INTERNATIONAL MONETARY FUND

WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
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INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Press Release No. 28

September 29, 2002

Statement by the Hon. **LESZEK BALCEROWICZ**,
Governor of the Bank for the **REPUBLIC OF POLAND**,
at the Joint Annual Discussion

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I am glad to have the opportunity to participate again at the IMF and World Bank Annual Meetings. However, at the outset, I would like to join our American hosts in their sorrow at commemorating the first anniversary of the September 11 tragic events.

As a rule, our discussions during the Annual Meetings concentrate on poverty alleviation. This is understandable, as poverty is a very serious problem in today's world. As is often recalled, the gap between the poorest and richest countries has widened over the last 50 years. GDP per capita in the poorest country accounted for 3.7% of GDP per capita in the richest one in 1950, in comparison with only 1.7% in 1998.

By the end of the 90's, multilateral development institutions had launched several world-wide programs to combat poverty. Guidelines for poverty reduction have been set out in the Millennium Development Goals to be accomplished by 2015. The Monterrey and Johannesburg conferences have also worked on this issue. The Heavily Indebted Poor Countries Initiative, Poverty Reduction Support Program, CIS-7 Initiative are more specific examples. Poland supports these initiatives and is involved in many of them.

All these programs address very important problems, and a crucial and proper feature of them is that they provide conditional help. To be considered for the World Bank or IMF assistance, a country has to adopt the macroeconomic and structural reforms creating conditions conducive to economic growth. It is a well-known fact that, while international assistance can be helpful in reducing poverty, it is not capable of neutralising the consequences of a bad domestic policy.

One cannot discuss poverty alleviation without touching on the foundations for economic development. As it is, long-term economic growth, especially of the labour-intensive type, has the greatest impact on living standards in poorer countries. Persistent differences in growth rates between countries have, over time, led to large disparities in income level. And the social needs, from nutrition to culture, have been better satisfied in countries with a higher income level. That's why, as Robert Lucas has properly noticed: „once one starts to think about [sources of economic growth], it is hard to think about anything else".

Economists have always expected the "convergence" of countries' income levels due to the convergence of productivity levels, as the technology may - to some extent - be considered a public good. However, the number of countries which have failed to catch up by far exceeds that of those which have succeeded.

What lies behind economic failure and what explains success? There is a huge and still ongoing debate on these fundamental issues. In searching for a concise answer to the first question, I would like to say that, besides persistent wars, a failure to catch up, which is to say to reduce poverty, is to the greatest extent caused by the double state failure.

Firstly, state failure manifests itself in statism, which takes the form of excessive, chronically ill public finances, protectionism, monopolisation, widespread state ownership, overregulation and related corruption, just to mention the most important elements. All of these create a poor investment climate, while at the same time crippling entrepreneurial energy and market forces. Secondly, the state fails to supply public goods, such as public order, the rule of law, the protection of property rights and stable money. These two state failures usually go hand in hand because the state which tries to be ubiquitous and omnipotent, tends to fail in performing its proper tasks.

As is shown in many empirical studies, poor countries with an excessive, and at the same time inefficient, state have grown more slowly than rich ones, even when other factors, such as differences in human and physical capital, are taken into account.

Let us now turn to the reasons behind success in sustained catching-up. Economists indicate many different combinations of sources of economic performance. But for all of these sets one may find a common denominator in the shape of a rationally limited state, giving rise to an open market economy under the rule of law, with private ownership on the supply side of the economy, moderate and simple taxes, healthy public finances, and a strong financial system. To succeed, the country has to undertake macroeconomic and structural reforms in order to implement such a system.

But the pace of real convergence also depends on external conditions. Protectionist barriers certainly hamper the catching-up. Thus, a removing of the barriers to import from the poorer countries is an indispensable step to poverty reduction in these countries. This applies especially to barriers present in richer economies, but also concerns protectionism in relations among the less developed countries themselves.

Thank you.