DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)

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Statement by

Ignazio Visco
Governor of the Bank of Italy

Constituency of Albania, Greece, Italy, Malta, Portugal, San Marino and Timor-Leste

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Introduction

The theme of these Annual Meetings – promoting shared prosperity – is both crucial and challenging. It is crucial as in the aftermath of the global crisis economic growth has been weak and inequality has risen to unprecedented levels; it is challenging as it calls for a prioritization of policy prescriptions.

Economic growth and inequality

Increasing income is central to escaping poverty, but equally important is to concentrate on non-income measures of deprivation, such as lack of access to electricity, sanitation, water and primary schooling. Thus, the operational focus on the income of the bottom 40 percent of the population is appropriate.

The relationship between growth and inequality has long been debated among academics and policymakers. Inequality can sometimes become a trigger for further progress, by showing others the way and providing incentives for investing and catching up. But, it can also be disruptive when those who have thrived, over-protect their position. In this case, inequality reduces investment opportunities, diminishes incentives and generates macroeconomic and social instability, eventually reducing economic growth.

Globalization and technical progress have enhanced growth in the past decades, fostering a new phase of catching up, lifting millions out of poverty and reducing disparity across countries. At the same time, income inequality within countries has increased. In the short term, in some advanced economies, trade and technical change may have displaced more workers than markets could absorb. Labor market policies and institutions must aim at containing such adjustment costs and facilitating sectorial and skill reallocations.

Policies

The best response to this challenge is to adjust the composition of the labor supply by investing in education and skills, not only for the young people, but also through life-long education. In a fast-changing environment, the most valuable skills are not necessarily the most specialized ones, but rather those that are fungible, and allow workers to adjust flexibly to changes and acquire new skills as needed. "Learning how to learn" is probably the most valuable competence. Public policies have a crucial role to play in supporting investment in human capital, also in light of its positive externalities.

To contrast the decline of the labor share, we should not be shy of relying on market mechanisms that foster the creation of quality jobs. Incentives for firms to invest must be restored, but to sustain the process of job creation we should aim to provide equal opportunities for all, with efficient safety nets in place. Redistribution policies may help in consolidating the gains from growth, by sheltering the unprivileged during the phase of transition towards a new balanced growth path. Their role, though, should be seen as complementary.

Importantly, growth must be environmentally sustainable over time. The design of growth-oriented policies involves intergenerational aspects, which are often neglected. In addition to considering future generations, a more responsible utilization of natural resources and a greater attention to environmental issues would benefit the less fortunate, who typically face the heaviest burden.

The recent slowdown in global trade is troubling. Revitalizing trade in goods and services is an important means for enhancing economic growth. At the same time, global growth would benefit from enhancing market access and increasing participation among developing countries, where the population still largely suffers from limited access to essential services, such as transportation, electricity, or health care. For this reason, investment in infrastructure is critical in many low income and emerging economies and should be a priority in international cooperation.

The Bank

We congratulate the President for the launch of the new organizational structure of the World Bank. As we are now entering the implementation stage, we must carefully monitor the functioning of the new model and assess its impact on policies and operations. In addition, we should correct possible shortcomings and ensure that tangible results, in terms of ending poverty and boosting shared prosperity will be achieved. The new budget allocation process has been designed to be flexible; we expect it to allow for a rapid deployment of resources where they will produce the highest development impact.

As the financial prospects of IBRD remain fragile, notwithstanding the increase in the prices of its financial products, we recommend a rigorous implementation of the expenditure review; we expect that, starting from 2018, the Bank's costs be covered by the Bank's business revenues.

Despite the laudable success in improving the efficiency of each entity of the World Bank Group (WBG), the synergies obtainable by a true integration of the WB, IFC and MIGA are still largely untapped. In this context, it should be clarified whether the current allocation of the WBG capital among entities matches their potential development impact. Finally, we support a stronger role for IFC, in particular in IDA countries, and would therefore welcome a careful re-assessment of the current allocation of its profit.