

Equity, Public Finance, and Governance, the Seminar on Rural Public Finance, Beijing, China

Remarks by President Wolfowitz
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Vice Minister Liao, Vice Minister Li, Director Chen, distinguished guests, ladies and gentlemen.

It's a particular pleasure to be able to participate here at the opening of this conference and I'd like, from the outset, if I might, to say one word about a very distinguished member of my staff who will be delivering our expert paper later, and that's our Vice President for East Asia, Jemal-ud-din-Kassum. And I say this because Jamil is leaving the bank after five years ... even longer ... but the last five years as the World Bank's Vice President of East Asia and Pacific. He comes from Tanzania, and is of South Asian extraction and has spent so much time in the last five years to become a very distinguished expert on East Asia and has come to know China very well. And he has done great work for us. Jamil, thank you.

It's particularly a pleasure to speak at this conference because I know you are addressing topics that are extremely important for China's development. During this visit to China, I've had a chance to visit Gansu province and some of the poor areas of Hebei province, to become directly aware of some of the disparities in development that exist in China, and I have learned much about China's goals to achieve more balanced growth and its efforts to achieve a harmonious society. The balance between rural areas and urban areas is perhaps the most important challenge of the so-called five balances, and I believe that public finance has a crucial role to play in addressing those challenges.

If you look at development from a worldwide perspective, this has been an exceptional year. Last month's United Nations World Summit and the G-8 Summit in Gleneagles in July focused the world's attention once again on poverty. Tremendous progress has been made around the globe, and in particular in East Asia and South Asia. I sincerely believe that we are at a turning point and there are grounds for hope for people of the poorest countries of the world. In the last few decades, in fact, particularly thanks to China, we have witnessed the most dramatic improvements in the conditions of the world's poorest people in world history. In the last twenty five years, the number of people living on less than \$1-a-day decreased by some 400 million -- the largest drop ever. People in developing countries are living longer -- on average nearly fifteen years longer -- than they did forty years ago. Thirty years ago, 50 percent -- over half -- of the population in developing countries was illiterate. Today, we have cut that proportion in half.

At the same time, more than a billion people still have to survive on less than a dollar a day, and in some parts of the world, especially in Africa, poverty is not decreasing, it's on the rise. We know that worldwide over 70 percent of the poorest people live in rural areas, and, according to official statistics, practically all of China's poor live in rural areas. So a focus on rural development is crucial to achieving poverty alleviation.

One dollar a day is extreme poverty. People living in that kind of extreme poverty are denied the basic opportunities that other people take for granted. Even basic opportunities for life itself are disparately distributed: whereas less than half of 1 percent of children born in Sweden die before their first birthday, nearly fifteen percent of children -- fifteen out of a hundred children -- born in Mozambique fail to reach that milestone. In Eritrea, immunization is close to one hundred percent for children of parents in the richest fifth of the population, but only 50 percent for the bottom fifth are immunized. In China, the number of mothers that die giving birth in Gansu province is more than twice that in Jiangsu province.

In an equitable society, everyone will have the same opportunities to pursue a life of their choosing, whether this in terms of acquiring an education, obtaining credit, finding a job or participating in the public debate, regardless of their country of birth, the wealth and social status of their parents, or their gender, race, caste, ethnicity or social class. The distribution of incomes, education levels, wealth and other assets will typically be uneven even in an equitable society, because people differ in the effort they make, how they choose to spend their time, in their desire to bear risks, or in the way they process information. But everyone should have the opportunity to make the most of their talents and energies. When they do so, it is not only good and just and fair for the individual, it is good for the society as a whole, because equity and growth are, in the long run, complementary. Equity is not the same as equality. This year's World Development Report, focuses on equity. And I'm following the usage of equity in that report that was just issued where equity is defined as equality of opportunities, where opportunities are the factors that make it possible

for people to generate a certain income and achieve a certain level of well-being. Note that this is not the same as equality in income. Inequality of incomes is not only acceptable, but it may even be desirable for the incentives it provides for people to do well. But inequalities in opportunity not only harm the individual but can retard growth.

There are two main reasons: first, lack of opportunities harms initiative and deprives societies of the talent and efforts of some of its members. A poor woman who would like to set up a small shop will generally have a hard time finding credit and may never start the business, however profitable it would have been, thereby not only depriving herself but her future potential employees. Bright children from disadvantaged castes or lower classes may never get a chance to go to school, depriving themselves and their societies from a lifetime of contribution. Poor farmers without access to crop insurance grow less risky but also less profitable crops. More equal access to credit, education, insurance, and other things would therefore lead to greater growth.

But secondly, equitable societies tend to have more equitable political arrangements -- where a majority of the citizens, and not just the elite, participate directly or indirectly in public decision-making. In turn, societies with more equitable political systems have stronger economic institutions -- for example, better protection of personal and property rights, greater, more reliable rule of law, and less corruption -- all of which leads to faster and more sustainable growth.

To me, China's strive for greater balance between rural and urban areas should be seen as an effort for greater equity in the sense just defined. That has important implications for rural public finance, the topic of today's conference. In fact, this is particularly true for China, where the inequalities in income between rural and urban areas are high, and as a result the strength of public finance differs considerably between urban and rural areas. This creates the risks that existing income inequalities would feed into future inequities, because the rural areas are not capable of providing the public services it takes to give their citizens equal opportunity in life.

I am encouraged by China's ongoing efforts to reduce that fiscal imbalance through the fiscal transfer system. At the same time, I believe there is still quite some way to go before rural areas are in a strong enough fiscal position to provide the same level of services as urban areas. Moreover, as we have found worldwide in our experience with aid to developing countries in general, money alone is not enough: it is the quality of governance that ultimately determines the quality of spending and the impact of aid on development. In a similar vein, more transfers to rural areas by themselves are unlikely to be enough to create more equitable conditions throughout China. Indeed, research of the Center for Chinese Agricultural Policy suggests that popular participation in decision making at the village level results in better spending -- more on village infrastructure, and less on staff benefits. Worldwide we find that community involvement in the design and implementation of projects leads to better results -- lower costs and better maintenance of the investment we finance. And I saw this with my own eyes and heard with my own ears talking to villagers in Gansu province last week. And our own research on rural finance in China and our experience with the projects we finance suggests that, if not carefully monitored, money that the central government allocates to improve conditions in rural areas, can be diverted to other uses by the province, the prefecture, or the county to the detriment of the intended beneficiaries.

China faces two major challenges ahead in achieving more balanced development, one of better distribution of public finance between urban and rural areas, and one of better governance of those resources at every level of government. Today, you will be discussing in much more detail how to meet these two challenges, but the domestic and international expertise gathered here today gives me confidence that this conference will be an important contribution for meeting those challenges. I welcome all of you who are participating. I congratulate our Chinese hosts for knowing how to reach out to the best people who are experts in this area and I wish you a very successful conference. Thank you.