisory Board Members and distinguished academics, including Nobel laureates Bob Solow and Mike Spence, are sharing their thoughts on the current issues of economic growth and policy. We envision that this online discussion tool will become more prominent as the Growth Dialogue’s program evolves in the next year.

Website readership is growing. On average, 60 percent of all monthly visits are by new website users. They find us via search engines like Google and Bing (56 percent of the traffic), via referrals from other sites (24 percent), or by typing our address in the browser (20 percent). Website visitors come from all regions in the world.

The website statistics are available via Google Analytics. Visitors can sign up for website updates by filling out the contact form, and they can always contact the team by email at: [info@growthdialogue.org](mailto:info@growthdialogue.org).





## IV. Advisory Services

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One of the Growth Dialogue's objectives is to connect policy makers across regions and across generations and thereby help expand the range of policy choices for decision-makers in developing countries. Policy work is often highly constrained by political and other institutional circumstances; but it is also challenged by the lack of good practical advice from others who have faced similar problems. The Growth Dialogue is uniquely positioned to help expand the advisory horizons of decision makers by tapping into its network of experienced policy makers, experts, and development practitioners. Since economic outcomes often depend so crucially on policy directions and policy implementation, advisory work can deliver massive payoffs for sustainable economic growth.

The three key ingredients of useful policy advice are (i) deep knowledge and expertise in the area; (ii) independence from the interests or ideologies of others, and (iii) practical experience about what actually works. It is these practical aspects that the Growth Dialogue hopes to bring to its advisory work. In addition, in order to marshal the knowledge of experts who have worked alongside policy makers over the years as they grappled with difficult choices and constraints, the Dialogue maintains connections with the latest thinking in academia. This allows decision makers to be aware of both cutting-edge thinking and tested, practical ideas.

The Growth Dialogue is fortunate to have a roster of world-class experts who work in a variety of areas affecting economic growth.

These Senior Advisors can act as intermediaries in policy conversations and bring the latest research insights to bear on policy problems. Each Advisor has a broad understanding of growth and development, as well as strong skills, deep knowledge, and experience in his or her area of specialization.

Senior Advisors' areas of expertise include (but not limited to) the following:

- Infrastructure Policy and Financial Regulation
- Education and Innovation Policy
- Regulation and Competition, Competitiveness and SME Policy
- Social Policies, including Health, Pensions and Safety Nets
- Migration and Labor Markets
- Governance, Anti-corruption, and the Public Sector
- Urbanization and Urban Finance

For more information about our advisory services and to connect to our experts, please visit our website [www.growthdialogue.org](http://www.growthdialogue.org) or email us at [info@growthdialogue.org](mailto:info@growthdialogue.org)





## V. Donors

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The work of the Growth Dialogue is made possible with support from the *Canadian International Development Agency (CIDA)*, the *UK Department for International Development (DFID)*, the *Korea Development Institute*, and the Government of Sweden.



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## VI. Looking Forward

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Now that the Growth Dialogue has acquired some momentum, we intend to redouble our efforts at networking and collaborating with other institutions sharing common interests. International events are planned for 2013 on global and regional themes. We will also increase the production of high-quality knowledge products and their dissemination, and expand the advisory services part of our work to help decision makers facing difficult policy challenges. Finally, the Growth Dialogue will continue to search for additional donors and credible partners to undertake growth-related work.

Priorities for our future work are core themes of the White Paper “The Bellagio Symposium on New Growth Paradigms.” The Growth Dialogue will continue to study the role of the state in managing recovery and longer-term economic growth, the changing relationship between growth and its distribution, and the key role of employment generation in the growth process. We hope to commission policy-relevant pieces by noted scholars and practitioners on these topics and to use the Web and media for promulgation.

The Growth Dialogue will continue to explore the green growth agenda, especially from the vantage point of urban and city-led growth. We are firmly convinced that cities will be the growth engines of the future; they also will be either the wholesale carbon emitters or the environmental conservators of the future. The Growth Dialogue and its partners will also continue to study innovation and how it can drive growth generation to improve productivity, incomes, firm dynamics, and the public coffers. Finally, we are



convinced that further work on China, especially inflows of foreign direct investment, is important. China's economy has important effects both globally and on the growth and development strategies of discrete countries and regions.

There is no shortage of information on most economic issues, including economic growth. Hence we will continue to be selective in finding high value-added activities and endeavors. The criteria we use include whether the issue will benefit from independent analysis; whether the combination of academic and policy perspectives can usefully be combined; and whether decision makers, policy makers, and other stakeholders facing policy challenges comprise a market for our advisory services.







## VII. Partners

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## VIII. Secretariat

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Managing Director—Danny M. **Leipziger**

Director of Operations—Ines **Garcia** (as of June 14, 2012)

Chief Economist—Shahid **Yusuf**

Communications Manager—Diana **Manevskaya**

Research Analyst—Sachin **Anand**

Program Coordinator—Erika **Baty**



## **Annex 1: Key Messages from the Paris Symposium on the New Geography of Innovation and the Impact of the Economic Crisis**

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**January 19–20, 2012  
Paris, France**

This note gathers themes that were featured prominently in the presentations and discussions during the Paris Symposium. It focuses on the issues that have been presented in new light or whose policy importance is deemed on the rise.

### **How does innovation affect growth?**

Clearly, innovation and growth are linked in complex ways. Notably, one needs to consider more than radical, manufacturing types of inventions: Nonmanufacturing activities (for example, in services and resource-based industries) are major sources of innovation and of productivity gains. Incremental innovations comprise the bulk of innovations, and many are generated by small and medium enterprises (SMEs) that in developing countries play a major role in economic growth. Most are not based on formal research and development (R&D) activities. To maximize impact, policies must necessarily promote such innovation, which requires different approaches than when focusing on large firms and R&D. Policies that encourage effective competition and access to finance are key.



## **What can countries do to restore innovation momentum in the crisis?**

Innovation has suffered in the first phase of the 2008–09 economic crisis, as reflected in R&D and venture capital numbers from most OECD countries. The difficulties are especially acute for small and young firms, which are facing reduced access to finance. R&D rebounded in 2010 for large, multinational enterprises, but not for small companies; neither did enterprise creation in OECD countries recover. Innovation is also part of the solution to the crisis, a core component of the necessary growth policies. In this context, innovation policies might target first small and young firms that are often the most easily squeezed out of financial markets. This approach is less costly than the alternatives and more likely to yield quick results.

## **The changing geography of innovation: What does it mean?**

It is questionable whether the eastward shift in the geography of R&D has already led to a change in the geography of innovation, and, if not, what the conditions are for innovation to follow the path of R&D. In any case, a new worldwide landscape is beginning to emerge, in which countries like China and others are taking a more important place while the relative position of OECD countries is receding. The rise of China in a number of innovation-based industries has also excluded other emerging countries, notably in those industries characterized by economies of scale. For large-scale production, the size of China's market gives its firms an advantage over firms in other developing countries when launching new products. The impact on OECD countries is increased competition on innovation markets—which is beneficial to customers but raises pressure on firms. Multinational companies (MNCs) have continued relocating part of their R&D from OECD to emerging countries, in order to exploit market growth and local innovative resources, such as skilled labor. The location of the activities need not hamper the global impact of innovation-related investments, provided that the market for the products of innovation remains open and intellectual property rights are respected.

## **What connection exists between innovation and the dynamics of enterprises?**

MNCs play a major role in innovation activities (for example, they perform 60 percent of business R&D worldwide) and they are an essential source of knowledge for emerging countries. However, the MNCs frequently generate few horizontal spillovers that are advantageous for the host country. An important policy objective in developing countries is to ensure conditions that facilitate technological transfers. Entrepreneurship is the other side of the coin: it is a major transmission belt for innovation at the technological frontier. It is still weak in emerging countries, and even in the Republic of Korea where the chaebols are dominant and have achieved global scale and brand recognition, government is making special efforts to support SMEs. On the other hand, small and new firms can hardly prosper without good connections to large firms, which enable SMEs to hook up with global value chains.

## **What can innovation's role be in the pursuit of green growth policies?**

The increased pressure for “going green” is being met by a variety of responses. There is increased government intervention in industrial matters via regulations and standards, but there is also a tremendous opportunity to support sustainable economic growth through innovation and incentive-compatible policies. Most countries have come to the realization that to grow now and “clean up later” is inefficient. Although some national policies are undergoing change, much is also occurring at lower levels of government, especially at the city level where considerable innovation is taking place. These innovations are not usually based on breakthrough technical changes but on adaptive actions backed by regulations and pricing that encourage their adoption. Further development of green growth technologies, however, can provide the scope for win-win outcomes that serve both to promote growth and render it more sustainable. Greater emulation of best-practices is possible in the area of green growth.



## What are the national policy challenges in this changing context?

A number of countries, mainly emerging market economies but also increasingly developed ones, are now implementing industrial policies, usually with a focus on innovation. In this context, government is seen (once again) as a potential agent of change (“entrepreneurial state”) rather than serving simply as a referee and guarantor of framework conditions. There are examples of successes (furniture industry in Malaysia, aircraft in Brazil, the information technology industry in China, science parks in the Republic of Korea and China) and of failures (the automobile industry in Malaysia and China) of industrial policies. The role of the state in recent economic successes, notably in the Republic of Korea or China, is still debated: active policies were in place, but a number of idiosyncratic factors have also been at play (such as geopolitics and market size). The increased pressure for “going green” is another factor for government intervention in industrial matters. Some lessons can be drawn from the past experience in order to make industrial policies more efficient:

- Before an active intervention is considered, start by removing barriers to innovation; namely, put the framework conditions right (for example, by removing barriers to market entry).
- Take a long-term view, with commitment at the highest level of the government.
- Industrial policies should extend competition and opportunities beyond incumbents with strong market power, to include new and small firms.
- Governance should ensure transparency, so as to avoid capture, with the biased choices and corruption it can generate.
- Industrial policies should be subject to close and effective evaluation with direct feedback loops and impact on policies. Policies should be terminated if they are not proven effective.
- Weigh the advantages of sectorally targeted versus more horizontal measures, depending on context. When particular sectors are selected (like, currently, in Argentina, Brazil, Colombia, China, or the Netherlands), criteria and processes

of selection have to be made explicit. These choices have to take into account a broad view of innovation; hence they should not focus exclusively on manufacturing.

- Important themes of these policies include entrepreneurship, university-industry linkages, and reliance on markets.
- Industrial policies are national by nature and can easily lead to international incompatibilities. Examples include when many countries promote exports in the same industries; when protectionism or “technoprotectionism” (using intellectual property) is the objective; and when countries use basic research done in other countries while not contributing themselves to this worldwide public good. A binding to existing rules (WTO) is needed. However, in the case of R&D, it should be supplemented with international coordination.

### **What are the international policy challenges facing the global community?**

Nations facing lower global growth and internal policy challenges often look to innovation policies for salvation. This outlook ignores the basic fact that all economies have space for significant efficiency gains using existing resources and technologies. It is undeniable that a vision for the future and an environment in which innovation and technical advances can both flourish and be implemented adds to a country’s potential growth performance. It is also true that there are externalities for others to be garnered from investments in R&D and subsequent innovation by some. The multilateral system, however, will require significant strengthening in the medium term and great care must be taken not to allow current economic preoccupations and renewed emphasis on government to errantly steer the global system. Innovation policies will need to be implemented in a manner consistent with open markets and internal efficiency in order to maximize their positive contributions to economic growth.





## **Annex 2: Key Messages from the Penang Symposium on Greening Urban Growth**

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**February 20–21, 2012**

**Penang, Malaysia**

The Penang Symposium, organized by the Growth Dialogue and Think City, with the support of the World Bank Institute and Khazanah, brought together the views and experience of economists, urban planners, city administrators, environmentalists, and national policy makers to debate and share their knowledge on the topic of green urban growth. They agreed that to help the best carbon abatement solutions emerge and to capture the dynamism of cities that increasingly is driving economic growth, the various disciplines of green growth need to connect better and earlier. Fostering unbridled growth and dealing with the environment later is costly and suboptimal. Ignoring cities in the development of national growth strategies is shortsighted and inefficient; and focusing on cities without thinking regionally and spatially misses out on many productivity-enhancing investments that can spur economic growth.

The main goal of the Greening Urban Growth Symposium was to break out the siloed thinking in which some experts worry about urbanization, others about climate change, and a third group about generating economic growth. Cities provide both the laboratory for innovation as well as the indispensable location for dealing with



all three objectives. By bringing together administrators from cities and experts who advise cities and regions, the symposium sought to increase the dialogue among various protagonists. Conversations with private sector stakeholders indicated that that most leading-edge companies are in fact highly focused on the city market. These markets are able to provide a range of efficient technical solutions for carbon abatement, for example, in ways that are supportive of economic growth in productive, city-based economies.

Cities were described as dynamic growth engines that house more than half the world's population and produce four-fifths of global output, and unfortunately also 40 percent of the world's carbon emissions. It is empirically known that buildings and transportation are the main contributors to cities' disproportionate share of GHG production; the emissions of both sectors are inversely related to population density. Therefore, rediscovery of inner cities and reversal of past sprawls can help reduce emissions. Moreover, since megaregions are as inexorable a trend as megacities, planning across larger geographic boundaries can produce gains in environmental quality, increased efficiency of resource use, and economic agglomeration gains.

Cities are more productive if they are large and dense; in fact most productivity differences can be explained by these two factors. Cities are innovation incubators that attract skilled individuals and, in many cases, skill-intensive industries. The introduction of spatial planning solutions to specific value-chain segments can add to industrial efficiency and productivity. More generally, the positive synergies between planning and economic activity remain exploitable.

Interestingly, abatement cost curves for carbon emissions have a number of areas where the investments pay for themselves immediately. Apart from theoretical aspects, practitioners, such as Siemens, pointed to building energy codes, lighting upgrades, transport improvements, and energy efficiency as attractive arenas for cost-effective solutions. Indeed, it is estimated that two-thirds of carbon abatement investments pay for themselves.

"Green" growth has a plurality of definitions, with unique implications among differing geographies and disciplines. However, economists make the important distinction between "greenness"



of consumption and production. Although the greening of cities is a prevalent policy path, the greening of urban industry is a rarer choice. The two must be considered in tandem, especially as cities continue to grow based on their particular comparative advantages, in order to make lasting progress on the green agenda.

Specific experiences show that cities are advancing winning strategies that unify sustainability with economic growth. There are possibilities for reversal from brown to green, even in heavily industrial cities, often using advanced recycling methods of “circularity” (for example from waste to energy) that are innovative and efficient. The city of Ulsan in the Republic of Korea is a strong turnaround story. Increasingly, “greenness” is seen as a branding issue with cities competing in the green space. The U.S. city of Portland, Oregon has captured attention for its effective transport planning and revision of outdated land use patterns. The use of master plans in Ahmedabad, India and environmental planning for the future in Haiphong, Vietnam are current examples of anticipating problems and advancing lower-cost solutions by acting earlier rather than later. The notion of growing first and cleaning up later was seen to be an anachronism.

Siloed thinking is quite damaging to solutions of environmental issues. Indeed, it is possible to go beyond interdisciplinary work that attempts to combine areas of expertise developed along singular conceptual lines. Transdisciplinary thinking improves on the interdisciplinary approach by combining and anticipating issues rather than making ex post accommodations that are suboptimal for all disciplines. Practical examples, largely from Europe, showed the benefits of this kind of approach in well-known cases such as Bilbao, Spain. Of course, adequate financing is a precondition, but the coordination of business, government, and the citizenry is a powerful one when coalescing around a vision for a city or a metropolitan area.

Cautions were raised that the scale of the environmental transformation needed, especially with respect to energy use, is of such an enormous magnitude that one should not expect a rapid turnaround in trends. Existing technologies are available, and there have been demonstration cases; what is lacking is the financing to

achieve scale. It was suggested that the global capital market was the only vehicle that could finance energy transition on a global scale.

Planning at a national level in the area on green growth can be effective and can provide guidance to individual cities and incentives to act, at times based on competition among cities. The case of the Republic of Korea's national green growth strategy, Malaysia's efforts in this direction, and Singapore's strong planning ethic all provide regional examples of how the green growth agenda can be effectively pursued. Nations will pursue the green agenda in their own self-interest, and the faster and more effectively they do this, the better the global climate change outcome. It is inevitable, however, that the action involve and indeed be led by cities, which contain the largest and a rising share of population as well as a preponderance of both global output and global emissions.

The initial feedback based on evaluation survey results is very favorable, and discussions will ensue on ways to build on the Penang Initiative. The Growth Dialogue and Think City hope to remain in contact with symposium participants.





## Annex 3: List of Participants at the Bellagio Symposium on New Growth Paradigms

**April 18–19, 2012**  
**Bellagio, Italy**

Name	Title	Organization/ Institution	Country
Aghion, Philippe	Robert C. Waggoner Professor of Economics	Harvard University	United States
Aryeetey, Ernest	Professor of Economics and Vice-Chancellor	University of Ghana	Ghana
Bernstein, Ann	Executive Director	Centre for Development and Enterprise	South Africa
Borg, Anders	Minister	Ministry of Finance	Sweden
Gordhan, Pravin	Minister	Ministry of Finance	South Africa
Han, Duck-soo	Chairman	Korea International Trade Association	Republic of Korea
Ingram, Joseph	President and Chief Executive Officer	The North-South Institute	Canada
Kharas, Homi	Senior Fellow and Deputy Director for the Global Economy and Development program	The Brookings Institution	United States

*(continued next page)*

## List of Bellagio Participants (*continued*)

<b>Name</b>	<b>Title</b>	<b>Organization/ Institution</b>	<b>Country</b>
Leipziger, Danny	Managing Director, The Growth Dialogue; Professor of International Business, George Washington University	The Growth Dialogue	United States
Mohan, Rakesh	Professor, School of Management; Senior Fellow, Jackson Institute of Global Affairs	Yale University	United States
Mundell, Robert	Professor of Economics, 1999 Nobel laureate in Economics	Columbia University	United States
Nasar, Sylvia	Professor of Business Journalism	Graduate School of Journalism, Columbia University	United States
Perry, Guillermo	Professor	Universidad de los Andes	Colombia
Sheng, Andrew	President	Fung Global Institute	Hong Kong SAR, People's Republic of China
Spence, Michael	William R. Berkley Professor; 2001 Nobel laureate in Economics	Stern School of Business, New York University	United States
Strauss-Kahn, Dominique	Former Managing Director	International Monetary Fund	France
Švejnar, Jan	Professor of International and Public Affairs; Director, Center for Global Economic Governance	School of Public and International Affairs, Columbia University	United States
Tyson, Laura	Professor of Global Management	Haas School of Business, University of California Berkeley	United States
Velasco, Andres	Former Minister of Finance, Chile; the Tinker Visiting Professor	Columbia University	Chile
Yusuf, Shahid	Chief Economist	The Growth Dialogue	United States





## Annex 4: Abstracts of Growth Dialogue Policy Briefs

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### Policy Brief #1. The Euro-Zone: Slow Growth, High Debt and Pressures on Banks and Official Financial Institutions

James A. Hanson  
September 2011



The 17-country Euro-zone's recession-era macroeconomic response is, at best, complicated by fiscal and political pressures, which has contributed to slower GDP growth and stoked fears of a double-dip recession. The effectiveness, or lack thereof, of government-led austerity programs adopted by several European countries, namely Greece and Italy, has exacerbated these concerns. A slowdown in private lending due to the 2008 worldwide recession has also impacted GDP growth, as has a dearth of central bank lending, which was typically viewed as the “lender of last resort” in the Euro-zone. Most importantly, the prospects of a sovereign debt default by any one country could have a ripple effect on the euro and policy responses by the Euro-zone

will require a careful hand. They will need to balance continued government involvement through bond purchases and bailouts with the politically fraught negotiations with other European nations over basic macroeconomic policy in the wake of the global downturn.

## Policy Brief #2. China's Medium-Term Growth Prospects

**Barry Naughton**  
**November 2011**



China's so-called "hard landing" following its extraordinary economic transformation will likely be successful. But it could face several "rough patches" that will require broad policy responses and heavy government intervention. China had been well positioned for a period of strong growth on the global stage by a number of factors, including a rapidly educated labor force, improvements in manufacturing technologies, a growing domestic and middle-class consumer market, its growth as a haven for cost-effective research, and its government-led economic reforms aimed largely at the middle class. However, stringent government birth-control policies and the unprecedented rural-to-urban migration of the past few decades will subtract from China's GDP growth in the coming years and lead to higher wages and a greater emphasis on skilled labor in previously unheralded industries. Likewise, state interests and private enterprise are increasingly competing for the same business and China is increasingly relying on exports and foreign investment to buoy its strong growth. Therefore, the Chinese government will have to embrace its domestic consumer market serving middle-class goods and services while fostering entrepreneurship into new industries.



### **Policy Brief #3. The Changing Geography of Innovation, the Current Crisis, and Implications for Economic Growth**

**Shahid Yusuf**  
**January 2012**



Small technological breakthroughs will drive worldwide growth and innovation in the years to come. But for many countries, a complicated and tenuous relationship between government policy, private interest, and corporate ethos has left these future innovations in doubt. The key is the globalization of research and development, particularly in emerging economies such as Brazil, China, and India. Productivity gains and GDP growth might be smaller than in previous years but countries that fully embrace and spend on R&D could see the creation of new “knowledge hubs.” The most advanced countries, many of which are slashing spending and enacting austerity measures, risk falling behind.

### **Policy Brief #4. What Do We Know About Green Growth and its Policy Ramifications?**

**Danny M. Leipziger**  
**February 2012**



Green growth initiatives, long measured in traditional output measures such as GDP, need to be viewed in the context of broader human and environmental welfare and can achieve their greatest successes at the local, city-state level. Despite major advances in green growth projects in major urban cities, such as Bogota, Brisbane, and Mexico City, significant political and



economic constraints hinder green growth. The greatest gains have been seen at the local level in the form of improved zoning standards, housing regulations, water recycling programs, and bike paths.

## **Policy Brief #5. China's 12th Plan: Big Challenges, Vast Opportunities**

**Shahid Yusuf**  
**February 2012**



China's unprecedented growth was widely expected yet extraordinary nonetheless. But its continued progress is contingent on resolving a number of policy, government, and structural issues. China will need to diversify its export-dependent economy, which has long relied on its manufacturing sector to bolster GDP; develop "green growth" strategies to deal with an exploding urban populace; stem a growing economic divide between wealthy elites and a burgeoning middle class; and promote research and development and foster domestic entrepreneurship.

## **Policy Brief #6. The Changing Geography of Innovation: The Rise of the BICs—Challenges and Opportunities**

**Carl J. Dahlman**  
**March 2012**



The economic rise of the so-called "BICs"—developing countries such as Brazil, India, and China—has created new agents of global business innovation and research. In 2011, China registered the largest number of domestic patents in the world; Brazil's government R&D has increased its output of scientific publications from 1



percent of the global total to 3 percent; and India has been steadily attracting more private investment for its technological advances since the easing of government restrictions in the 1990s. All three have shown a particular focus on aerospace, nuclear, and space initiatives and all three face severe challenges to continued growth. This includes China, which could struggle from an asset bubble as it shifts its economic focus to domestic and consumer demand.

## **Policy Brief #7. The Competition between Western Capitalism and State Capitalism as Drivers of Economic Growth**

**Danny M. Leipziger**  
**March 2012**



The competition between market-dominated capitalism and state-led capitalism is reaching a decisive stage. The state capitalists are growing faster, investing more, and following a clearer strategy that is leading to a larger share of world output and income. The Western democracies are mired in short-term difficulties, distracting them from the urgent and necessary reforms to the system that would enable them to compete. It is not too late to fix the Western capitalism model, but soon it will be.

## Policy Brief #8. The Changing Landscape of Innovation after the Economic Crisis: Notes from the Paris Symposium

Shahid Yusuf

April 2012



Asian economies, particularly China, have caught up to Western countries in research and development funding and will soon outpace them, thus changing the global landscape of business innovation. Their stated targets of factory productivity are ambitious yet they face significant hurdles in achieving them. Many middle-income Asian countries have emphasized the importance of science and technology output but few have taken the needed steps to foster its growth. Chief among these steps is improving the quality of science and technology training and focusing resources on growing service-related “soft” innovations. In order to fully realize their potential, these countries will need to promote fiscal incentives and institutional reform for business innovations; foster transnational partnerships in R&D initiatives; and embrace the correlation between innovation hotspots and urban locales.



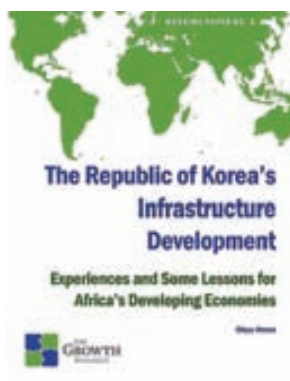


## Annex 5: Abstracts of Growth Dialogue Working Papers

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### Working Paper #1. The Republic of Korea's Infrastructure Development: Experience and Some Lessons for Africa's Developing Countries

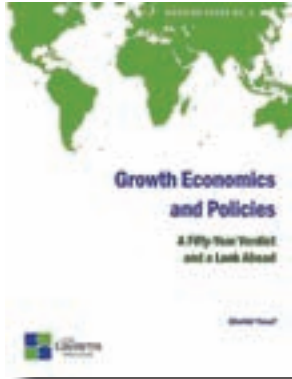
By Okyu Kwon



Infrastructure development plays a crucial role in economic growth, poverty alleviation, and enhancing the competitiveness of developing countries. However, existing infrastructure in many developing countries is inadequate, and more infrastructure investment is urgently needed. The problem is particularly acute in Africa's developing economies, which continue to lag far behind in areas such as telecommunications, electricity, roads, and sanitation. As a result, potential growth as well as the delivery of basic services has been substantially limited. This paper introduces the Republic of Korea's efforts in infrastructure development, which have successfully supported economic development. Lessons learned from Korea's experiences during the second half of the twentieth century can be shared with the developing economies of Africa.

## Working Paper #2. Growth Economics and Policies: A Fifty-Year Verdict and a Look Ahead

By Shahid Yusuf

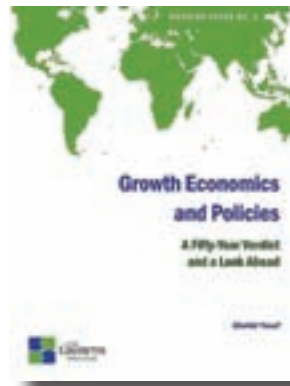


A scientific and industrial revolution initiated accelerated growth rates in a handful of Western countries starting in the nineteenth century. By the early twentieth century, accelerated growth had spread to economies in Asia, Latin America, and Eastern Europe. With the end of WWII and the subsequent decolonization, rapid growth came to late-starting developing nations as well. As a result of this history, a growth ideology has become firmly entrenched. Policy makers are now demanding more from growth than a mere increase in GDP, even as the potential contribution of industrialization is diminishing. Growth economics is struggling to expand the toolkit and enlarge the menu of practical policy options. But with the refinement of theory and practice proceeding at a homeopathic pace, relevance is at risk. There is an urgent need for disruptive innovation to give new direction to theorizing and policy.



## Working Paper #3. Growth Policy and the State

By Philippe Aghion



In this paper the author argues that it is not so much the size of the state that is at stake, but rather its governance. In other words, it is not so much a reduced state that we need to foster economic growth in our countries, but a strategic state. The strategic state would target investments to maximize growth in the face of hard budget constraints. However, this idea departs both from the Keynesian view of a state that sustains growth through demand-driven policies, and from the neoliberal view of a minimal state confined to its regalian functions.

*Full versions of the working papers are available on the Growth Dialogue's website.*



# About the Growth Dialogue

The Growth Dialogue is a network of senior policy makers, advisors, and academics. The participants aim to generate a sustained stream of views and advice on policies that complements existing established sources of opinion; to be an independent voice on economic growth; and to be a platform for policy dialogue among those entrusted with producing growth in developing and emerging market economies.

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