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MAKING GLOBALIZATION WORK: EXPANDING THE BENEFITS OF GLOBALIZATION TO WORKING FAMILIES AND THE POOR

KEYNOTE SPEAKER: SENATOR CHRIS DODD

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STROBE TALBOTT: Ladies and gentlemen, could everybody please take a seat? Thank you very much.

I'm Strobe Talbott, and I'd like to say just a couple of words of welcome to all of you and then a welcome to our speaker this evening. I very much appreciate the chance to come by and get a little bit of a sense of this gathering that's been brought together. And one of the many things that I appreciate about what all of you are doing here is that it's part of a collaborative effort on the part of three institutions, represented back here: Brookings, ILO and Carnegie. And I think collaboration has increasingly got to be the name of the game in the way that organizations like these try to address the big issues of our time. The issues are so daunting and so multi-dimensional that we're more likely to make a dent in them if institutions of this kind can put their heads and their resources and their energies together.

And it's very hard to imagine three bigger subjects than the ones that are brought together by this topic, which is to say globalization and working families and poverty. And it is also just about impossible to imagine a more appropriate and distinguished speaker than Senator Dodd to address us this evening. He is well known to all of us, not just in the city and this country, but around the world. He is truly a statesman on the national level as well as the international level; much associated not only with the welfare of this hemisphere, but also the welfare of children very much in particular, and he, I hope, will make some passing reference to his own fatherhood, which is – he mentioned as he was coming in this evening.

And I might add that as I look around the room I can see quite a number of people who count Senator Dodd as – including Wendy Sherman, who's just arriving and who's about to sit down next to…. (Chuckles.) There are many of us here who have looked to Senator Dodd for leadership in the Senate, helping us out in our work, whatever it might be, and who count him as a friend. And I'm certainly glad to be among those myself.

So, Chris, from all of your friends here, thanks very much for being part of this evening.

(Applause.)

<u>America's Responsibility: Making Globalization Work for the Poor</u>
Keynote Address to the Brookings/ILO/Carnegie Endowment Conference on Globalization
by Christopher J. Dodd

It is a pleasure to be here this evening to participate in this jointly sponsored conference on Globalization by the Brookings Institution, the International Labor Organization and the Carnegie Endowment for International Peace.

I commend you, Strobe, Jessica Mathews, and Juan Somavía, for sponsoring this event. Special thanks as well to conference organizers Karen Tramontano, Lael Brainard, Sandra Polaski, and Anthony Freeman (ILO).

The topic of globalization is sometimes discussed very technically using terms such as trade flows, barriers to entry, and market imperfections. Perhaps, because I'm a politician, I come at it somewhat differently; from a people perspective.

Every four years there is a presidential election in the United States, and without fail one party or the other will campaign on the slogan "Are you better off than you were four years ago?" We need to start asking the same question about globalization: are the poor and dispossessed better off or worse off from the process of globalization.

If the answer is "worse off"– and I believe that those living in poverty and hopelessness have no other answer – then US national security and foreign policy interests compel us to act decisively to address the negative consequences of globalization.

Globalization is not simply about widening and deepening trade relations. It is equally about people, politics, culture, technology and the environment.

It's the people aspect of globalization that holds such promise, but which also poses the greatest risk. People who feel disenfranchised, dispossessed, or disconnected from the global system can have an impact on it nonetheless – a negative one.

Clearly, there is ample evidence that globalization has been a force for good. Just consider the following:

- In 2000, global GNP reached $54 trillion.
- Today more than 130 million people work in countries other than their own.
- The explosion of the internet, which now has some 500 million subscribers, has revolutionized global communications.
- Infant mortality and adult illiteracy have been cut in half over the last twenty years in developing countries.
- The proportion of the world's people living in extreme poverty fell from 29% in 1990 to 23% in 1999.
- In the political realm, since 1980, 81 countries have taken significant steps toward democracy, 33 military regimes have been replaced by civilian governments. Our own hemisphere has seen the most progress in that regard.

But globalization also has a dark side.

- The vast majority of people living in Africa, Latin America, Central Asia and the Middle East are no better off today than they were in 1989 -- the year the Berlin Wall came down.
- Nearly 1 billion people in the world are unable to read a book or sign their names.
- Three billion people in the world live on less than $2 a day.

- More than 1 billion people have no access to clean water.
- One-fifth of the world's tropical forests have been cut down.
- Developed countries account for 20 percent of the world's population, but they control 80 percent of the world's wealth, and account for more than 80 percent of the total volume of world trade.
- The rights of working people are still being given short shrift by too many governments -- 51 countries have not ratified the ILO Convention on Freedom of Association and 39 have not ratified the Convention on Collective Bargaining. Too many who have signed on to those conventions are not enforcing them.
- And, by the end of 2000, 22 million people had died of AIDS, 13 million children were made orphans by this dreaded disease, and another 40 million are HIV-infected -- 75% of that total reside in sub-Saharan Africa.

While the most devout of globalization "disciples" still cling to the belief that the miracle of the markets will produce a rising tide that lifts all boats, we as Americans should not. On humanitarian grounds alone we should not sit back and allow some of our own citizens or others to be left behind. Globalization has to be more than just greater profits for the Fortune 1000 Corporations – It has to be about lifting up people from poverty.

On security grounds alone it is imperative that we act now to reverse the negative forces of globalization. These forces have made us terribly vulnerable to the wrath of those who feel that they have been left out of the system.

The events of 9/11/01 are the most painful reminder to date of that fact. Look at who those nineteen terrorists were. They were products of the least open, least “globalized” corners of the world -- Saudi Arabia, Yemen, Afghanistan, and northwest Pakistan.

Yet these same individuals were able to exploit the architecture of globalization -- the international banking system, the internet, the openness of our society and borders -- to strike us where we live.

Here at home we have already begun to take steps to enhance our own security. For better or worse, before we adjourned for the year, the Congress gave the President the authority he had sought to create a new Homeland Security Department that will bring together 18 government agencies and sub-agencies under one roof, with enhanced authorities intended to better combat terrorism.

Unfortunately, we did a lot more than that after Republicans cut a deal with the White House loading up the bill with special interest provisions having little to do with protecting national security such as an earmark for Texas A&M University.

Last year, Congress also passed legislation to beef up security at our airports, train stations and border crossings, and to make it easier to arrest suspected terrorists, and track their resources and communications. We also struck Osama bin Laden and al Qaeda members where they lived in Afghanistan and dismantled their Taliban protectors.

These were all useful actions for the United States to take. But these measures alone are not going to stop terrorists from striking again someday.

I would never argue that every poor person will be tomorrow’s terrorist. But it is undeniable that in those parts of the world wracked by inequality, poverty, and disease there is growing hatred and mistrust of the United States, our intentions and our values. And there are individuals who are going to direct their despair at America and our allies.

Because the United States is the only remaining superpower, it falls to us to take the lead in doing something about this.

Urgent measures should be taken to address the inequities in the global system that have engendered that hatred, poverty and alienation amongst those left out or left behind by today's global rules of the game.

The fact is the numbers that find themselves left out or left behind are growing -- in Asia, in the Middle East, in Africa, and even in Latin America. Some within those numbers will become the recruits that fill the ranks of terrorist organizations. Others will support, harbor or at the very least tolerate terrorists living among them.

This blackest side of globalization could ultimately alter the way of life for the entire planet, for the have and have nots alike, if we don't do something about it.

What should be done?

The global trading system must become fairer for working people, where ever they reside.

Poverty and disease must be aggressively confronted by governments and international institutions – markets alone won't fix this.

The capacity of the international community to respond rapidly and effectively to terrorist threats must be strengthened.

Fortunately, we don't have to begin at "ground zero" to get these things done.

The US, in concert with the United Nations, the World Bank, the International Labor Organization, and other international institutions can do a lot to ameliorate the worse aspects of globalization.

President Clinton was sensitive to the conflicting forces of globalization – both here at home and abroad. While he endorsed the North American Free Trade Agreement as a force for good, he also took steps to ensure that labor and environmental concerns were addressed, by entering into side agreements in these areas with Canada and Mexico.

He went even further in the US-Jordan Free Trade Agreement (FTA), signed in October 2000, and entered into force in December 2001.

Unlike NAFTA or other previous trade agreements, the Jordan FTA includes provisions safeguarding recognized ILO labor standards, such as freedom to organize unions and prohibitions against child labor, in the main text of the agreement.

The Jordan agreement also provides for the imposition of sanctions by the United States should our trade partner fail to comply with its own labor laws to gain an advantage in trade.

The Bush administration seems to have rejected that approach. When Congress debated legislation granting the President trade promotion authority earlier this year, I offered an amendment that would have required US negotiators to include so-called Jordan labor standards in all future agreements. President Bush opposed this idea and my amendment was narrowly defeated.

That was a mistake in my view. The US should be taking a leading role to ensure that the benefits of an expanding trading system reach the hardworking men and women on the factory floor whether they live in Delhi or Detroit. Promoting adherence to ILO labor standards would help to do that.

It is appropriate to also look to the United Nations as a clearinghouse and advocate for socially responsible economic growth. The 2000 United Nations' Millennium Development Goals provide clear, time-bound targets for achieving rapid, measurable improvements in the lives of the world's poorest citizens -- from putting children in schools, to tackling killer diseases such as HIV/AIDs and malaria, to eradicating hunger and promoting women's rights.

But there is a price tag attached to this UN initiative that has to be paid, if these goals are to be reached by 2015.

The US and other governments are going to have to collectively find an additional $50 billion in aid annually.

As large as this amount seems, when you stop to consider that the US alone was spending more than $1 million dollars a day in defense expenditures to destroy terrorist training camps in Afghanistan, its seems modest by comparison.

I was encouraged by President Bush's decision to attend the UN sponsored Monterrey Summit, where governments pledged their contributions to the UN's Millennium initiative -- there had been a great deal of speculation that he would not. I was also encouraged by his willingness to pledge to increase the annual US foreign aid budget for this initiative.

Now it's time for the Bush administration to actually come up with the money.

Last week, the President announced that he intends to set up a new government corporation to manage the millennium challenge monies. I am not quite sure why another government agency is needed to do this. I fear that disagreements over how this new agency would operate will distract us from the real goal of getting resources to governments undertaking meaningful reforms so that they can help their citizens.

Surely the US Agency for International Development or the State Department would be logical stewards of this program.

Even the best of government reformers is going to be unable to bring positive economic benefits to people in places like sub-Saharan Africa where HIV/AIDs is the leading cause of death. Nothing less than a major and sustained international public health campaign will halt the spread of this horrific disease.

It is ravaging teachers and health workers, farmers and members of the armed forces -- it is destroying the future of entire nations.

The UN Global Fund to Fight HIV/AIDS, Malaria and TB holds out the possibility of checking the spread of these diseases over the next decade or more, but only if the United States assumes a larger role in funding it. To date, the Bush administration has contributed only $200 million annually for the last two years to the Global Fund. Not surprisingly, the Global Fund is a long way from reaching its projected budget of $8-10 billion annually.

Our global leadership responsibilities warrant a more serious commitment to this grave public health challenge.

Thankfully, we have become more realistic about what we can expect from heavily indebted poor countries. It took the active and effective lobbying of the Republican-controlled Congress by celebrities like U2's Bono to get legislation through the Congress so that the United States could participate in a joint IMF/World Bank debt relief effort -- the so call HIPC initiative. Now the poorest and most heavily indebted countries are eligible for debt forgiveness as they undertake needed reforms.

Today even Treasury Secretary O'Neill isn't insisting that every dime be repaid.

All of these initiatives will help reverse the negative aspects of globalization. While these efforts are ongoing, however, the threats confronting the international community will remain.

In order to better manage the most urgent threat confronting America and our allies – the threat of terrorism – NATO should be enlisted to act as a rapid reaction force when circumstances warrant. But, to do so, NATO's decision making structure will have to undergo a face lift. It is unrealistic to think that all twenty-six member nations (and more to come) would be able to reach decisions quickly. Last week, in an op-ed which was printed in the Washington Post, I called upon NATO members to establish a decision making structure akin to the UN Security Council so that NATO can be better equipped to respond to its new global mission.

The UN, the World Bank, the ILO, and NATO can all play important roles in working to see that the world remains a secure place with globalization reaching all corners of the planet – with rich and poor alike seeing its benefits. But without US leadership, none of them will succeed.

The bottom line is that the United States is the leading global power. We are the strongest proponent and supporter of globalization -- in the form of economic and political liberalism -- that the world has ever seen.

That means that the United States must bear a greater responsibility for crafting, enforcing, and supporting programs and policies around the globe that will help ensure a more fair distribution of the benefits of increased globalization to those who need it most.

Globalization cannot simply be about increasing wealth for the select few countries and corporations which make the rules or play the game best.

It must be about offering hope to millions around the world who have been left out of the global economic system, to provide them with belief in our economic and political values, and to offer them hope for a better future.

Without that hope, terrorism, the darkest side of globalization, will become even more frequent and destructive.

That is why the United States must lead now.

Thank you. And I'll be glad to duck your questions in senatorial fashion.

Yes?

Q: Senator Dodd, you spoke very eloquently about the need to promote the international core labor standard. It is of course, though, a little difficult for the U.S. because we haven't ratified a lot of those conventions. And I won't even bother asking about '87 and '98 on Freedom of Association, but I'm wondering if you think Senator Lugar might at least be interested in pushing Convention 111 on Nondiscrimination, to speed it up and at least get us into three of the four areas.

SEN. DODD: Well, I'm very hopeful he will. There was a brief period back a number of years ago when Dick Lugar chaired the Foreign Relations Committee – I will have now served in the Senate, by the way, under every imaginable configuration you can have in Washington. I've served in the minority in the Senate with Democrats and Republicans in the White House, with Democrats controlling both bodies, and now with the Republicans controlling both houses and the White House.

Dick Lugar was chairman of the Committee during a brief period when Jesse Helms assumed the chairmanship of the – I believe it was the Agricultural Committee. They switched roles there. And Dick Lugar – it was the one time we actually passed, I think, a State Department authorization bill in that one window, two years. So hope springs eternal. It must in this case since I'm back in the minority again. (Laughter.) And so I'm very hopeful that Dick would be willing to consider those measures and others like them.

Obviously he's going to have to deal very closely with the White House and what their objectives and directions might be. I can only hope that the – sort of the Secretary Powell wing of this debate is going to prevail on the general proposition of pursing internationalism rather than isolationism or unilateralism. And he seems to be prevailing so far, and I only hope that continues, and that the recent successes in the United Nations at the Security Council will encourage the administration to take more steps in that direction. But I'm far more optimistic there's a possibility of those things occurring under Dick's leadership, with all due respect to his predecessor.

Yes?

Q: Senator, that was a superb -- I'm John Sewell from the Wilson Center – that was a superb speech, and thank you.

I assume that the Millennium Challenge Account and this new corporation that has been proposed is going to have to be authorized and therefore will emerge on the Senate Foreign Relations Committee. I hope you use that opportunity, as I think Senator Lugar will be willing to do, to look at some fundamental questions. And let me just suggest three.

One is, if it's such a good idea, why isn't the rest of the aid budget in the same intellectual framework? Secondly, what happens if the U.S. and the World Bank disagree on who is good performer, as other countries have a major say in bank policies? And third, is it possible to integrate an element of competition? That is, is it a funding entity that then contracts or makes grants to whatever entity is best able to deliver that service? I think of HIV/AIDS; there's lots of very good deliverers of services to deal with HIV/AIDS. It would be interesting to think of it more as NIH, as an operating agency.

SEN. DODD: That's a good idea. Three good points.

Yes, sir? Come on in.

Q: I was very happy to hear you mention the Millennium development goals, and the $50 billion that's estimated by the World Bank to be required to achieve those. And I wondered if you have ideas about where those funds might come from? AID of course is offering about a quarter of them now, and the U.S. is making an important contribution to that, but it seems unlikely that AID is going to be sufficient to reach the full amount. And I wondered if one of the other possibilities might be a new issue of special drawing rights, as had been suggested, or if you have other ideas.

SEN. DODD: Well, that's a possibility. The drawing rights is probably the most obvious one. Part of this is going to be – is to break through and to understand the – and I mentioned it here – we've talked a lot about how to deal with terrorists, but we've not yet seemed to be willing to come to terms with the growing problem of the ranks of those who are going to end up supporting or tolerating, or worse. And as part of our effort to deal with terrorism, we've got to appreciate that this is going to require a far more aggressive approach in dealing with the underlying causes that spawn this problem. And there seems to be an unwillingness to come to terms with this, and until we do as a nation, and there's leadership here that's willing to educate the American people about the importance of this, it's going to be extremely difficult to have this become the priority it should. But in the absence of doing it, this problem is going to grow worse, and there's not a treasury big enough that's going to allow you to finance the defense operation to deal with this problem, in my view. And so we've got to be far more aggressive in making people aware of the fact that we face significant problems.

For almost 21 years I've either chaired or been the ranking member of the subcommittee dealing with the Americas. Strobe very graciously mentioned my involvement, having been a Peace Corps volunteer back in the '60s in Latin America. I don't recall a time in the 21 years I've been in the Senate when there was as much hostility in the Americas towards the United States. We assume it in other parts of the world -- but our own hemisphere, where we have had wonderful relationships, even during very difficult times. In Latin America there has been a strong sense of support, generally speaking, for the United States. That is not the case today, and this is a growing problem globally, and we've got to convince people of the need to invest the kind of resources that will be necessary to support these funds in order to really become a world leader in aggressively dealing with it.

I didn't think a few years ago that it was going to be possible to convince people about the world debt issue, and yet we were able to do that. And I mentioned Bono here because he deserves some recognition. I must tell you, I was sort of skeptical about someone who was a rock and roll star coming to the Congress and walking the halls, but when I saw his ability to convince Jesse Helms that there was a better way to approach, I decided he almost deserved a seat in the Senate immediately here. (Laughter.) And I think he would have taken it too, which was even more disturbing. (Laughter.)

But you can make a difference here if we can raise the level of awareness about it. And, you know, this can be done over a series of years, and it can be done with a lot of cooperation globally, but it needs to be on the agenda. There are obviously some budget priorities that have to be addressed, and I won't go into all of those this evening, but clearly, some of these tax issues and so forth -- if we pursue to make permanent some of these tax cuts that we're talking about, then the ability, within a fiscal sense, to do much here is going to be severely constrained. We may look terribly shortsighted in a very short order. It's not going to take long for us to feel the effects of this if we don't begin to respond to it very quickly. There's a sense of urgency that I sense there, that I believe probably many people here do as well, that I don't sense yet across the country in dealing with this.

Yes, sir.

Q: Yes, you call for a global effort to reduce poverty. I think it's very commendable, but I think there are two issues which we have to focus more on. The first one is that the question of putting more money in does not necessarily reduce poverty. That reminds me about the Johnson effort to create a Great Society. What happened since then about the poverty in America?

So the major issue is that the economists right now is focusing on is, what exactly is the economic effort which can be proposed such it does not refuse the question of incentive, the work ethics, but at the same time, institutional changes. So unless we can come up with a group agenda which can reduce these fundamental two issues to reduce poverty, putting some more money in does not necessarily reduce the problem, in fact can make the problem even worse.

Secondly, global terrorism is not just a question about poverty. A lot of people who call themselves terrorists, they fight America not because they are poor – it can be another problem too – but because they resent the U.S. foreign policy, especially in this case in the Middle East.

My question to you is, what are you going to do to address these two issues, one on the economic side, the other one on the political side, especially on the U.S. foreign policy, especially in the Middle East?

Thank you very much.

SEN. DODD: Well, let me first of all take issue with your premise on the first point you make, and I happen to think that the Johnson war on poverty actually did make a difference. There were those who over the years have maligned it, but the fact of the matter is it made a huge difference in the lives of millions of people in this country who were left out and left behind. And while it may have been excessive in certain areas, the absence of the war on poverty would have left this country in a far worse situation than it is today. So I would take a point of disagreement with you on the assumption that investing in the needs of the poor is not strictly a matter of investing dollars. It's the only answer at all.

And when you're dealing with disease –

Q: (Off mike.)

SEN. DODD: I understand that, but your point was that it didn't work, and I happen to disagree with you. I think it did work in large part.

And secondly, I think in dealing with some of the underlying issues we're talking about such as disease here, it does take resources, and resources can make a difference. HIV/AIDS is not a problem the world has to live with if there are the necessary investments to see to it the people get the proper medicines and the like to actually allow them to lead productive lives. In fact, in the absence of doing that, no matter how good a structure you create economically in which they can create economic opportunity if they're unable to hold jobs, to work, to survive as a result of the illnesses that are crippling to many of them, then it becomes impossible. So there is really a need to deal with some direct investments.

Now, I don't disagree with you, obviously. You're going to have to have – if you make those kind of decisions and also setting up structures so that people can have an opportunity to work and produce incomes to become self-sufficient. That's why I mentioned as well some of the ILO particular agreements where people have an opportunity to organize, to be able to earn decent wages, to be able to have the kind of protections that they need in order to be able to earn incomes to move forward.

I didn't mean to suggest – and I think I made the point that I don't believe that poor people are automatically terrorists at all. All I'm suggesting to you is that as you watch the ranks swell, that those who are left behind, disenfranchised, are unable to see any hope at all in their future, become the foot soldiers for those who are in a position to make a difference and do take leadership roles in terrorist organizations to increase their ranks, or to be able to reside in their midst because they can appeal to those problems that those people face as a way of protecting them, if you will. So there is a direct relationship, in my view, and our unwillingness to understand that I think poses some serious, serious threats for our country.

Now, regarding the political difficulties in the Middle East or elsewhere, obviously they deserve far more attention than I think they're getting. I don't want to turn this evening into a Middle East forum, but there are efforts that have not been made, in my view, that should have been made initially when the administration took over, to pick up on the efforts of President Clinton at Camp David that I think could have made a difference initially to also speak out forcefully where people's rights are being denied, and I think we've done that. Secretary Powell and the administration is trying to get back on track here to see if we can't find the means by which we can offer those who would seek a peaceful resolution of the conflict in the Middle East an opportunity to do so.

And that hasn't happened yet, and in large part, the voices within these countries are going to have to make a decision themselves as to whether or not they're going to continue to support their own sort of terrorist efforts, if you will. And until those decisions are made it's going to be rather difficult to move to a different agenda, but I think at least people are – will continue to do it. But to use the excuse somehow that the Middle East politics is a rationale for terrorist activity I think is also to misunderstand the motivations here. You could resolve the Middle East problems tomorrow for some, but it would never be enough for those who would like to do us great harm for other reasons. So it's complicated.

But on the issue of investing here on the issues of poverty and disease, I think there is a responsibility here to respond to it. But I appreciate your question.

Yes?

Q: Chris, I've read your terrific op-ed piece on the NATO structure. Have you had a chance to talk to Secretary Robertson? Have you gotten any traction on this idea?

SEN. DODD: The only thing – the Canadians responded negatively to it. I don't know if that makes a hell of lot of difference, but it does I suppose to the extent that they didn't particularly like the idea – because I think I didn't mention the Canadians as part of being the structure deciding. I should have thrown them in when they were nearby here. But I haven't talked to Secretary Robertson.

But it's going to require – I think there are three or four other countries now pending admission, so the number is apt to get near 30, and I think for those who have questioned the wisdom of increasing the ranks of NATO, having some structure in place – I used the U.N. Security Council as an example; there may be other examples one could come up with -- but there needs to be some mechanism by which the organizations can make decisions, and how to respond, or it's going to become basically moribund, in my view, as sort of a muscle-bound body that's incapable of moving at all, particularly when you consider the complexities in the post-Cold War world. During the bipolar world of the '50s and '60s and '70s it was not always an easy matter, but certainly far simpler for NATO to make decisions. In a world in the absence of that it's going to be far more difficult to get the kind of consensus necessary.

So I think some structure is going to be needed very quickly. And you better do it soon, in my view, while some of these nations are still willing to listen to some direction coming from ourselves and others. If you wait a few years and the organization becomes sort of set in its ways, then it's going to be far harder, I think, to establish that kind of a structure.

Yes?

Q: On the Millennium Challenge Account, I think the Bush administration's aspiration really is to transform foreign assistance – (off mike) – the risk, which is that we're just creating another set of conditions. How much attention do you think Senate Foreign Relations realistically will give to this issue in the coming months, given the budgetary reality and given the fact that nobody cares in the American public, and that people care deeply about war and peace?

Secondly, what are the fault lines likely to be in that debate? Are senators going to take on the administration on the actual – (off mike) – or what are the big issues?

SEN. DODD: Well, first of all, I think we need to have a greater sense of how serious the administration is about this idea. Were they just floating an idea out there to see what sort of attention it would attract or is this a serious proposal that has received a lot of attention, quiet attention, either within the administration, within think tanks and so forth that have a close relationship with them?

If they're serious about this I think we ought to be very serious about it. I don't want to get into the position where we have sort of a Pavlovian response here because we talk about a new agency somehow. My difficulty in the past is to get the Republican administration to understand the importance of, quote, "aid," for lack of a better description, and ways in which we take part of our wealth and share it in a way that enhances – this is, by the way, enlightened self interest. This isn't the Peace Corps we're talking about here now. This is about as motivated by self interest as anything else could be. So if a new structure here makes more sense as a way for us to be able to move resources collectively into areas of the world that need it, then I'm all ears. I'm very interested in hearing what they have to say.

And the fault lines are the obvious ones, I think. If we're talking about duplication here, who is actually going to have some authority? If you're going to create a separate independent authority outside of your main State Department structures, I would have some difficulties with that. The idea is we ought to try and keep this framework in a place where there is accountability and responsibility, and so there are ideas like that that I think would need to be fleshed out.

But I'm very interested to hear whether or not the administration is serious about this. If they are, I could get very serious about the idea very quickly. And again, not to be caught up in sort of holding on to structures for the sake of holding on – I voted for the Homeland Security bill, with some hesitation, not just because they loaded up the bill -- it went from 35 pages to 485 pages in the space of 48 hours. I believe that the basic idea is sound. My concern was with how quickly we were doing it and whether or not we were really thinking it through as carefully as we should have. But clearly there is a need, I think, for restructuring these organizations in a way to make them more responsive. And this is an idea worth exploring.

I'm sorry, yes. I apologize.

Q: We talk a lot about aid – funding aid, and a lot of political capital is spent on that, yet agricultural subsidies in the U.S., in Europe, in Japan are a major contributor to creating poverty. Half of West Africa's cotton-producing economies, the poverty level could be eliminated if one would eliminate the cotton subsidy. Every European cow can take a quick trip around the world with several luxurious stopovers – I mean, the farm subsidy is a multiple of the aid budget, and the reason – agricultural farm bill of the U.S., I think has significantly deteriorated that situation. Is that on the radar screen of the political process?

SEN. DODD: Oh, is it ever, yeah. (Chuckles.)

Q: I mean, what is the option of having, I mean, some potential for change?

SEN. DODD: Well, you know, hope springs eternal in these matters, but I don't need to get into a political science class here. Obviously it isn't just here, it's wherever you go in Europe and elsewhere, the influences are still significant within these sectors, politically speaking. And we saw it in this Congress, having to do with – it wasn't accidental that the battleground states for the control of the United States Senate were Minnesota, South Dakota, Missouri. There were contests in Iowa and the like, and how these issues were being debated and resolved – I mean, I'd love to tell you there was a total disconnect and these matters are being considered separately. Regrettably, we're not unique in that, and as you point out, this also goes on in Western Europe.

Until we can get to a point, in a sense, where we're going to make some real conscious efforts through globalization to agree to move away from the subsidy approach, then I don't see any great likelihood this is going to change dramatically. Consumers still like having low prices, and certainly the subsidy efforts are costly but they also assist in keeping products down for those who consume them in these countries at a lower level than they would otherwise be. And certainly that is not insignificant as part of the political debate either.

But I don't disagree with you. It isn't just a question of going to the poorest regions of Africa. We can go to neighboring countries in the Caribbean that suffer terribly economically, and have been good friends and allies. You might have to look to the Dominican Republic, for instance, which pays an awful price as a result of our policies regarding sugar in several places in this country. So it affects our relationship in the condition of wealth and poverty, even in neighboring nations that are not the poorest of nations in the world and yet have been good friends, but I don't see any likelihood, at least in the short term.

Now, we're all waiting to see how this particular bill is going to work. We've seen a new iteration of farm policy as a result of this effort. The president signed it into law -- passed overwhelmingly in the Congress of the United States. And the "freedom to farm" idea I think has sort of run its course, and the question is whether or not this particular approach will have some benefits to the agricultural community or is it really going to just be a windfall for the largest agri-businesses in the country? And too often, it seems to me, they're the ones that benefit from it, and small farmers don't end up receiving much at all in this. So that has been a major shift as well.

You know, it represents -- about 6 percent of our GDP today is agriculture. It's a far cry from where it was a number of years ago, and yet it still has a potent impact on the political decision-making process of the Congress and the White House.

Yes, sir.

Q: The ILO has recently established a World Commission on the Social Dimension of Globalization. It is chaired by two presidents: the president of Finland and the president of Tanzania. It has mandates to look for ways of making globalization more inclusive. And it has to respond to perceptions everywhere. It has to respond to the ways in which people all over the world are concerned with globalization. My question to you is, what could capture the imagination of people in America; a commission of this sort, looking globally at the social dimension, what are the issues which could capture the popular imagination? What are people concerned with that a commission of this sort could address?

(Audio break.)

SEN. DODD: -- terrorism, and our ability or inability. I've been trying the last year and a half, along with others, to convince people of the transnational aspects of terrorism, and that the answer to it requires a transnational response. I think a commission such as you've described, in talking about how there can be a sense of greater cooperation, both in dealing with the underlying economic issues as well as some of the political and military questions.

And that's why I raised the issue of NATO here this evening. I know in talking here the idea is sticking to talking about the World Bank or other international organizations, Millennium Fund and the like, would be certainly expected, but I think you've also got to bring in this element of security. And there needs to be, I think, a commission looking at these things to talk about how we can have enhanced security. These are not contradictory ideas at all; in fact, they're complimentary ideas. And it's going to be very important for international organizations to be willing to support the notion of having the kind of international cooperation that's absolutely essential if we're going to be successful from a security standpoint, talking in strictly military terms, to respond to it.

It's very important, I think, for the international community to understand the level of concern here in the United States about the willingness, particularly among some of our allies, to share in the burden of this, and it's going to be a lot easier, in my view, to build the kind of cooperation here at home on some of these economic issues if in fact there's a greater sense that the international community is willing to bear a greater burden when it comes to the military obligations. In the absence of doing that, it's going to be much harder for us to make the case here. So I added NATO this evening. You might question, why bring in that particular element? But I think it's a very important element. I don't mean to be particularly on NATO, but the notion of security.

So I would urge the commission to look at those questions, and I can't think of anything that would have a more profound impact on the ability of taking rank and file Americans in terms of willingness -- their willingness to share more of their wealth than the notion somehow that there's going to be a sharing of the responsibilities of seeing to it that the threats, since we're the primary target at least – not the only one, but a primary target of world terrorism – that there's a sense of cooperation on that.

MR. : One last question from Wendy.

SEN. DODD: Hey, Wendy, how are you?

Q: I'm fine.

MR. : I'm no fool. I've learned to – (off mike). (Laughter.)

Q: There's a lot of debate, particularly after our recent corporate scandals about liberal capitalism versus social capitalism, and what role corporate America really plays in the world. Could you comment on how you think corporate America, multinational corporations, can be a positive agent for globalization where the rewards of globalization are spread more equally around the world? And what do you think are the limits for corporate America?

SEN. DODD: Well, the limits is more obvious. I mean, I think when we start asking corporations to become sort of quasi-governments in a way, it's unrealistic. I mean, they have obligations to shareholders and boards of directors and the like to produce profits and to maintain their corporate identity and their corporate structures for those who have invested in them. So I think sometimes we can get carried away with how much we can really expect corporate America, or corporations globally, to assume larger responsibilities. Having said that, however, I also think – and this is, again, where I think political leadership comes in, particularly political leadership out of the White

House, to gather together these corporations and to remind them of what a difference they can make.

I used the example, going back, of when we passed, a number of years ago, the provisions dealing with the bribery – what was the – Foreign Corrupt Practices Act. I can remember just the – representing the state of Connecticut where I have -- some of the largest corporations in the country are homed in my state, and the hostility there was to that proposition. Today I think if we tried to eliminate that law you would find equally as much hostile opposition from corporate America because it has been, in a sense, a salvation for them in terms of how they do business. And they've also become the model, and others now are beginning to pick up on that model as a way of how they do their own business. So there's a great deal to be said for trying to invest in the corporate community that sense of ethical responsibility in places where they operate and how they operate, what sort of rules they play by, not just what they can get away with, in a sense.

Again, I think there'd be a – going back to the point I made, however, a moment ago, on terms of the security elements, the shared responsibility on security, I think there's going to be a greater willingness to be supportive of corporate interests in this country if there was a greater sense that corporations were willing to become leaders in places where they operate, particularly where they hire and employ thousands of people and can have a huge impact on the economies of these countries. And, again, I'm not expecting them to become quasi-governmental or to become VISTA programs or the like in their own nations, but by their example, by their involvement, by their leadership, by their voices, by the things they do, the symbols that they project can make a huge, huge difference.

And Franklin Delano Roosevelt was probably the best master of symbols, politically, in my view, in the 20th century. He had a wonderful ability to understand how important symbols were to our neighbors and friends around the globe. I was interested in reading, Strobe, about his concerns in the late 1930s about the Nazi government of Germany expanding its influence in the Southern Cone of the Americas, and so, talking to Bill Paley at CBS, went down and encouraged him and arranged licenses to operate radio stations to begin to project a different view of who we were as a people in some of these smaller countries – or large nations in South America. Embassies were built that were far larger than anything you would expect to be built in some of these nations at all, but it was important. He understood that these nations understood that we thought they were very important; so important that we were willing to build buildings that were larger than what you might expect to be the case. I'm using, in this case, government, but the point being here to understand the symbolic value of having corporations that, in the views of many, of course, are an extension of who were are very directly, and so they bear that responsibility.

But nothing, Wendy, can do more, in my view, in that regard than political leadership: calling upon people from corporate America to respond to it. I don't think corporate executives are terribly different than anybody else in this regard, and that if they're asked to do things, they will respond, and if given ideas in ways in which they can become better partners in all of this, will do so. And I think the fact that people haven't really asked as of late is one of the difficulties, but if they do ask, I think the difference can be demonstrated.

Thank you.

MR.   : Chris, I think it's clear that this group would have like to go on for a couple of hours, and I even sense that you might have not minded that as well. (Laughter.)

SEN. DODD: No – enjoyable.

MR.   : Sorry to be the bad guy. I do so under instructions from Karen and Janice, and that's not a combination that I want to mess with.

SEN. DODD: No, no – (chuckles) -- very few would want to.

MR.   : But also, much as all of us would like to have a chance to continue this conversation, there's at least one thing and maybe two things we'd like even more, and one is for you to get a little bit of dinner -- I think you may have to settle just for a salad – but much more important than that is that you get home and get on with the task of feeding and taking care of that little girl of yours. (Applause.) She was here in spirit. So thank you so much.

SEN. DODD: Thank you very much.

(END)

THE BROOKINGS INSTITUTION
CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE
THE INTERNATIONAL LABOR ORGANIZATION

MAKING GLOBALIZATION WORK: EXPANDING THE BENEFITS OF GLOBALIZATION TO WORKING FAMILIES AND THE POOR

WELCOME AND OPENING REMARKS

JESSICA T. MATHEWS, PRESIDENT, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

PANEL I: “GLOBALIZATION, POVERTY, INEQUALITY & EMPLOYMENT”

PARTICIPANTS:

LAEL BRAINARD, NEW CENTURY CHAIR AND SENIOR FELLOW, THE BROOKINGS INSTITUTION

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CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE
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JESSICA MATHEWS: Good afternoon. I'm Jessica Mathews, president of the Carnegie Endowment for International Peace. It is my privilege to welcome you on behalf of Carnegie, the Brookings Institution and the ILO to this conference on making globalization work for the poor – as well as for the rich. Our focus is not so much on poor and rich countries as it is on people: particularly on workers and their families, and on employment, working conditions, income and social protections. That focus in turn derives from a broader purpose of this conference, which comes from its connection to the ILO's High Level Commission on the Social Dimensions of Globalization. We want to introduce the Washington policy and research community to the work that is being undertaken by the commission and its ILO staff, and equally to make the commission and its staff aware of the latest research and policy analysis in Washington.

In this room there are, I expect, people who believe that globalization exacerbates unemployment, inequality and poverty. There are also, I would expect, those who believe the reverse, that globalization helps to reduce them. We can all of us, however, agree as a starting point, I hope, that whatever the record has been so far and whatever the net effect is to date, that the future can be different. That is, that globalization is not some kind of exogenous, inexorable process, but rather one that can be steered through policy choices. And those policy choices, that steering, are, I think—and the organizers of this event believe—one of the great policy challenges of our time. Because without those choices, the further integration of the world—economically, politically, and socially—cannot proceed.

It's clear that for globalization to be economically and politically sustainable, as we've seen from trade debates, street protests, and from economic trends, that it must contribute to reducing social and economic inequalities. How bizarre it must seem to some Martian political scientist looking down on us to see that the leaders of the world's freest societies and most economically successful countries, whenever they now meet, must do so in more and more remote sites behind more and more miles of guards and fences. You wonder how much longer it can go on in this shrinking world. I sometimes begin to wonder whether here at last is the otherwise impenetrable purpose of the space shuttle, and that ultimately we are going to find out what shuttle diplomacy really means. But clearly this trend of hidden summits is not one that can go on forever, and also clearly provides for us a clue that something is wrong.

One of the reasons of course is that expectations are an invisible free rider, piggy-backing on the accelerating flows of information across borders as part of globalization. If unmet, these expectations carry the very real risk of backlash, of abandoning what is good in economic integration along with what is not working. And even in pure economic terms, globalization may not produce the expected growth without these policy adjustments. If one has any doubt, I think, about these assertions, one has only to look at Latin America over the decade of the '90s. A year and a half ago Carnegie and the Inter-American Dialogue put out a wonderful study by Nancy Birdsall and Alexander Torre entitled "Washington Contentious."

In it, the authors took a look back at the 1990s, at a time when the whole continent whole-heartedly embraced the Washington consensus on macroeconomic policy: cut inflation to single digits almost everywhere; cut average budget deficits more than in half; lowered public external debt from 50 percent of GDP to less than 20 percent; brought average trade tariffs down from 40 percent to nearly 10 percent; dismantled direct credit controls; foreign exchange controls; capital account controls; aggressively reformed and liberalized; and privatized across the region. And the result in economic terms was very encouraging. Private capital inflows to the region in one decade increased six-fold, from $14 billion to $86 billion in 1997, before the downturn that was precipitated by the Asian crisis turned things around.

But in social terms the results were really very *dis*couraging. After this solid decade of perhaps the most aggressive economic reform ever, unemployment in Latin America rose, poverty remained widespread, the continent entered the third millennium with more than a third of its population in poverty, with incomes of less than $2 a day, and almost half of that number were living in extreme poverty on less than $1 a day. And the continent still displayed the worst, or the most acute, inequality of income and assets in the world. The not unexpected consequence of that was that public surveys towards the end of the decade showed that citizens were discouraged with reform, felt that their quality of life was lower than that of previous generations, that poverty was higher than ever, and felt increased anxiety about jobs and income. Of course the consequence of that was the political reversal and the very discouraging trends that we've seen over the last few years. Politicians could hardly go to voters and point out that as bad as things might look or feel, they would have been worse without the reform. That is not a winning ticket, and indeed it proved not to be.

So, in a nutshell, our hopes for this meeting are first to have another go at trying to clarify what we know or think we know about the record: about trends with respect to wages, poverty, and inequality over the past years. In the House Budget Committee, some years ago, members used to have a favorite saying that if you tortured the numbers long enough they would confess to anything. We will scrutinize the numbers very closely, but I hope, at least, not torture them. We will then go on to issues of causality, a much trickier proposition, to try to ask the questions of what we know about where the arrows of causality point as between globalization, poverty, income distribution and employment.

Then we will look at the even trickier issues of fairness: what are we to understand about the images of sweatshops in developing countries that we see in the media, for example? Should we see these jobs as economic advancement for their workers, or as unacceptable exploitation? And then, finally, we will pose the really urgent questions, regarding policy choices. What can be done? What can be done differently by national governments, by international organizations, by the private sector, by trade unions, by NGOs? I hope that we will be able to address all of those.

Gandhi was asked by a British colonialist shortly before independence whether he thought that India would be able to reach British standards of living after independence. He said that since it had taken Britain half the resources of the planet to reach its current level, he wondered how many planets it would take for India to do the same. In that spirit, we have some pretty big challenges ahead. I do think that the program that the organizers have put together, with the great roster of speakers we have, does a superb job of getting at answers to Gandhi's question.

Before I turn the podium over to this first panel, I want to thank the team that put this meeting together: Sandra Polaski, senior associate in the Trade, Equity and Development Project here at Carnegie; Lael Brainard, the New Century Chair and Senior Fellow at the Brookings Institution; and Karen Tramontano of the Global Fairness Initiative. This was, as always in these things, an enormous amount of work and I think they have succeeded superbly. So, I thank them, and all of you for coming, I look forward to our discussions, and let me turn it over to Lael.

(Applause)

LAEL BRAINARD: Let me ask first that -- feel free to move forward so that we can really engage. I would like the audience to be fully engaged in this. So to those of you who are sitting way in the back, please feel free to come and fill the seats in the front row here. And thank you very much to Jessica Mathews. I think that introduction really framed what we are trying to do here over the course of today and tomorrow. We have a truly terrific set of panelists. We were really amazed by the results, and I have to say that the participation list is equally impressive. We will try to make sure that the panel's remarks are very much to the point so that we can really engage in a give and take with the audience. On administrative details, Senator Chris Dodd will be speaking this evening. Strobe Talbott will introduce the Senator promptly at 6:00. This event is not going to be held here, it's going to be held at the Jury's hotel, which is a few blocks away where New Hampshire Avenue meets Dupont Circle. So I do encourage you both to attend the dinner if you can and also to be on time. Tomorrow we'll be back here at 8:30 for coffee and 9:00 for the first panel. On press notes, we have some members of the press who are attending the conference, and we will make the transcripts from the sessions available on the websites in as short a timeframe as possible. Meanwhile, if there are participants who would like to use quotes from panelists, from our speakers, I would ask you to do so only after checking to verify those quotes with them. And my final note is just that if you do have administrative questions, there are a number of people that you can turn to, but Allison Driscoll, who's walking around the room right now, is probably your best -- first contact point.

Let me just quickly introduce the panel and the panelists and then turn it over to them. I just want to say that I was reading the newspaper today and there were two items that really struck me. First, I don't know how many of you saw this, but Britney Spears is 21 as of today, and so how old do we all feel? Second, I don't know how many of you read the Wall Street Journal, but the far left column was a really interesting column talking about students who come here many times from developing countries to be educated at the top universities in the United States who are now completely confused as to what they are learning about globalization.

It gave the contrast of Jagdish Bhagwati and Joe Stiglitz at Columbia, and it went around several of the main universities and talked about just how mixed the message is right now. Is openness a good thing or a bad thing? And for people who are going back to take key cabinet posts in developing countries, it's a very real question.

That seems to be very, very relevant to the conference that we're trying to put together here. The conference represents an unusual collaboration between different disciplines and different groups of people and I think it really does address one of the central challenges of our time, which is making globalization more beneficial for working families for the poor in every country around the world. This is for most people a highly polarizing topic and our hope was to put together panels that would not address it from the point of view of having an intense debate but rather from a very thoughtful point of view and a constructive point of view that really goes from the facts to the policy implications, as Jessica was suggesting.

So this afternoon is really about the facts. It's really to review what do we know about inequality? What do we know about poverty? What do we know about real wages and living standards both within countries, between countries and the world, and what do we know, if anything, about the linkage, the causality between globalization and those things? That hopefully will give us a background so that tomorrow we can start talking about what it means for policy, rather than jumping to policy conclusions, which is too frequently what this debate does.

In terms of our panel, I think we have a great group. I will introduce them in the order in which they're going to speak. Martin Ravallion is research manager in the Development Research Group of the World Bank. He's been working on topics related to this through research, advisory and academic capacities for 15 years. I was astonished to see that he has during that short time co-authored or authored two books and 120 papers while holding down a full-time job, and he is a Ph.D. economist from the LSE.

Branko Milanovic hails from the same institution. He's lead economist in the unit of the Bank concerned with poverty, income distribution and household surveys in the World Bank's research department. He's also an adjunct professor at SAIS. He also holds a Ph.D. in economics from Belgrade University in Yugoslavia and has been working on these issues it seems since the very beginning of his doctoral research. His recent publications include "When Markets Fail," "Poverty and Social Assistance in Transition Countries," and "Income, Inequality and Poverty during the Transition from Planned to Market Economy," among others.

Eddy Lee is director of the International Policy Group at the ILO and has also been working on this set of issues. Produced in 1995 and 1996 the two initial or inaugural editions of the ILO's annual report on global employment issues entitled "World Employment." He also has a Ph.D. from Oxford and has been focused very much on how the new social contract can be or must be an essential part of the globalization process.

And then finally, Gary Burtless is a colleague of mine who holds the John C. and Nancy D. Whitehead Chair in Economic Studies at the Brookings Institutions. He also is co-author and author of many books, and he has the distinction of naming them very well. Just to give you a few, "Globaphobia: Confronting Fears About Open Trade," "Does Money Matter?" and "A Future of Lousy Jobs." I think he's unique on this panel and perhaps in this field a little bit more generally in that he really comes to this from having done research on related topics in the U.S. context. And so I am hoping that he'll bring that kind of research perspective to this discussion. He also has a Ph.D. in economics from MIT.

Now, the only caveat is this is the only panel on which everybody has a Ph.D. in economics, and so I will tell you ahead of time that we will not talk at a technical level, and we will really try to make this a discussion that is accessible. I hope to the extent that you don't find it accessible, you'll just raise your hand and let us know.

What I'm going to do is give each of the panelists 10 minutes, and I'm going to be pretty firm on that. I'm going to give you a nine minute warning if you're going over. I think several people have slides, and to the extent that you kind of need help getting those moving I think we have somebody who's going to help with that.

So let me start by asking Martin Ravallion to kick us off and to start by talking about what we actually know about the relationship between growth, poverty and income inequality over the last several decades and to also address whether we care equally about all of these things or should we care more about some of them? And secondly, as you're talking through the data, to give us a sense of which of these conclusions are more or less robust and which are extremely sensitive to how the trends are measured.

MARTIN RAVALLION: Okay. I'm going to give you a summary assessment on a debate that's going on and that has been going on for a long time, but that's been certainly prominent in recent times. One side of this debate on globalization, poverty and inequality is to be summarized by these two quotes. This is from The Economist in May 2000. "Growth really does help the poor. In fact, it raises their incomes by about as much as it raises the incomes of everybody else. Globalization raises incomes and the poor participate fully." Quite a confident assessment.

In a report in a book published by the Institute of International Economics across the road by Surjit Bhalla, the following quotes: "Evidence suggests that no one has lost out to globalization in an absolute sense." A quite remarkable comment -- statement. "Growth is sufficient, period." On the other side, the opposing view, I mean, you can find many examples of this, but here I took a quote from Justin Forsyth, a policy director of Oxfam and also an economist, in a letter to The Economist protesting about the article that I referred to just now, "There is plenty of evidence that current patterns of growth and globalization are widening income disparities and hence acting as a break on poverty reduction."

Okay, can we make sense of these two opposing views? Is there any possibility that both -- there's truth on both sides? Are they both just hopelessly wrong? Is it -- what can we -- and to do that I'm going to have to use some evidence. I'm going to summarize results from research that's been done at the Bank and outside the Bank on both sides of this debate. And essentially I'm going to say that in a sense both are wrong, that there's truth in both sides and we've really got to realize that fact. This is essentially a debate between ships passing in the night. They simply can't see each other's positions. There's truth on both sides and we have to be very careful about it, it's a somewhat nuanced issue.

Yes, growth does reduce poverty and this is just a simple summary of the evidence here. Each one of these points is a -- I'm sorry that the people in the panel can't see this, but each one of these points is two household surveys over time. Not strictly comparable surveys, as comparable as we can make them. There's about 100 points there, I've trimmed it a little bit. On the vertical axis the proportionate change in the poverty rate, a dollar a day. On the horizontal axis proportionate change in the survey mean. So essentially this is the rate of poverty reduction on the vertical axis, the rate of growth in average household living standards in the horizontal axis. That is a strong relationship. I don't think anybody who's looked at absolute poverty measures and how they respond to growth will be surprised by this. Yes, growth typically does reduce absolute poverty. Typically is an important word but you can see the regression line and it's got a slope of about minus 2 and elasticity of minus 2 to poverty reduction to growth.

These are survey based estimates. Now this is an aside on the measurement issues and we can talk and talk for the next six hours about the measurement issues here. But these are survey based estimates. If you use -- if you anchor your poverty measures to national accounts, you also find that growth reduces poverty. You find it's even more effective in reducing poverty. I've argued elsewhere that there is absolutely no basis for anchoring poverty measures to national accounts. I don't accept the estimates that have done that recently, the work of Surjit Bhalla, Sally Martin on methodological grounds. But we can talk about that. If you ask me, I'll give you some answers.

What then has been happening to poverty and equality in the aggregate? Poverty, absolute poverty, I think we're pretty confident, with aggregate economic growth in the developing world since about 1980, we've seen a reduction in both the numbers of poor by just about any definition, a dollar a day numbers, 75 cents a day, two dollars a day, countries' own poverty line. As long as there is an absolute poverty line, meaning it's fixed over time in real value, that's what we tend to find.

Aggregate poverty has fallen, both in numbers of poor and percent. When you look at the period 1980-2000, you have to be very careful. If you look at the period 1980-1990, we see a lot of that reduction occurred in that period. The 1990s was not terrifically good news for the poor in the world as a whole. Aggregate inequality has been rising in some periods, falling in others. I don't think we're yet to a position where you could say there is any clear trend.

Now, a few points about this. Now, that's sort of one side. If you like, that's the truth in that first quote from The Economist. What about the other side? A key point here is the distribution neutrality. That comment, that quote from The Economist -- let's go back a bit -- that quote from The Economist says, "Growth really doesn't work, in fact, it raises their incomes by about as much as it raises the incomes of everybody else. Globalization raises incomes and the poor benefit -- participate fully." This is based essentially on a proposition that inequality on average does not change with growth.

And we know that. That's what's underlying that figure on poverty measures that I showed you just now. That does not, however, imply that the poor gain as much as the non-poor, that the poor participate fully. In no sense does it imply that. What it implies is that inequality doesn't change. The poor will have the same lousy share of the growth as they have of the initial income. And it's a pretty lousy share, if you look at most countries. Let's look at some examples for India, for example. The income going to the richest 10 percent in India will be about four times higher than for the poorest 20 percent. In South Africa, about 15 times higher. The absolute gains will be very much larger for rich people than poor people from exactly the same evidence.

Distribution neutrality meaning that relative inequality does not change with growth simply does not imply that the poor are participating fully in any obvious sense that's obvious to me from the growth that's occurring. So Oxfam's policy director, NGOs all over the world can look at exactly the same reality and see what these numbers are suggesting. They're seeing large income gains to rich people that allow them to consume very much more. This is actually -- and conceptually this is a different stream -- what's called relative inequality and absolute inequality. This is not an economics talk. This is actually a subtle distinction, something that a lot of economists forget about. When they're talking about inequalities -- when they're often talking about inequalities, they're talking about relative inequality, they're talking about ratios of incomes.

Absolute inequality is a perfectly justifiable concept. It hasn't had the same attention in the literature. But if you think about it, if you think of two states, one in which the lowest income is 1,000, one in which it's 10,000, another which is 2,000 and 20,000. So this could be before or after greater openness to trade or whatever. Relative inequality has not changed between state A and state B. But obviously, the rich in state B have got twice the gain and their purchasing power is twice the purchasing power in state A. They've got a gain of $18,000 versus $9,000. This is just simple arithmetic but it's very important to realize how deceptive these words are. That Economist quote, I think, is really deceptive. That is just not what the data shows. It is not even what the data on which The Economist is basing its article shows.

A number of other points. One of them is the distribution neutrality. On average, it does not mean that distribution is unchanging. This is another of those fallacies that creeps into the story. People say, "Ah, inequality is not changing. It's not changing anywhere. It's not changing over time." Nonsense. It's changing dramatically. Half the countries in the world that have seen growth in the last 10 years have seen rising inequality. Half of them have seen falling inequality. Some of the biggest countries, China and India, have seen substantial increases in inequality. The deterioration in inequality in India is now on a par, by some accounts greater, than in China. China has been on a trend increase in inequality across two decades.

Now, of course, growth in China and India is good news from the point of view of aggregate inequality in the world. If you take two poor countries and you put them through these growth processes, that's inequality reducing in the aggregate for the world as a whole. But within these two countries, inequality has been increasing. It makes a lot of difference -- this is just an idea of how much that matters. Take those two countries, China and India. This is my calculation of what we would have expected to be the rate of poverty reduction in those two countries. These are the percentage points reduction of a dollar a day poverty rate in each country. This is what we would have expected at the beginning of the 1990s. These were Gini predictions.

On the basis of the growth that occurred, if you assumed it was distribution neutral. In fact, it's a slightly weaker assumption if you assume that it's exactly the correlation between growth and inequality we see in the aggregate. We would have seen poverty falling about four percentage points per year in China versus two percentage points in India. What do we actually see: 1.6, 1.2. We're talking about some serious attenuation of the impact of growth on poverty through this rising inequality.

There is another side to this story. It's really not just about -- I'm going to skip that picture for time -- it's not just about the importance of what's happening to distribution when we look at growth and poverty. It's a matter of understanding the role that inequality plays. This is the other bit of truth in the quote from Justin Forsythe that I think we need to unpack a little bit. It's not just about changing inequality; it's also about the importance of inequality to how much the poor participate in growth. This is almost arithmetical. But if you have a high inequality country, the poor are going to participate -- are going to obtain less of the gain from economic growth than in a low inequality country. The elasticity of poverty to growth is going to tend to be higher and more negative in the low inequality country and that's exactly what we find.

That's not terribly interesting. It's a little bit statistical. We have to unpack it to understand what it is about inequality that makes that the case. The numbers illustrate the importance of initial inequality. This is saying even if inequality does not change, in a low inequality country, you're going to get more sort of bang for your buck in terms of poverty reduction from growth than in a high inequality country. This is just a simple calculation of what we see in the data. If you think of a two percent rate of growth in per capita income in a 40 percent head count index, you're talking about, in a low inequality country, a Gini index of about .3; you'll be talking about poverty halved in 12 years. In a high inequality country, it will take almost twice that long.

It really doesn't matter what the initial distribution is. But then I think that's not terribly interesting. Let's go a little bit further into the causality. What is it about inequality? Inequality of what? Inequality of assets? Inequality of physical assets, human capital? Here, I think we have to abandon cross-country comparisons. We have to go to country stories. Here I just mention -- conclude with one country story. I think from the point of view of aggregate absolute poverty in the world, it's probably the most important country story to get right and that's India.

High growth in the 1990s -- we've see high growth in India in the 1990s. We haven't seen, as I've just shown you, we haven't seen the rate of poverty reduction we would have expected. Basically, what India has done in the 1990s is return to its kind of historical rate of poverty reduction after a very difficult period at the beginning of the 1990s. That historical rate of poverty reduction going back a number of decades now is pretty much one percentage point per year, using India's own national poverty line, which is slightly below a dollar a day. And it's basically returned to that trajectory despite high growth.

So, in fact, what's happened is the elasticity of poverty to growth in India has fallen. It's actually not just the reform period. It's been falling. It's been on a trend decline over a long period. To understand that, I think we have to think about two things. We have to think about the composition of growth. We have to take away -- in a sense, the rest of this talk and I'm not going to have much time -- but it's really about -- okay -- think about poverty in the aggregate, think about growth in the aggregate. It's not terribly interesting. We have to unpack the growth process and understand what aspects of growth impact on poverty.

When we do that in the India story, a couple of lessons come out very clearly. Rural economic growth is going to be crucial to poverty reduction in India. That's one of the key things that's been missing in the post-reform growth process. Agriculture has been lagging substantially. Typically, agriculture lags in a developing country but basically, the rural sector has not participated much in the type of economic growth we've seen in 1990. There are caveats on that.

But it's also very important, the geographic composition of that growth. The growth in India in the 1990s has not been happening in the parts of India where it would have the most impact on poverty nationally, and that's been a big factor in that halving in the potential rate of poverty reduction from growth. It's just not been happening in the places where it would have that impact on poverty. And it's not been happening in the sectors, in the rural sector and in the agricultural in particular is where it's lagged.

The second point here, that we have to also understand why the non-farm growth rate in India, why the process of non-farm growth that's generated by these reforms, and there's no question in mind that these reforms have been a powerful factor in promoting growth, where is that come from -- why has that not had more impact on poverty? In fact, in some places it's had a lot of impact. In some places it had very little. There's enormous heterogeneity in the impact within India of a given rate of non-farm economic growth, here I mean urban and rural non-farm growth, a given rate of non-farm economic growth, how much impact that has on poverty varies enormously between states of India.

And it varies in very predictable ways. The states of India where rural development is better, where human resource development is better, basic literacy, poor people can participate in the growth process, and we've seen that over time. The real stars in poverty reduction in India, including in the 1990s have been places like Kerala. Terrific initial human resource development going back ages, and this is not something that happened overnight by any means, anybody who knows Kerala, we're talking about things that go back into the '50s and maybe even before. Human resources conditions, rural infrastructure are particularly important, I think if you think about the India story I guess I'd summarize it by saying that some states of India have got some part of this story right in human resource development, other parts of India have got another part of the story right, particularly in rural infrastructure and so on, no state of India's got both right.

But we've also learned that these things are synergistic, the composition of growth and initial conditions in human resource development are highly synergistic. It's not a case of doing one of these things right, you get a tick and that's great, you move on. It's a case of doing these things together, and that's a very important lesson that comes out of the India story. Finally, I'm going to go back to those quotes. Evidence suggests that no one has lost out to globalization in an absolute sense. I'm sorry, but that's nonsense. We find plenty of evidence of poor people who've lost from globalization. On balance, globalization as you've -- I don't particularly like that word, but if you mean by that greater openness and growth generated by trade and so on, I think on balance it's poverty reduction, poverty reducing, that there are losers and gainers.

We're just now looking at the impact of WTO's session in China. We believe that WTO's session in China, huge trade reform, is going on balance -- have neither increased or decreased poverty in China, relative to the counter-factual not joining WTO. But that's not interesting. What's really interesting is the heterogeneity. In some parts of China you're going to see poor people losing big time. In other parts of China you're going to see gains. That's what drives, that's what carries the message to policy. That's what tells you what to do in policy. Similarly we're seeing churning under the surface, there are implications here for social protection policy that I think can't be ignored. Finally, growth is sufficient also misses the point. Those who say that growth is not enough -- I'm not saying that growth does not help, this is another sort of easy fallacy.

The heterogeneity in the impact of growth that I've talked about is crucial, and I think finally, if there's one message that I'd like to give in zero time, it's that growth-promoting economic reforms, it's half of the story. Combining that with the right social sector programs and the right sort of policies, including redistributive policies, effective redistributive policies, is going to be crucial. Thank you.

(Applause.)

LAEL BRAINARD: All right, I'd like to turn the floor over to Branko Milanovic to talk a little bit about the broad trends in the data on inequality and poverty and how measuring those differently drives the outcomes, and to talk a little bit also about what we know about causality between that and globalization in particular.

BRANKO MILANOVIC: Thank you very much, I will try to stay within my 10 minutes too. Martin and I did not synchronize our presentations but you will recognize a few common themes. So first, as the terms of reference of presentation say, I would try stick to giving some data on inequality in the world, and then at the very end I would like to say a few words about why global inequality might or might not matter.

Let me start with a very simple presentation of what type of inequality we're talking about. If you look at the first column of the slide, there are individuals there. Individuals live in countries, but they live in the world as well. And then if you look at the second column—countries—countries exist of course in the world. So when you put these two things together, you have two-by-two box. Now only three of the cells are relevant.

First, if you look at the cell of individuals who live in countries, and look at the corresponding type of inequality, you are talking about inequalities within countries. This is a type of inequality where we can say that the United States is more unequal than Sweden. This is a very usual type of statement with which we are all quite familiar.

Then if you go to the second cell over there in the SE corner, where we have countries in the world, the relevant type of inequality is inequality between countries. There we are talking about poor countries catching up, or not catching up, with rich countries. There we deal with the convergence literature.

And then look at the last cell which is, I think, of most interest to us here. It is the cell which contains individuals living in the world. This is the cell where every individual in the world is considered the same, as a kind of a citizen of the world, and the type of inequality we are concerned here is inequality between people of the world.

So let me go through each of these cells and see what has happened over the last 40 or so years--simply factually. Of course as Martin has said before, there are disputes on some of these things, but I will indicate where there are disputes and where there are none, that is where most people are in agreement.

Let us start with within-country inequality, that is, inequality between individuals in a given country. Over the last 20 years we have seen, generally, an increase in inequality within countries. Simply, it's the same statement as saying that the United States, for instance, has witnessed an increase in inequality over the last 20 years. But the U.S. was not alone; there are many countries where inequality increased: some of them like the U.K., and the Netherlands are in Western Europe; then there are all East European countries, a few countries in Latin America, and also China and India. Thus, generally speaking, there was an increase in within-country inequality. And this is why the mean Gini coefficient of all countries in the world shown here exhibits this upward trend. So this fills one of our cells.

Now, let's go for the next cell. This is the cell of inter-country inequality. Here we have GDPs per capita expressed in equal purchasing power (international) dollars, which means that we adjust for differences in prices. Poor countries have lower price levels so you want to give a boost to their dollar income because people there can purchase goods and services more cheaply. After you do that, and take GDPs per capita in international dollars for all the countries in the world, and line them up from the poorest to the richest, what you find is that over the last 20 years, from about 1978 or 1979 to today, you have had an almost inexorable increase in inequality. In other words, poor countries are not catching up with rich countries, they're falling further behind. Now, if you put these two things together—increasing within-country inequality and rising disparity in between country incomes—does this necessarily mean that we have to have overall increase in inequality among individuals in the world?

If all the countries in the world were exactly of the same population size, when I put together these two facts (these two graphs which I just showed), yes, I could immediately conclude that inequality amongst people in the world must be greater today than it was 20 years ago. However, because countries are not of the same size I cannot conclude that. While there are many poor countries which are falling further behind, there are also some populous poor countries like China and India which are growing fast and are catching up with the middle of world income distribution, and perhaps even with rich countries.

But before to try to answer that question of global inequality, I would like to go briefly back to inter-country inequality and to draw your attention to the changes which happened between 1960 and today. In the graph here, let us focus on two colors only. Focus on the deep blue, which is the rich world, and on the red, which is the poor world.

This is the world in 1960. I'm not going to go into how the rich world is defined—it may be even obvious: it is all the countries that were at least as rich, in terms of GDP per capita, as the poorest western nation, Portugal in this case. Now, look at the world in the year 2000. It looks much worse than in 1960: the deep blue is now fully concentrated in Western Europe and Oceania and Northern America. There is no blue anywhere else. On the other hand, the red, the countries whose income is less than 1/3 of the poorest western nation, are many more in numbers today than in 1960. So this is essentially what I said before: poor countries are not catching up.

We can move now to the graph showing that poor countries' incomes are much more variable than rich countries' incomes, but I will skip it that because we don't have enough time. We can also quickly look at the graph showing the decline in countries' growth rates over the last 20 years. This graph shows the countries' growth rates in the period 1960-80 on the horizontal axis, and countries' growth rates during the last 20 years (1980-2000) on the vertical axis. You see that most of the countries are below the 45 degrees line. This means that their growth rates today, or more exactly over the last 20 years, have been on average lower, than they were before. And there were also many more countries with huge declines in GDP per capita.

Now, let's go back to our original question, to the third cell—inequality among world individuals. There we have an extremely mixed picture, and we cannot be quite sure what the trend is because different people have come with different results. There are some who claim that inequality has definitely gone down (a minority indeed), others who find more or less stable inequality (a plurality), and some who find inequality rising—including myself over the period 1988-1993. For instance, if you look very carefully you might see that my numbers show a fairly large increase in inequality between these two years, and then somewhat of a decline between 1993 and 1998. But when I calculate the standard errors of these estimates—and even that is stretching it because we cannot for sure say what the standard errors are since there are many important unknowns like the extent of population coverage by various surveys, the way income or expenditures are defined, omission or inclusion of some items etc—yet if we make some very rough assumptions and estimate the standard errors we find that it is difficult to tell whether global inequality is going up or down. The changes are not statistically significant—at a conventional level of significance But one thing which is very clear from all these numbers is that global inequality is extremely, even obscenely, high. Its Gini coefficient of between 62 and 66, which, if you compare it with the United States, for instance, whose Gini coefficient is about 40, means that global inequality is 50 percent greater than inequality of individuals within the United States.

While we know that global inequality is extremely high, we don't know for sure if it is increasing or not. Now the next graph is a small attempt to look at all people in the world together. There I take as the poverty line, the poverty line which exists in advanced Western countries, which is about $10 per day (it is also more or less the U.S. poverty line too). We see that 78 percent of the world population lives below that poverty line. And then we have about

11 percent of the people who are what I define as the world middle class, and finally 11 percent who are rich. Thus essentially three quarters of the world is poor by Western standards.

Now, let us go quickly over the conclusions. First, within country inequalities have been increasing during the last two decades; second, between country inequalities have been rising as well over the same period; and third, global inequality, inequality among people in the world, is very high but the direction of change is not quite clear.

Let me conclude with one last table on inequalities. If you compare people, if you say, "Okay, how great are these inequalities that we've been talking about" what do you find? Because the Gini coefficient is not a measure that many people find intuitively appealing, it is easier to look at the top five percent of people, and compare them to the bottom five percent of people. For the world as a whole, the ratio is 100 to one. The five percent on the top take one third of the total world income, the five percent on the bottom take one third of one percent. This gives you the ratio of 100 to 1. Then if you keep on comparing people's incomes, and if you use simple U.S. dollars, which means that you don't adjust for purchasing power differences, this ratio jumps to something like 300 to 1. This is a fairly large ratio. Finally if you look at the top five countries' GDP per capita versus the bottom five countries' GDP per capita, the ratio of 56 to 1.

This leads me to the last issue, namely that when we discuss what is the impacts of globalization or openness on poverty, on real incomes, on people's lives, we really have, or people really have, two different things in mind.

One view is that the utility function of individuals in the world, of each us, is basically a function of the amount of goods and services that we command, that we consume. And here is a quote from Anne Krueger who recently said that poor people are desperate to improve their material conditions in absolute terms—this is the crucial word, "material conditions"---rather than to march up the income distribution ladder. Hence, it seems far better, Ann Krueger says, to focus on impoverishment than on inequality. This is basically that first concept: if we can prove that globalization is good for growth, and if that X, vector of consumption goes up, however slightly, and regardless of what happens elsewhere along the distribution curve, that increase alone should make people, poor people, happy and content. And consequently this is all that we have to focus on. We don't need to focus whether the poor are benefiting as much as the rich, whether inequality is going up or down, we just need to focus on that bundle of goods: do the poor have a little more of it.

Differently, and this is the second view, you can say, "well, of course the bundle of goods that I get is very important, but my relative position is important too." So I do not solely measure my own bundle of goods, but I also compare with another relevant bundle of goods: be it the mean or the median, or any other reference bundle of goods. When there is a difference in income between myself and somebody else for essentially the same effort or labor, and when that differences is 10 to 1, or 15 to 1, or 20 to 1, I might not be very happy. Yet this is precisely what happens with globalization: differences in income which are basically arbitrary because they depend on where one was born, become much more visible and known. And these differences will, of course, drive migration (as we see it daily), but they will also lead to resentment and anger. And here I have a quote from Simon Kuznets, who essentially said as much long time ago, in 1954. He said that even if there is a reduction in physical misery, that is increase in Ann Krueger's bundle of goods X, there may be an increase in political misery of the poor and an increase in tensions when the poor become more aware of the existing differences in income. And I think that this is precisely what globalization does: it makes people much more aware of the differences in their incomes, and poor people's reference bundle of goods, the bundle X which they expect, goes up. Then, their own bundle X seems suddenly very small and unsatisfactory, and if it obtained for the same effort as a much larger bundle received by people in rich countries, it appears very unjust too.

This is basically the second, I think, much more sophisticated view. I think that people very often speak at cross purposes--some of them speaking about absolute increases in income, others speaking about the absolute increases but also about relative position and overall inequality. At the bottom, there is a very different concept of what actually drives people ("what makes them tick", if you will) or what is basically the utility function that people have. Is it only the absolute command over goods and services, or there are also some relative (positional) goods. That is, does one's satisfaction depend too on his relative income and what he or she perceives to be fair? If you want to make it very broad, does one's satisfaction also depend on his relative status and dignity, or only on whether he or she has a dollar more or less? This is a fundamental question, I think. Thank you very much.

(Applause)

LAEL BRAINARD: The good news is our panelists are keeping within their 10 minute limits. The bad news is it's a heck of a lot of information to digest in a very short period of time. Let me turn to Eddy Lee and ask that you focus a little bit on real wages and on what's happening to workers in this data picture.

EDDY LEE: Thank you, Madam Chairman. Well, let me start off by listing some of the main concerns which we are responding to with respect to employment and wages in the context of globalization. One issue is the question of job losses as a result of opening up of the economy and one view stresses that the displacement effects of increased imports and increased foreign direct investment predominates over the job creating effects and the view is that in general the net employment effect of globalization has been negative. Secondly, a variant of that is although we concede that the new jobs have been created as well, that there are two problems with this process.

One is the well known one that the job creation that has occurred has been concentrated in a few countries which have experienced most of the export growth and has absorbed most of the influence of foreign direct investment. A related concern has been over the quality of these jobs, the whole issue of low wages and poor working conditions related to the issue of a possible erosion of labor standards and also concern over widespread deregulation of labor markets.

A third concern has to do with the possible increase in employment insecurity. One manifestation of this is the issue of increased churning in the labor markets, where there has been increased job creation and job destruction associated with the opening up of the economy, even in situations where there is no net rise in unemployment. Another aspect of the employment insecurity problem is that increased informality and reduced formal protection of jobs in the labor market. One dimension -- one important dimension of that is the issue of the so-called working poor, who are concentrated in the informal sectors, and that these are those who while although working, yet earn wages and incomes which are below the poverty line.

A fourth concern is over the rise in wage and income inequality. And one dimension of this is a fear over the weakening of the bargaining position of workers in the context of increased mobility, of capital, and the increased market power which the use of -- the threat of the use of the exit option gives transnational enterprises in the bargaining with unions and local governments.

Now, it is extremely difficult to arrive at any firm assessment of what has been actually happening with respect to these four concerns which I've listed above, mainly because of data and methodological problems. I think one unfortunate fact is that there is a lack of comparable data on employment trends and other labor market variables for many developing countries, and secondly I think it's also true that there has been significant inter-country differences in the initial conditions and in other policies and institutions that have accompanied the process of trade investment and account -- and capital account liberalization across the developing world.

Well, in terms of -- I will now refer briefly to some of the work which the ILO has been doing in recent years to throw light on this issue. One part of this is that we conduct regular reviews of world employment trends every couple of years in conjunction with our publication, "The World Employment Report." The latest of these reviews will be available in March next year.

I think what is significant is that recent reviews do not show a picture of a generalized and sustained improvement in the employment situation in developing countries in the past two decades. But at the same time, there are, as I mentioned earlier, significant gaps in the availability of data and it is also clear there is a significant inter-country and inter-regional differences in employment trends. To a large extent employment trends have been linked to growth performance and I think in this connection the impact, the financial crisis and the slowdown in growth in recent years has been noticeable.

For example, employment conditions in Latin America clearly deteriorated in the past three years or so and while in Asia not all the crisis-affected countries have seen a recovery of employment trends to the pre-crisis levels. I think what emerges from this service also is the degree of informalization in employment has increased in many countries, especially in Latin America.

But of course these general reviews of employment trends do not allow us to draw any firm conclusions about the impact of globalization on employment. Some of our other work, however, do show some additional light, and this has consisted of both country case studies, cross-section analysis and literature reviews that we have conducted to try to analyze the impact of globalization on employment.

Very quickly, in a recent cross-section study of a sample of 66 developing countries, we found a mixed result with respect to the impact of trade liberalization on the average employment -- intensity of employment. In about half the sample of countries, exports -- employment in export industries were less labor intensive than in the non-traded and import competing sectors, which goes against standard theoretical predictions and raises the possibility that increased integration could result in a reduction in employment.

We've also looked at the issue of the relationship between globalization and wage inequality, and here again the results are somewhat inconclusive. There's no overall relationship between increased openness to trade and FDI and a rise in wage inequality. But, however, in a sub-sample of countries there is evidence that the early stages of openness to trade was associated with an increase in inequality.

Well, on inequality I think we have found other results in terms of a survey of the literature and a look at the sample of -- the sub-sample of countries. We found a mixed picture not too different from what has been described by the earlier speakers. In terms of two sets of cross country studies -- of country case studies, one covering seven developing countries carried out in 1999, one significant finding was increased openness to trade was associated with greater churning or labor turnover in the labor market, and it was concluded this has particularly detrimental consequences for low workers with only modestly transferable skills.

Another recently completed set of studies on China, India, Malaysia, Mexico and Brazil focused on the effects of growth on trade -- growth of trade on employment and wages in manufacturing industries. All countries in this sample had experienced rapid growth in trade in the past two decades yet there was a striking contrast in the impact of this on employment and wages in the three Asian countries as compared to the two Latin American ones. Both the employment and wage effects were far more favorable in the Asian countries.

I think these results combined with the rest of the available literature suggests that it is not easy to draw any firm generalizations about the causal relationships between globalization and employment and wages. So in relation to some of the concerns I outlined at the beginning, I think a cautious reaction would be somewhat along these lines. I mean, the strong assertion that globalization is predominantly associated with the net negative employment effects cannot be sustained. There is significant differences in country experiences which suggests that contingent and country specific factors are important. Differences in complementary policies, institutions and the process -- and how the process of liberalization is handled does matter a great deal.

I think the same is probably true with respect to the impact of globalization on the rise in income and wage inequality. But the growing number of countries in which a rising inequality has been occurring does push this issue up on the policy agenda for further research. I think it is also fairly clear that there is -- there are strong indications that globalization is associated with increased labor turnover or churning in the labor market. And I think the same is true with respect to the extent of informal employment, the fact that this has been increasing in a growing number of countries. Well, I think on the equality of jobs in export industries, there is again insufficient evidence to judge whether there has been a general deterioration in this respect. There is sufficient evidence to indicate that this is a significant problem, but on the other hand there also have been counter-examples from our studies of particular export processing zones and industries.

(Applause)

LAEL BRAINARD: Let me ask Gary Burtless to round out the panel by digging down a little deeper into this issue of world poverty, and also to talk a little bit more about how much we know about causation and whether we have good ways of measuring globalization as opposed to other possible causes of some of these trends.

GARY BURTLESS: I just want to make an assessment of two issues. The first is whether the facts as Lael just asked regarding the trend in world poverty. In particular, is it true, as is often claimed to be the case, that the rich are getting richer and the poor are getting poorer? And second, what do we know, again this is Lael's second question, about the impact of globalization on the trend in world poverty? The facts, as I understand them, on the first question are that the people who live in the world's very poorest countries are approximately as poor and miserable as they were 25 or 30 years ago. People who live in the world's richest countries are considerably better off than they were 25 or 30 years ago, and so in that sense it's approximately true that the rich are getting richer while the poor, while not getting poorer, are certainly not getting rich very fast.

The last page of my handout, however, contains a picture that shows what happened -- my handout looks a little like this on the front page -- what happened to the incomes in the very poorest countries between 1980 and 2000. If we look at the countries that were poorest in 2000 and ask how fast did their incomes grow between 1980 and 2000, the answer is they shrank almost two percent a year, minus 1.9 percent. On the other hand, if we look at the poorest countries by rank back in 1980 and ask, well, how did they do in the next 20 years, the answer would be that they grew 2.3 percent a year. That's how fast their average incomes rose over that period, and that figure, incidentally, is considerably faster than incomes rose in the richest part of the world.

Well, what if we compare the incomes of the people who were in the poorest countries back in 1980 with the incomes of the people who were in the poorest countries in 2000? Well, that answer is that incomes hardly budged at all between those two years, they're slightly higher in the second year, 0.11 percent a year. So comparing the very richest and the very poorest countries, the conventional wisdom is within shouting distance of being true.

But, of course, and this is very important to remember, most of the world's poor citizens do not live in the world's very poorest societies. Most of them live in underdeveloped but none the less developing countries where incomes are growing. Incomes aren't growing every year, they aren't even necessarily growing every half decade, but on average, decade after decade, they're rising. In fact, the two largest poor countries, India and China, have grown considerably faster over the past two decades than the richest countries. Look at the bottom picture on page three of the handout. People who think economic development has brought mostly bad news to the world's poor say when presented with a figure like that, they say, well, that's just two countries.

Of course, it's just two countries, but it's two countries that contained about a third of the world's population and an overwhelming share of poor people in poor nations. And of course, in addition to those two countries there are many other poor countries that have grown more rapidly than the rich countries, they're concentrated in Asia, but the thing to bear in mind is, those countries have most of the world's population. A crucial point is that the developing countries that enjoy the experience of relatively rapid income growth contain most of the world's poorest citizens. Africa does not contain most of the world's poorest citizens. It contains most of the world's poorest countries. It's not the same thing.

For the first time in a long time, I would say the last 25 years has actually brought a change in the inequality of incomes between countries. For the first time in a long time, it is the case that someone who lives in -- who is an average person in poor countries has seen incomes rise faster than people in the very richest societies. Of course, incomes in the very poorest societies remain appallingly low, the gap between income of somebody who lives in Nigeria and somebody who lives in Canada, which is roughly equivalent to being at the fifth percentile and the 95th percentile of the income distribution, is vastly larger than the income gap between someone at the fifth and someone at the 95th percentile of the U.S. income distribution or the Swedish income distribution or the Japanese income distribution. Most of the world's inequality is between countries, it's not within countries.

Now, it might be the case that modern development has improved the average incomes of poor countries while leaving the incomes of the poorest citizens in those countries unchanged. Perhaps economic development has lifted the average incomes but inequality within countries has swamped whatever gains should be forthcoming for the poor. This might be true, but I don't think it's the whole story. One reason to think so -- one reason to think that the welfare of the world's poorest citizen has improved is that the health and life prospects of people in the world's poorest countries are improving much faster on average than they are in the world's rich societies. This seems to me to be very unlikely to be the case, if it were really the case that welfare improvements in poor countries have been highly concentrated on the most affluent citizens in those societies.

One way to see this is to consider what has happened to the average longevity in a sample of rich and poor countries since 1950, or since 1980, you can pick any starting date you want. The first page of this handout that I show gives you the average longevity and the improvements in average longevity between 1950 and 1998, when countries are ranked at the beginning of the period according to how long their life spans were then, back in 1950 in other words. In other words, I've ranked countries from lowest to highest by their longevity and then calculated how fast their longevity improved over the ensuing 48 years. You'll notice that the biggest gains in longevity occurred among the countries that had the most miserable rank back in 1950.

In other words, the fastest gains occurred among the countries with the lowest life spans and lowest average incomes at the beginning of the period. How close do countries average life spans come to matching those in the richest societies on earth? On the left you can see that countries -- in the very shortest lived countries back in 1950 -- turn to the second page and look at the top there, had 57 percent of the average 1950 life span of people in the richest countries. By 1998 life spans in those poor and short-lived countries had increased to 71 percent of those in the rich countries. And the same pattern you see as you move up both the income ladder and the longevity ladder when you rank countries at the beginning of the period.

Now, notice that these gains have occurred in an environment in which life spans were steadily improving. Mortality rates were steadily declining in the rich countries. This is not a fixed target that poor countries are shooting at, it's a moving target where things are improving in the rich countries. It's very hard to believe that life spans and child mortality statistics have improved so dramatically in poor countries if it was really the case that the world's poorest citizens are not sharing at least some of the benefits of economic growth. To my way of thinking, being alive and reaching age 20 in reasonable health are more precious than average income, and it is certainly an unambiguous measure of well being. The global longevity and mortality statistics show a clear and powerful trend toward growing equality in the circumstances of the world's citizens.

And it would be very hard to believe that if globalization's benefits are actually being concentrated on the elite in poor countries, that these gains, which are quite widespread would be so widespread in the poor world. What about the impact of globalization on the world's poor? Countries can grow richer without much globalization. I mean, we have examples to show that this is true.

Consider the Soviet Union. From 1945 to 1979, not much globalization there but the country certainly rose -- income and well being in the Soviet Union certainly improved between those years. Countries can grow richer with globalization. Taiwan, Singapore, South Korea are all representatives of countries that combine growing richer with globalization and their poor citizens benefited. Countries can stay poor without globalization. Consider North Korea as the counter example to South Korea. And countries can remain poor or get even poorer if they participate actively in globalization. Consider and then shed a tear for Argentina.

So all the boxes, all the points in the boxes can be filled with your favorite examples of countries. With globalization, they can grow or they can stagnate. Without globalization, they can grow or stagnate. I'm not sure that globalization per se is the decisive factor that either pushes countries' incomes up or improves the circumstances of each nation's poor. Globalization does certainly affect wage prospects and work opportunities available to workers both in the rich and in the poor countries.

I would suspect that in the rich countries, low skilled workers see their bargaining power eroded by the economic integration of their societies into a world economic framework in which goods and services provided in the world's poorest countries can now be more freely imported into their society. They have a less protected position and they're competing against low skilled workers from around the world whose wages are dramatically lower than their own.

Low skilled and poorly paid workers in poor countries, however, probably see an improvement in their bargaining position because they now can sell -- they can use their comparative advantage, which is being very poorly paid, put to use in a much bigger market. Those wages in Vietnamese and Guatemalan sweatshops look deplorable by our standards but they could be pretty good by the standards of Guatemala and Vietnam. But the impact of globalization on rich and poor is not just the result of its impact on producers, on wage earners in those countries. It's also determined by the consequences for rich and poor consumers in these societies.

My guess is that global economic integration and lower trade barriers have helped many of the poor in the world's rich societies through their beneficial impact on product prices. Remember, there are more people who don't work in the United States and other rich countries than they are poor people who do work. One of the notable differences between poor and non-poor in rich societies is that the poor work less and often do not work at all. The working poor may see their job prospects hurt by tough global competition from low wage countries that now can freely export to the United States or other rich countries. But all poor Americans, all poor people in Europe and Japan derive important benefits from the cheap imports that are on Wal-Mart's shelves and the less expensive cars that are available on auto dealers' lots.

What about poor consumers in poor countries? My guess is that they derive benefits from global integration too. In the last couple of weeks, the papers have been full of stories about the hapless Mexican farmers facing import competition from subsidized food as a result of the NAFTA treaty between the United States and Mexico which now permits subsidized agricultural products to freely enter Mexico, hurting poor Mexican farmers. But let's be clear about the impact of NAFTA and U.S. subsidies on Mexico's poor. Some poor Mexican farmers are certainly getting clobbered but many, many poor Mexicans get big benefits as a result of cheaper food on their grocery shelves.

On the whole, my assessment is that globalization has probably been good for the world's poor.

(Applause)

LAEL BRAINARD: Now what I'd like to do is turn it over to the audience to start with some questions. Can you please just wait for the microphone after I call on you and identify yourself and your affiliation?

Right. Let me start back here. What I think I'm going to do is gather two or three questions and then go back to the panelists and do it in that way. I've got a question over here in the back and one over here.

JOHN SEWELL: I'm John Sewell. I'm a senior scholar at the Woodrow Wilson Center. I thought those were excellent, very useful presentations, but I was struck by questions on the first two about what you would tell policy makers or even the general public as a result of your research. I would think that the evidence shows various things but what it does show is there is much too much poverty in the world and it remains at a very high level and that is a major world problem both in moral terms and on all sorts of political grounds. And it doesn't matter, the argument about the benefit of open markets and open societies may be very great but it's not going to deal with the poverty problem. If that's not the message, I'd like to hear about it. But I also hope you tell us where the longer data is because those slides went very quickly so we can get it easily.

I was struck with the last presentation too because I thought it was very useful both to rack up social indicators and income growth. I assume, by the way, the poorest countries, that's not just the least developed, but includes India and China and which changes the data both on incomes and growth. I mean, it also changes the data, I think, on social indicators if you take them in or out because the life expectancy increases greatly on some of the larger countries, notably China. That skews your data very badly. So you might want to put it that way.

But the question I would ask you is whether it's better -- and I would also think that we've gotten a huge bang for the buck over the last two decades of available technologies, immunization, drought survival, and so on and so forth and the question is how long that goes on in life expectancy. But the interesting policy question is, is it better -- to quote Hobbes, I think -- to have a short, nasty and brutish life or is it better to have a long, nasty and brutish life?

BILL CLINE: Bill Cline for the Institute for International Economics and Center for Global Development. A couple of questions. The first one, and this is on sort of what's been happening. If you have, proposition one, that inequality within country and inequality is not correlated with growth, which we heard; proposition two, that within country inequality has been rising over times, which we also heard; if we think that the main thing that happens over time is that growth raises per capita incomes: wouldn't it follow somehow that one of the first two propositions is wrong? And I guess it reduces to how much do we really believe that, especially if you do a population-weighted bias that within a country inequality is really rising. This is very germane to this whole question of, you know, growth is good for the poor, that whole line of analysis, because it basically asks the question, does the rising inequality offset the impact of the growth?

The second question is very specific for Martin Ravallion. If you take a cross-country regression of poverty head count against purchasing parity per capita income and the Gini coefficient, you get an expected relationship and from that line there is large overshooting for India and China, much more reported poverty than that regression line would suggest. Query, doesn't that suggest that there may be some truth to the sort of Surjit Bhalla critique that India's poverty reported in particular is exaggerated. And might not the presence of some secular rising in the over-reporting partly explain what seems to be, you know, a paradox of the fairly slow reduction in global poverty on the one hand, and the continued growth and expected elasticities that you mentioned on the other.

LAEL BRAINARD: I think we had one question over here?

GRANT CAMERON: Yeah, my name is Grant Cameron, I'm from the World Bank too but from the executive director's office for Canada, Ireland and the Caribbean. And one thing that sort of interests me that nobody really touched on was the impact of population migration or labor migration across countries, because this is another component of globalization. I think we've seen some statistics in the '90s where labor force migration across countries has grown dramatically, and I'm just wondering if that's a substantial factor in any of this analysis.

Like it's got to be tricky to measure when you've got household surveys sort of in one specific country, like take India, because the people who are in India in 1990 or 1980 aren't necessarily the people who are there today, because places like Canada and the U.K. have been recruiting people, engineers, doctors, nurses aggressively from those countries. So how does that whole international labor migration factor into this seminar or this session? Thanks.

LAEL BRAINARD: Okay, let's let the panelists respond to those questions. I think John's question was really to Branko and Martin, his first question, and the second one to Gary, and then Bill Cline has some for Branko and Martin and then Grant Cameron's question to anybody that wants to talk about migration. I don't know, Eddy, whether you might want to do that.

BRANKO MILANOVIC: Well, let me try actually to answer. On the first one, well, there was no -- I didn't have any relationship between openness and growth. Of course, that's an altogether whole research by itself. As you know, of course there are many people who have, you know, different views. I would say on balance that probably it is true that there is a positive relationship, that openness is good for growth. But we also need to know what is the relationship between openness and inequality, and that was one of my points.

The first question on a policy message, I would guess that I would like to convey a much more nuanced message than what the typical message is. It is I don't think not sufficiently appreciated that, for instance, the world economy grew faster in the period 1960 to 1980 than it grew over 1980 to 2000. And this is basically -- if you talk to many people in policy circles, they would actually not know that, and I think it's important to realize that. It is not -- it is just a plain fact. I guess that was all. I might have a little bit more later.

MARTIN RAVALLION: On John Sewell's questions on the policy -- what we tell policymakers, actually I think the sort of more nuanced stories -- Branko put it well. I think the more nuanced story we're talking about here and certainly we're talking about a lot in the Bank now is much richer in terms of what it tells policymakers than simple kind of cross-country regressions and so on. And just what do you tell policymakers from just the statement that yes, poverty tends to fall with economic growth? That doesn't have any policy content, you've just related two endogenous variables and if you think you can draw any policy conclusions from that, good luck.

But this other more nuanced story about the heterogeneity in impact, understanding that there are losers and gainers at all levels of living, trying to find the covariance of what that is. For example, the China story I was telling you about, the WTO session, trying to -- that's a much richer story for policy. We can start to talk about specifics in social protection policy. We are never ever going to have a situation, in my view, where there are no poor losers from pro-poor policies on balance. There will be poor losers.

The problem is if we don't face up to that fact and we don't do the best we can in identifying who they are and responding appropriately. And we know we can do it. It doesn't mean we'll be able to compensate all the losers at all, but we can make a much better effort of it. I think it's understanding that heterogeneity of impact.

What to achieve pro-poor growth is another area where -- what do we do to achieve pro-poor growth is another area I think is rich with policy implications which are all centered -- to me, in my mind, center on the things we need to do in addition to pro-growth policy reforms, and it says addition to. And it's a synergy between those things and growth, but I think it contains a lot of lessons for policy. They're going to be long haul lessons, it's not going to be very easy to get some -- Bihar, for example, in India, to get the kind of growth -- poverty elasticities of growth that we like to see. It's going to take a lot, but I think we can at least point to what needs to be done.

The data sources on all of this, every single number I quoted I think pretty sure can be verified from the World Bank research page, any number of the sub-sites in that, including global poverty monitoring sub-site, Branko's inequality sub-site. It's all pretty much there. If you have trouble finding it, tell me.

Bill Cline's questions. Inequality, that's the logical slip, I'm sorry. Inequality not correlated with growth, yes. Inequality, a tendency for inequality -- within country inequality to be increasing, yes, but it's a tendency. And if you just unpack it that's the key, that's the answer to your riddle. About half the times during spells of growth, inequality is increasing. Half the time inequality is decreasing. Roughly that's a lack of correlation. On balance I think you can say that on average inequality is tending to increase.

The other point on -- yeah, if you run a regression of poverty against the mean, by which I assume you mean the national account's mean and the Gini index, yes of course you'll find India has got a higher poverty rate than that regression would predict. Why? Because the divergence between the national accounts and the survey means for India. This is a well-researched topic. I've got a paper coming out in the Review of Economic Statistics very soon just exactly on this issue, trying to understand the divergence we're seeing between national accounts and surveys. It's very important to understand it.

A lesson from that divergence is definitely not that we should start measuring poverty using national accounts for the mean. That just doesn't follow and I think there's some very persuasive arguments against that conclusion. India, I haven't got any -- I think there was something I missed, but if I remember I'll come back. Thanks.

LAEL BRAINARD: Gary.

GARY BURTLESS: The question posed to me, is it better to have a short, nasty and brutish life or a long, nasty and brutish life? This is a philosophical question, you can each draw your own conclusions. The rarity of suicide makes me think that probably a long, brutish and nasty life is better than a short, brutish and nasty life, because after all if you're in the midst of a long one you can always shorten it through a very simple expedient.

But I think that drawing that inference from what I said, that people now live long, brutish and nasty lives is incorrect. I'm making inferences from longevity and survival rates that tells me that probably life is improving. This is just one measure that is telling us that real economic welfare in poor countries is improving, and at least in this regard is improving at a faster percentage pace quite clearly than it is in the rich countries. This isn't true in all poor countries, but it is true in some of them.

There was another question regarding population migration across international boundaries. To what degree is this contributing to inequality or equality. I know most about the situation here in the United States, which I have studied, and like other labor economists, including Richard Freeman and George Borjas at Harvard, I believe it is likely the case that immigration of less skilled workers from unskilled countries -- from low income countries has probably contributed more to the widening of pay disparities in the United States than it has the direct or indirect effects of greater flows of goods across international boundaries.

But this is a rather ironic impact because even though the inequality of the United States is thereby worsened as a result of the immigration of people with less skill and less capacity to earn good wages in the United States, that same migration probably reduces world inequality, just raises the Gini Coefficient in the United States while at the same time lowering the Gini Coefficient of the world, because after all these people who have moved to the United States have tremendously improved their relative position in the world income distribution.

However low their incomes are in the United States, and it really for many countries of origin it doesn't matter how low they are in the United States, because the lowest income in the United States is probably well above the median income in their country of origin. And that follows from the fact that I mentioned earlier, most of the world's inequality is between countries, it's not within countries.

LAEL BRAINARD: Okay, let me take some other questions and then we'll go back to the panel. We've got one in the back -- two in the back.

NORMAN CAULFIELD: Norman Caulfield. I'm from the Commission for Labor Cooperation. I have a couple of questions for Gary Burtless. One is related to something you just talked about, and it's migration. And you could answer that after you answer the second one, but when you look at the situation in the United States and you look at Mexican migrants here, when you're looking at income inequality or talking about income convergence, for example, within NAFTA, you would really have to consider remittances. The money that's sent back to Mexico from people from Mexico who have recently migrated here.

The other thing is, I have a question about your charts here and this average life expectancy. Since globalization is something that we kind of tend to think about in recent years, given, say, 1989, 1990 and much of the discussion here today was about the 1990s. Do you think it's really fair to go back to 1950, when the world economy was much more regulated than it is today, and point to average life expectancy rates then, and lump those numbers in with numbers that had been culled from recent years where globalization has really taken a foothold?

LAEL BRAINARRD: Second question in the back.

MIKE CASTELLANO : I'm Mike Castellano with the Ways and Means Trade Subcommittee, Democrats. You observed that -- Mr. Branko, you observed that income inequality sometimes increases with growth, sometimes decreases with growth. And I'm wondering if there's been any analysis as to how or why that might be the case across different episodes of growth. And, you know, in particular, how can we fashion pro-growth policies that result in a reduction in inequality. Has there been any analysis of specific periods of growth that actually resulted in reduction in inequality and any types of specific policy recommendations that might result from that?

BILL DOUGLAS: I'm Bill Douglas from the SAIS International Development Program. My question's directed primarily at Eddy Lee. A lot of ILO publications have presented the increase in wage inequality during growth as a bad thing. Is it possible that wage inequality can increase during growth for good reasons, and not only for bad reasons?

NANCY DONALDSON: I'm maybe just asking -- Nancy Donaldson with Downey McGrath -- to repeat what you said, but I believe it was in Branko's presentation that the initial conditions had a lot to do with the barriers to whether the poor could take advantage of growth and openness, and I was curious whether there was more -- if that was right, first; and second, if there's more that you can share about what those initial conditions, in terms of the positive or negative direction might be?

LAEL BRAINARD: Let me turn it over first to Gary to respond to Norman Caulfield's question and then to Martin and Branko to talk about Mike Castellano's and Nancy Donaldson's questions, and then finally to Eddy Lee to respond to Bill Douglas's question.

GARY BURTLESS: The statistics on longevity, if you don't like the comparison of 1950 with 1998, I invite you to look at the fourth picture on my set of handouts which shows what has happened to the probability that a child born today will survive the first five years of life, comparing sort of countries in middle-development range according to the UNICEF tabulation, and countries at the very bottom of the world's income ranks, they're the least developed countries. And you can see that in each decade both groups of countries have gained on the richest countries in terms of the relative chances of survival to age five. So I think that progress continues. Certainly things like the AIDS epidemic are worsening the situation in a lot of countries, but the fact remains that on the whole even up through the most recent decade, the relative improvements of life chances in the poorest countries compared with the richest countries has continued.

MARTIN RAVALLION: Well, actually I think the two questions are really the same question. How to achieve more pro-poor growth, how to achieve growth with lower inequality and initial conditions. It's really -- they overlap a lot. The difference is -- think about it this way. There are two things we need to do. One is achieve a -- get higher elasticities of poverty to growth. That's about initial conditions, it's about the sectoral composition of economic growth. And, we need higher growth, particularly in poor countries, all right? And both of those things, essentially the rate of pro-poor growth in the economy is just essentially a kind of product of those two things. We need a higher rate of growth and we need that growth to be more pro-poor distributionally.

How do we do that? We know, I mean I think in broad terms, I'm always warning against generalizations, but you know, I could star making a list and I could keep going, but what we need to do is give basic health and education to poor people, effective social protection policies for poor people, we know how to do those. I mean, it's not -- it's a lie that we can't do it even in the poorest countries. Agricultural and rural development is hugely important and continues to be, and it's just being routinely neglected, including in development systems. Making markets work better for poor people. Dealing with the credit market failures that underlie a lot of the -- which also, those credit market failures also point to the lie and the idea that there is some aggregate trade-off, huge aggregate trade-off between growth and inequality reduction.

You do the right kinds of inequality reduction, it's good for growth and it's good for pro-poor growth and of course it's inequality reducing. Lagging poor areas, the kinds of poverty traps we're seeing in many parts of the world including countries like China which is seeing huge growth and rapid poverty reduction, but we're seeing lagging poor areas that aren't participating in that growth in considerable -- remarkable proximity to areas that are participating in that growth. These poverty traps really have got to be taken very seriously, geographic poverty traps. I'm not so convinced about some of the stories about dynamic poverty traps. But there's a long list of things, I think roughly speaking we know, tailoring these things to countries' circumstances is the key, not making excessive generalizations, it's not a rubberstamp approach to it, we've got some things that'll work in some settings and some things that won't work.

But I think the policy, the agenda, the policy menu is pretty clear.

BRANKO MILANOVIC: Yes, let me just very briefly say the two things which I -- I'm answering the question the gentleman from the Ways and Means Committee raised. Two things which I find -- I think it was an excellent question. I just want to start a little bit from aside, saying two things which I find generally uninteresting, and you will see how it leads to my reply. The first one is that some people make a big sort of point about saying that, of course, growth is of course good for reduction in poverty. And definitely, nobody has ever said that growth is bad for reduction in poverty, I have never heard that statement.

Nobody has said, for instance, that Eastern Europe will be better off, is better off now because growth has plummeted. I mean this is obviously clear that growth is good for poverty reduction. The second is, when people compare growth worth to distribution. Clear again, growth is an ongoing process so you're better off if you grow than if you redistribute. You might redistribute a lot of money in one year but if the pie does not increase -- so comparing the two is really not a very interesting proposition.

Now, that leads me to the issue which was raised actually, the relationship between equality and growth. I think there are at least two channels that we can see that low inequality is good for growth. One is if you have high inequality in countries, generally speaking, you might accept -- you might expect quite a lot of political turbulence, rebellions, instability and so forth. That is clearly bad for investment. Whether it be foreign or domestic political instability is bad for growth. So this is one channel where inequality leads the political mechanism to low growth.

The second one is so-called median voter, which means that in democracies the median person who determines the overall distribution is relatively poor. If you have very high inequality then he or she votes for larger distribution, which may be detrimental for growth. So at least there are two channels where you can see inequality being bad for growth.

And then when we go back to the question which was asked like how can we make growth be more pro-poor, we immediately see that link sort of closing up. We can say low inequality is good for growth and once we have a given rate of growth -- that if a country is more equal elasticity of poverty reduction to that growth would be lower. So basically both of these effects work in favor of the low inequality growth mechanisms. So in that sense, having low inequality is also very good because the given percentage of growth is going to reduce poverty by more, the point that Martin was mentioning before. So that would be -- I think -- I hope I have answered your question at least in part.

EDDY LEE: Thank you. Well, I think it is true that -- as the questioner said that ILO publications generally we express concern about when we observe a rise in wage inequality and this really has to do with the circumstances under which this occurs, because in many of those situations you see that the rise in inequality is associated either with the stagnation or decline in the real wages of the lower skilled or unskilled workers. This usually is the symptom that something is wrong in terms of the process of liberalization. Investment policies are not yielding the predicted benefits to the majority of unskilled workers and so it is a symptom that something is wrong. But, of course, there are also situations where the rise in wage inequality is less a cause of concern. And one can think of situations where labor markets are generally tight and you still have increases in the wages of unskilled workers at the same time, even though those of the more skilled are increasing more rapidly.

In that situation, I think, where it reflects an increased premium on skills, I think one can see it as not a cause of concern provided that one is fairly confident also that the educational and training system, the elasticity of supplies such that it can respond without too long a lag. So I think there are possible benign situations as well.

LAEL BRAINARD: Okay. I think the time is coming to a close. So what I want to do is to gather the last set of questions and then let the panelists respond to them and wrap up in the final few minutes. Let me start with Jessica Mathews.

JESSICA MATHEWS: I wanted to address -- ask two questions about Gary's fourth chart that he's referred to a couple of times. First, that both pictures of the developing countries and the least developed are drawn to suggest that improvement is continuing whereas the numbers suggest that maybe it stopped in 1990. Developing countries are both listed as 91 percent, least developed are 83, 84, although there's a rather large drawing difference between them. So, did something happen? Is this improvement continuing or is this part of the function of the slowing growth?

But then, secondly, a slightly different cut, and that's to ask whether this particular measure tells us anything beyond the fact of the perhaps successful delivery of a very targeted set of interventions. I mean, in particular, birth spacing. That has come with --greater birth spacing as a result of delivery of family planning services has made an enormous impact, I think, and oral rehydration, and perhaps even vaccination. I don't know whether that tells us anything about broader economic well-being or improvement. So that was my question.

LAEL BRAINARD: Do you have any other questions before we -- Sandra?

SANDRA POLASKI: Sandra Polaski, Carnegie Endowment. A question for probably Martin Ravallion and Branko Milanovic or other panelists if they want.

I don't know that the point was made here explicitly but it's fairly well known and I know both of your research has shown this, that most of the poverty reduction in terms of head count in the world over the last 10 or 15 years has come in China and in India, really quite an overwhelming proportion of it. And to try to get us ready for our discussion tomorrow, which moves from measuring what has happened to talking about policy implications, whether globalization is fair, what can be done to improve the outcomes?

China, of course, during that period when it was experiencing great reductions in poverty, is hardly an example of a very open country. I mean it was, in terms of capital, it was very open for capital coming in. It was not open for capital going out. In terms of trade it was very open for exports but it was not very open for imports.

India has not been particularly open even with the reforms of the '90s and so, while neither of you was making a case in terms of openness here, you were talking about the facts and that's really what the contribution is that you're making. I wonder if you would care to comment on this disconnect between the countries that actually reduced poverty during the period of globalization and the fact that they were not globalizers in any full sense. They were, at best, pick and choose globalizers, number one. And number two, whether you have any, sort of, back of the envelope sense of what were the biggest contributors to the poverty reduction in those countries? Thank you.

LAEL BRAINARD: Other questions before we turn it over to the panelists? Okay.

GARY BURTLESS: I'm not really an expert on public health. I don't know to what degree the improvements that are documented in the United Nations and World Health Organization's statistics are continuing up to the present. I really am not certain about that. Certainly, it would be fair to infer from this that the rate at which the gap between rich and poor countries is shrinking is getting slower over time. Whether that means that the progress is less in poor countries, I don't know. It may be harder to achieve percentage gains when you get closer.

The thing that strikes me as important though is that this is an alternative indicator of well being. It may be one that is benefiting from targeted interventions that are specifically aimed at improving public health, but that does not lessen the significance of these improvements for human welfare and particularly the relative welfare of poor people in the world compared to better-off people in the world.

I think that when Francois Bourguignon in a recent article tried to combine evidence, which I alluded to, on the improvements since the late 1970s in income growth in people who live in the poorest one half of the globe compared to people's income growth in the richest part of the country, he tried to combine that with information about how relative life spans had improved in the two parts of the globe and it really compounds the sense that you have that, for the first time in a long time, the gap between rich and poor in the world is shrinking rather than growing.

MARTIN RAVALLION: I think the deal is I go first. China and India, well, here I have a really hard time believing that the poverty reduction in China over this longer period can be related very clearly to globalization in any sense and I'm sympathetic with what you're saying there. In terms of the numbers, a very, very simple summary is that you go back to, say, around 1980, we think that 200, maybe larger than 200, more than 200 million people have escaped poverty in the world by the dollar a day standard. Maybe it's higher than 200 million. If you take China out of the picture, it's pretty low. I mean, the ratio basically is very flat, the reduction in aggregate poverty.

The story about China is hugely important. In China, poverty reduction occurred when? Well, the vast bulk of it occurred in the first half of the 1980s and a spurt in the mid-1990s. The first half of the 1980s was in a five-year period. I can't believe there's any time in human history when we had that kind of poverty reduction. That was incredible. I mean, poverty rates in China going from 30 percent to -- it halved in a five-year period. Where did all that come from? Liberalizing agriculture, the household responsibility system, getting all those Chinese farmers to work and facing disincentives for doing productive work. That was a huge factor. I don't think -- there was other things happening in trade reform in the 1980s. I don't deny that. I mean, a lot of the -- there were trade reforms in the 1980s but nobody could possibly say that China was a great globalizer in the '80s. So I agree.

I think, roughly, globalization in the historical experience in the last 20 years is neither here nor there pretty much in the aggregate for poverty reduction. India, well, I think the story is pretty much the story I've been trying to tell today. I think we understand the India story pretty well. I have a paper in -- I think it's the current issue of "General Economic Perspectives," just on that question of what's been happening to poverty in India and why, and I'd refer you to that.

BRANKO MILANOVIC: Very briefly, I'm not an expert on China and India. Actually I appreciate very much your question. I'm also very sympathetic to it. I think that China does present, from the point of view of sort of poster child of trade liberalization and globalization, does present a number of problems for people who claim that it is. You know, just that I will allude to a few of them. If you look at the tariff rates of China in the 80s and even in the 90s, they were very high. The average tariff rate was over 40 percent. It has been reduced over the last several years, but that is a relatively new phenomenon. Current account convertibility has not been realized until 1998, early '98. Then the importance of state sector, which is still large and which, of course, we hear is very inefficient. But on the other hand, the state sector does provide a disproportionate share of tax revenue to the state.

Then next one is the problem of TVEs, which has been the most dynamic sector of the Chinese economy and whose property rights are entirely unclear, very fluid, very fuzzy and if anybody had a sector like that in any other country in the world, they would be immediately urged to privatize it. But since they've been growing at 10 percent a year, China is not. Of course, China is of course a large, very important and big country that has a fairly -- a lot of political leverage.

So there are all these things and of course, there are the foundations of that, like in Taiwan and Korea, for different reasons, have been made, I think, through land redistribution and public education in the '40s and the '50s. And I just sort of cannot imagine how China would look today if you had the same system in China today that you had in 1935 in China. I think it would have been a very, very different country and probably much worse one. So I think there are a number of issues that I'm quite sympathetic. I should think it doesn't fit exactly into the niche.

LAEL BRAINARD: Let me just wrap up briefly by thanking our panelists for both making a very complicated subject quite accessible to the audience and also for not simplifying what turns out to be a very complicated picture. I think what they have left us with is quite a bit of concern, certainly on the poverty and inequality front and a lot of complexity. I don't think there's any simplicity to the relationship between globalization and inequality or indeed, any very simple aggregate story that you can tell.

If I take anything from this discussion, it's that things like how globalization is mediated through domestic institutions and policies and the initial conditions seem to be more important for the outcomes than the actual fact of globalization itself. I think that leaves us with a lot of rich material to start from tomorrow as we try to pull apart some of the various policy layers, first on international rules and then moving more deeply into the domestic institutions and domestic rules.

Again, for this evening, we will start promptly at 6:00 with dinner, again not here but at the Jurys Hotel. Strobe Talbott will start pretty quickly at 6:00, and Senator Dodd will begin his remarks thereafter. We look forward to seeing you back here in this room tomorrow morning, starting at 8:30 for coffee and 9 a.m. for the panel. Hopefully, you'll join me in thanking our panelists for a really very good panel.

(Applause and end of panel.)

THE BROOKINGS INSTITUTION
CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE
THE INTERNATIONAL LABOR ORGANIZATION

"MAKING GLOBALIZATION WORK: EXPANDING THE BENEFITS OF GLOBALIZATION TO WORKING FAMILIES AND THE POOR"

PANEL II: "ARE THE TERMS OF GLOBALIZATION FAIR?"

PARTICIPANTS:

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CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE
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KAREN TRAMONTANO: -- To begin, I want to thank some of the staff who worked to facilitate this conference; first and foremost, Alison Driscoll who is with Brookings, who worried about every detail of this conference, and then the folks who helped her. I'm looking around to see if Allison's here. There she is. Okay, Allison's right there. Maria Carlo, Vanessa Ulmer, who was taking pictures yesterday and last night as well and -- I don't know, I don't think Liam's here today, but Liam Murphy's with the ILO in the Washington office, and he was responsible for everybody getting the invitations and a number of other things. So I want to thank all of you for hanging in there with us and really organizing us to make sure that we did what we were supposed to do, because you did a great job putting this together.

(Applause.)

Before I introduce the panel, I just want to talk a couple of minutes about what we're trying to accomplish. For those of you who were here yesterday, and Lael pointed this out, I think the panelists that we had yesterday did a very good job of taking some very complicated facts and factors and putting them together and making them accessible and really sort of inspiring a very good dialogue. And for those of you who were at the dinner last night, I think Chris Dodd just did an excellent job of pulling a lot of aspects of globalization and integrating it quite well with the political situation, at least here in the United States.

I think the panelists this morning have a bit of a daunting task. We're asking them to speak to whether the rules of globalization are fair. And I think that, you know, there's a fair number of people out in the streets these days and for many, many years claiming that the situation is not fair. And I think in most cases they have better than anecdotal evidence, or at least people can come up with a fair number of anecdotes that establish pretty clearly that situations for the developing countries, the least developed countries, and the working poor are not fair. So I think the tide is somewhat against our panel, but I think they're all up to the task of laying it out for us. We're going to try to get to the central issues, and to that extent we asked them to think about a number of questions.

One was whether the system, including the trading system, favors or disadvantages particular groups or countries, workers and poor producers. We've also asked them to consider whether the current system that's attempting to integrate developing countries into the international capital market can be fair, and in particular to think about the rules that apply to migration, and whether poor workers who are trying to obtain some economic opportunity through their own mobility can do that in a fair way. We've also asked them to think about traditional multilateral and bilateral aid programs, and whether those programs can help address the historic disadvantages.

And we've asked them to do all of this in 10 minutes, so we'll see if they can accomplish the time limit, I know that they're very much up to the task substantively. Let me give a brief introduction. I think most of the panelists certainly don't need one. To my far right is Zanny Minton-Beddoes. Zanny is the economic correspondent for The Economist. Prior to that she served as the emerging markets correspondent. She's written extensively about international financial issues, including the future of the IMF and economic reform generally, and she's also a regular commentator on national public radio and has appeared extensively on CNN and PBS and CNBC.

Gerry Rodgers, who's to my immediate right, is the director of the ILO's Policy Integration Department. He also is the main force behind the World Commission on the Social Dimension of Globalization, which he's going to speak a little bit to this morning, and he was formerly head of the Training Policies and Systems Branch, director of the multidisciplinary technical team in San Diego and director of Research Programs and Labor Markets and Labor Institutions. And he's also published widely on poverty and equality, labor market conditions, economic development, especially in south and southeast Asia.

Nancy Birdsall, who's to my left, is president for the Center for Global Development, which is a policy-oriented research institution that opened its doors in Washington in October of just last year. Prior to launching the center, Nancy served for three years as senior associate and director of the Economic Reform Project at the Carnegie Endowment for International Peace, so to a certain extent we're welcoming her home. And then from 1993 to 1998 Nancy was the executive vice-president of the Inter-American Development Bank. She also has authored and co-authored more than a dozen books and publications, the most recent of which is "Delivering on Debt Relief: From IMF Gold to New Aid Architecture."

So with that, I'd like to ask Nancy to start us off. And as we did yesterday, I'll give the panelists a 9 minute note, we'll go for 10 minutes and then we'll go to questions. Nancy.

NANCY BIRDSALL: Thank you very much, Karen, it's a pleasure to be here. I think it's great that the group sponsoring this event put it together as they did, and I like very much the boldness of a session called "Are the Terms of Globalization Fair?", because fair hasn't been sufficiently on the agenda as a word or as a concept in the last decade or even two decades. But despite that, what I want to do for this quick introduction is to change the terms of the terms a little, and ask the question: Are the terms of globalization reasonable given the asymmetries that exist between rich countries -- contrasting rich countries and poor countries, and contrasting the position in rich countries of rich people and poor people? So I want to describe these asymmetries and then say something in each category about what might be done, but obviously very briefly.

Now, I want to use the word asymmetry because -- well, for two reasons. One is it has a sense of neutrality, so it doesn't imply that everything that is going wrong about globalization, particularly for poor countries and poor people is because rich countries and rich people are imposing that wrongness. And the second reason is that among the problems of asymmetry are some that are harder to fix than they would be if it were just a matter of unfairness. So let me proceed to the three ways that the world seems asymmetric, and I hope you'll glean from what I'm saying, these introductory points that I've tried to make. So the first reason is that in the world we live in, there are lots of market failures and at the global level they're exacerbated. Market failures, when they're not dealt with properly, hurt everybody but they do tend to be asymmetric in that they create greater risks for the poor, certainly in welfare terms, and they create greater risk for poor countries.

And the second problem is that markets mostly work and at the global level when they mostly work, that can leave the poor behind. And the third reason is the one that's implied in the title of the session, namely that the global system has some rules that are rigged, to use the expression that Oxfam used in one of its reports, and the rules may reflect the interests of the rich countries and rich people more adequately than they reflect the interests of the poor. So let me say a word about each of those, well, noting that it's really only the third of the three where you would immediately think of unfairness as relevant, the other two are kind of more structural, and in that sense maybe more challenging and problematic to deal with.

Well, market failures we're familiar with, the most obvious example are those things we're familiar with at the domestic level such as pollution and in terms of the global level, the famous one, the famous example is global warming. And this is an example where the big polluters, including the U.S., if they don't sign on to a collective arrangement in effect are free riding on those countries that do sign on to a collective arrangement. And that's an example where there may be asymmetric effects, it may be that the poor countries are less able to cope with the problems and so on. An example that I'm sure will be discussed in a few minutes by Zanny or at least, if not both Zanny and Gerry, is global financial contagion.

The problem we're all familiar with of global financial shocks having particular pernicious effects on emerging market economies. They're much more badly hit, sometimes because of their own historic and current problems, shallow financial markets make it harder for them to borrow, they may have been running fiscal deficits, they can't run their own counter-cyclical policy et cetera, et cetera. Now what to do about all these things, there's many things on the agenda including Anne Kreuger's proposal for a sovereign debt restructuring. But rather than go into all that, I'd just say that there are lots of ideas out there which the global system hasn't really endorsed very strongly. Chili was actually criticized for its taxes on capital inflows, there was a lot of pooh-poohing when Malaysia temporarily closed its capital markets at the time of the Asian crisis.

The OECD countries have not really signed on, especially the U.S., to the idea of collective action clauses, they haven't been issuing -- they could take the lead in issuing in their own markets using collective action clauses. The U.S. is pressing Singapore in the bilateral trade discussions they're having to open its capital markets, so you know, you have to ask yourself the question. The multilaterals could be much more demanding on emerging markets about debt management but they could also be much more generous doing counter-cyclical financing when problems arise, so, you know, that's just quick thoughts on what to do.

Let me go to the second problem of markets do mostly work, and I think of this as a problem of having a game out there. It's not a perfect analogy, and you'll all complain about it, but anyway give me a break for a minute because I only have 10 minutes. There's a game out there in which the teams that come to the game with better equipment, with the right equipment and the right training are much more likely to do well over, you know, over the season, anyway, than those teams that come with the wrong assets and the wrong equipment or insufficient training. And at the country level, the critical asset is to have political stability, good infrastructure, adequate human capital. These are country-based assets. And these are the assets that deeper, more global markets reward.

And if you come to this game with the wrong assets, with insufficient -- weak institutions and so on, then you're likely to have a problem. And this is an example of a structural problem which has little to do with unfairness in the sense of anybody imposing anything, it's just the way the world works. Well, what can be done about that? I think the basic idea that's been out there for 50 years or more is that there should be some transfers to poor countries to enable them to build up their institutions, to build up their human capital, and here we have what to do, and I think there are multiple problems with the way the donors have and do behave, problems of donor accountability, the insufficient amounts but also poorly used amounts. I think in this context that the U.S. Millennium Challenge Account is sort of maybe a little bit of a light at the end of the tunnel in terms of new thinking about how to make aid effective.

But we have a basic problem that our global institutions, like the World Bank and the IMF, are not really -- they are losing their legitimacy as mechanisms for doing those transfers, for a whole lot of reasons that have to do with their representation, who's running those institutions and so on. Now let me say a word about the third problem, the rules, and here I think there's a lot of discussion that's been very healthy in the last few years about the rules of trade. Nick Stern at the World Bank has done a particularly good job recently in bringing up these issues.

I think the whole issue about intellectual property rights is an important one because it demonstrates that even if you believe the rules are fair, and in a sense I think that the TRIPS, for those of you familiar with these issues, it's not that bad an arrangement. The problem has been that the implementation of TRIPS has been asymmetric or unfair in the extreme. And those of you don't -- if you're not familiar with the issue you don't know what I'm talking about, but I'd be happy to talk about it later.

Karen mentioned immigration regimes, and that is certainly the most illiberal of all the markets. We do protect capital, we do protect intellectual property, but we don't have any mechanisms at the global level for protecting people, and we obviously have a very illiberal migration regime. What to do about all of that, I wrote down the word fuss, which I think can work. You know, I think the fuss about the unfairness in the design and the implementation of rules is already working.

Let me end by saying that because there is this fundamental asymmetry between rich and poor countries in the way the increasingly global economy operates, to me what that suggests is that there has to be much more attention to managing the globalization process and that in turn means much more attention to strengthening and making legitimate the global institutions that we have. It's not so much about tearing those down as it is about fixing the way that they operate so they can play a greater role. Of course there's lots of controversy about what to do and how to do that, but I think that it's the idea of these kinds of sessions to put those specifics on the agenda.

Thank you, Karen.

KAREN TRAMONTANO: Thank you.

(Applause.)

ZANNY MINTON-BEDDOES: Thank you. Well, I intend to capitulate straight away and won't even pretend to answer all of your questions, which I couldn't possibly do in 10 minutes. I'm going to stick solely to the issues of trade and finance and ask whether the terms of globalization are fair there. .

I've just spent the last two weeks in Brazil and Argentina and I've heard questions about fairness from a number of people. In Brazil a lot of people said to me, "FTAA, why should we do this? This is an unfair arrangement that benefits the U.S. and not us." And in Argentina there were plenty of people saying, "What is it with this international financial system. You know, the IMF gives $30 billion to Brazil and it gives us no money. This is a completely inadequate system."

And I think that in both cases there is clearly a point to these arguments, but I think there's a difference. I think in trade -- to be overly simplistic, in trade the errors are of commission, whereas in the global financial system they're errors of omission. That is, I think you can argue quite successfully that in trade there is something to the fact that the rules of global trade are rigged or the liberalization that has taken place to date has benefited rich countries more than poor. I think in global finance it's simply that there are inadequacies in the system, there are failures in the system, and we need to think about how you improve the system.

So turning to trade first, what's the evidence of a systemic bias in the trading regime? Well, I'm sure you heard quite a lot of it yesterday. It is true that workers in poor countries systematically face higher barriers on the goods they produce than workers in rich countries. There was a World Bank report I guess just over a year ago that showed very compellingly that the average poor person selling into world markets in a poor country faces barriers that are on average about twice as high as the typical worker in rich countries.

And the main reason for this we all know about, it's rich country protectionism, particularly in the areas of agriculture and labor intensive textiles that are very important to the poorest of the poor countries. And in my view, agriculture is the most egregious case, and it's not just market barriers, as you all know, it's subsidies, it's domestic support for agriculture. There is this terrifying figure of how the rich world spends over $1 billion a day subsidizing its farmers to the detriment of many agricultural workers in poor countries. But it's not just that, it's also tariffs and protection on labor intensive imports, textiles, shoes, et cetera.

And it's not just tariffs. It's anti-dumping rules. It's the way that tariffs are set up. You have these things called peak tariffs, which means very, very high tariffs for particularly sensitive areas, and it's something called tariff escalation, which means that the rate of the tariff goes up the more processed the good is, which biases against poor countries producing any value-added goods.

So I think one can argue that given that evidence it is fair to say that the rules are stacked against the poorest countries. But I think there's an important caveat to that, which is that quite a large proportion of the protectionism faced by poor countries comes from other poor countries and that, on balance, tariffs in developing countries against goods from other developing countries are considerably higher than tariffs they face in rich countries. So it's not just a rich country bad, poor country issue. There's an enormous amount that could be achieved for the poorest producers of the world if other emerging economies opened up.

And India is a very famous example of this. India has been a member of the GATT and then the WTO since its founding the 1940s, and it still has some of the highest tariffs on manufactured goods of any country in the world. So I think I would agree wholeheartedly with those who say that the rules of trade are rigged against the poorest. And I would agree with anyone who said that particularly in agriculture the rules of the rich world were abhorrent, but I would also submit that it is not just a rich country problem and that there is a lot more that needs to be done in terms of opening up and encouraging South-South trade, for want of a better expression.

And the way to do this I think is through the multilateral system. That's what the multilateral trade regime is all about, it's there to encourage trade amongst all its members, and since it now has a virtually global membership, it seems to me to be potentially the best forum. It's the best forum for a number of reasons. It's the only way that you're going to get any progress on rich country agriculture. You're not going to get liberalization in agriculture through regional arrangements. There has to be some kind of grand deal between the EU, Japan and the U.S., and that will only happen in a multilateral forum. And it's also the best way to get poor countries to open up. It's much better quality liberalization than preferential agreements, the GSP and other preferential trade arrangements that are offered to poor countries.

The question is: will it ever happen, because if it's not ever going to happen, then we have to think about second best solutions. And maybe, for example, preferential trade arrangements will be the optimal solution if we can never get anywhere on a multilateral level. My view is that it's too early to give up on the multilateral system and that the Doha agenda at least is looking at the right areas and is intending to make progress in the right areas. It's not clear to me yet whether that progress will be achieved. If you look at what's on the agenda it's agriculture, it's anti-dumping, it's reduction of tariffs in textiles, it's all the things that matter for the very poorest. That's why it's called the Doha development agenda.

And there have been lots of nice sounding proposals put on the table, particularly by the U.S., a proposal to eliminate virtually all market barriers in agriculture, last week a proposal to eliminate market barriers on manufacturing goods, bring tariffs to zero. That all sounds great. The reality is that as yet I don't see very much political will in any of the rich countries to really push through. The US, after all, passed the Farm Bill this year, which I keep mentioning in every article I write as being a sort of egregious example of do as I say and not as I do. And maybe its only a temporary increase in subsidies, , but it seems to me that if you increase subsidies to American farmers they're not likely to want to give them up in five years time. So, it certainly makes the idea of multilateral liberalization harder.

Secondly, I think there's no real commercial pressure for trade liberalisation in the rich world. Unlike previous rounds, there's not that much in this for many U.S. companies. In some areas, such as services, there's potentially an enormous amount to be gained. But the issues that matter to the poorest countries are not of that much commercial interest to the people who lobby in Washington. There's just not such a big lobbying force in favor of more free trade.

And thirdly, I hark back to the responsibilities of the poor countries: the poorer countries have enough power now in the WTO to stymie the agenda. They don't have enough power to push through what they want. So it's a dangerous situation where you have the potential to wreck but not really the power to shape an outcome.

Those three factors make me worried about the prospects for Doha, but not worried enough yet to give up on the multilateral route. So my bottom line on trade is, certainly the rules could be improved, but we have a system for doing that and really what we need is political will to push that through.

On finance, very briefly/ There's less evidence of any systemic bias in the rules of global finance simply because there isn't a systemic rule making in the sense that we have it in the WTO. Having said that, there are clearly outcomes in global capital markets that are odd, to say the least. One would expect other things equal that capital should flow from the capital rich economies of the rich world to the capital scarce economies of the poor world in search of higher returns. In fact quite the opposite is happening. As you know, capital has been flowing for the last decade into the richest country in the world faster and more furiously than anywhere else. Many of the poorest countries of the world have become net capital exporters.

Secondly, capital markets are more volatile than anybody expected them to be. Now I think if you have a kind of longer historical perspective and you go back to the Argentine crises of the 1880s you might not be quite so surprised. But certainly in terms of what we expect in the modern world, they're much, much more volatile than we expected.

And thirdly. the way crises have unfolded, countries' emerging economies, when they hit a crisis, have been forced, to adopt pro-cyclical policies. As Nancy said, when times are tough, the IMF comes in and tells you to cut your budget deficits. Now to some, notably to Joe Stiglitz, that's another sign of how broke the system is. I think certainly those three criteria are sub-optimal outcomes of the global financial system. And it has led some, an increasing number of people, to question the whole wisdom of capital mobility and to say that actually this is a frightfully dangerous thing and we should put the genie back in the bottle and go back to a world of limited capital mobility, and we could have trade integration and not financial integration.

My view is somewhat more nuanced than that. I think it's important to remember that, firstly, not all capital is bad. And most people who believe in globalization think that foreign direct investment is generally a good thing. It's stable, it's there for the long term. The bad thing is short-term portfolio money. I would submit that actually portfolio equity finance, investing in the shares of developing countries, is also a good thing. There's not that much of it, but it's a good thing. What's really dangerous is short-term borrowing, or indeed borrowing of any sort in foreign currency by the firms, banks and governments of emerging economies. And the failure that we've had in the system, in my view, has been an excessive reliance by banks, by firms, by governments in developing countries that have had access to foreign funds on that foreign debt finance.

And the reason it's been dangerous is that we don't have a multilateral financial system that's consistent with that. We neither have a lender of last resort that we have in domestic economies in the form of the central bank. Nor do we have effective international bankruptcy procedures which we have in a domestic setting. So we have neither of the two mechanisms that are used to deal with financial crises at a national level, at the international level. But we do have this debt-based financial integration, and the combination of those two, in my view, is what's dangerous. So what do we do to improve that?

Well, the first and the easiest and most necessary thing to do, which the international system has been trying to do since the Mexico crisis, is to try and persuade firms, banks and governments to be more prudent, to have prudential standards, to encourage people not to borrow so much, to have tougher regulations surrounding banks, to make financial systems stronger, all of which is like motherhood and apple pie. It's great. And there should be more of it.

It seems to me relatively limited how much you can achieve by that, because the truth is when investment bankers are falling over themselves to lend to you, it's very hard to say no, no, we're not going to borrow. And so you need, I think, to think about stronger ways of enforcing prudence, much stronger ones than we've thought about so far. Secondly, there's been a huge emphasis on foreign currency borrowing by default, because a lot of these -- in a lot of these economies it's impossible to borrow in domestic currency.

And it seems to me that that is an area where there is a market failure of sorts and that it would be useful to start thinking about ways in which the international financial system can foster the evolution of domestic capital markets in domestic currency so that you don't have these external currency-based financial crises. And thirdly, and perhaps most importantly -- and I realize I'm nearly at my 10 minutes -- we need to remove this asymmetry where we have a quasi-integrated financial system, but no lender of last resort nor any bankruptcy mechanism. And we need to decide which of those two directions we're going in. We're slightly in an unfortunate halfway house at the moment, and as Nancy mentioned earlier, Anne Krueger at the IMF is pushing very much to go towards a system of having some kind of international bankruptcy rules, that may indeed be the way forward.

My own view is that if you go that way forward you will have a much smaller international debt market, which may actually not be a bad thing, but I don't think that that system is very consistent with lots of debt finance floating around. But the problem is, how do we get from where we are now, where we have lots and lots of indebted countries, notably the two that I've just been to, to a world where you have a bankruptcy system and you don't have bailouts. And I think getting from here to there is going to be a very painful process. I think we are quite possibly in for another lost decade of defaults, particularly in Latin America. Defaults not just on private creditors but increasingly defaults on multilateral institutions.

And we have to figure out a way to get from here to this new world where you have bankruptcy rules and fewer bailouts, without throwing out the rest of the Washington consensus, for want of a better word, that actually have, I think, been very helpful. Because the risk is that as we go through the adjustment in the area of global finance, which is necessary and painful, that there is a disenchantment with the whole package of reforms that took place in the 1990s. And I think that if that happened, it would be a very great pity.

Thank you.

(Applause)

KAREN TRAMONTANO: Gerry.

GERRY RODGERS: Well, yesterday's session showed us that the relationship between globalization and inequality and poverty is not at all easy to pick out, it's very complex. And I guess nobody is really saying that globalization is responsible for the historical legacy of poverty and underdevelopment, but the problem is that people expect globalization to be part of the solution, even if it isn't part of the problem. And there's a lot of concern out there which is reflected in the views of different people, different groups and different countries. And that's my starting point, is what's a people-sensitive view of globalization, which is my route into the question of fairness.

That's some results of polling [referring to PowerPoint presentation], and I'm afraid you can't see there, but that's polling in seven countries on the perceptions of the benefits of globalization, and one has to take these polling things with a pinch of salt. They're small samples, and it's not clear how the word globalization gets translated into different people's situations. But there's some interesting things here. First, the blue line then is responses of people with respect to non-job-related issues, which is questions of the size of the market, living standards, culture, and the green line is job-related issues, which is number of jobs, working conditions, workers' rights.

And the question is, basically, will it be better with globalization? I think there are at least three interesting things from this sample of seven countries. First, that there's a lot of divergence of views. The 50 percent line is around there. So you've got a lot of difference in views and you've got a lot of difference across countries, some of which is, I suppose, not surprising. It's not surprising that China comes out more favorable than Russia, but some of it is a bit less obvious. Why is Spain down at the bottom?

But perhaps the most interesting thing here is that those green bars are systematically shorter than the blue bars. That is, when people start talking about their jobs and their work and the things which are closer to their everyday environment, they're more worried. They're more concerned. They're less sure that globalization is going to deliver the deal that they're looking for.

I think that's the most important starting point because work is where the social and economic issues come together in peoples' lives. And that, I think, is a very important way of interpreting what are people saying. Perhaps they're saying the social dimension of globalization isn't getting enough attention.

Karen said a word about the World Commission on the Social Dimension of Globalization. I won't say a lot. It's a high level group which is aiming to look at exactly that. It's looking at the social dimension in terms of how can globalization be made more inclusive, looking at how to make globalization part of the solution, thinking of globalization as a lot of unrealized potential as well as a source of problems.

And it's trying to look for policy instruments and ways of approaching globalization which can turn the debate around. I don't speak for the commission. I speak for myself. But many of the issues which we're talking about in these two days are the main concern of the commission and the things that the commission is debating on a systematic basis.

The second point I wanted to come to was this word 'fairness' because we toss it around. It's an everyday word and maybe we all have an idea of what we mean but in fact, when you start to dig into fairness, it's actually an extremely complex idea. First, it's something to do with acceptability and equity. It's what is normal. There are limits to inequality which are linked to the notion of fairness. The different societies have different degrees of tolerance for inequality. So what is seen as fair in one society may well look unfair in another. And these notions are the basis for theories of social justice in which fairness is the essential idea on which societies are built.

And that's linked to legitimacy. And part of the legitimacy or illegitimacy of globalization for many commentators and actors is linked to the notion of whether it's fair. Fair is respected. Unfair is not respected. Unfair destabilizes. It's linked to the debate on security because an unfair world is a very fertile breeding ground for extremism. So there is a very important dimension of legitimacy which needs to be thought of.

And fairness is about shared values because, you know, if I think it's fair and you think it's unfair, we're not much further advanced. And so if we want to think about making the terms of globalization fairer, then we have to think about what would be the common values on which the concept of fairness will be built. What might they be? Well, I think there are two levels. There's one level which is a question of common core values which might be considered the basis for an integrated world in which everybody has a place: democratic choice, fundamental rights, respect for diversity. And then since we're talking of a global economy, we also need to consider the basic principles functioning in the market economy and that's respect for the law, enforceable contracts, honesty, transparency, accountability.

So one needs to put into the package a cluster of those different ideas before you can actually start to really address what fairness means and then think about how these different values embedded in the way different actors behave, whether it be government or business or workers or whoever. Now, that's really prefacing a thought about -- I use the word 'asymmetries' as well. It's interesting both Nancy and Zanny took fairness and came to asymmetries because asymmetries does sound more neutral.

Here are some of the asymmetries. Zanny talked about the distribution of FDI. Here we can see over a long period of time, over 30 years, the distribution of FDI has hardly changed. It's highly concentrated in the high-income countries. The low-income countries get very little. That's one of the asymmetries of the global economy. Here's another element, commodity prices. Rural commodity prices over a 20-year period. What's happened? Well, they've gone down rather systematically and in the countries which can afford it least, they've gone down more. Now is that unfair?

That's a question of what's the perception. How do different actors interpret this? Well, when the Tanzanian president talks about the fact that prices of coffee are devastatingly low for Tanzanian coffee producers but the price of a cup of coffee in New York hasn't changed, he's basically saying that's unfair. He's talking about the mechanism of market economy, but he's saying that it works in an unfair way because the value added up to that particular production chain is distributed in ways which are considered by people to be unfair.

Here are some other ideas, some other areas where there are influential actors who think that the outcome is unfair. The first one which you find in a lot of work, in writings of Danny Rodrick, Alice Amiston (ph), UNCTAD, Ocampo (ph), et cetera, the notion that the newcomers to globalization can no longer apply the policies which were successful in the past. In other words, that the protective mechanisms that countries had to be able to develop their own capabilities, whether in terms of tariffs, whether in terms of intellectual property, whatever it might be, under the new trading rules, those are increasingly hard to apply. And so it's been described as pulling up the ladder. The newcomers can't -- have to find new policies.

The second, which was already mentioned, flows of capital and goods much freer than flows of labor, so that those -- in a Hecksher-Ohlin world, that would not matter so much, but we obviously don't live in a Hecksher-Ohlin world. And that means that labor abundant countries whose resource is mainly in terms of labor abundance are disadvantaged.

The third, which Zanny talked about very clearly on barriers to market entry, I don't need to say any more.

Competition with unequal standards. You see, this is not just a north-south issue. This is a global question. Workers in the United States feel that it's unfair to have to compete with low-cost, cheap, exploited labor. Enterprises that respect the rules feel it is unfair to have to compete with enterprises that don't. So behind that of course is a massive agenda in terms of on the one hand labor standards, and on the other hand corporate regulation. But behind it are notions of fairness.

Equal rules don't generate equal outcomes. That's the point which was already made about not only is it a question of one team having better equipment but sometimes one team only has one player and the other team has 21. The differences in capabilities mean that you need differential opportunities, differential rules. It's integrated into the WTO, but it doesn't go very far. You have special and differential treatment, but the notion that you need different rules in order to accommodate the different situations, the different groups and different countries, it's not really part of the global order.

Contagion effects in global financial systems, yes. It's all ready been mentioned. It goes beyond global financial systems. Security. Insecurity and terrorism, there are contagion effects there. I read in the paper the other day something which struck me. Somebody from the Kenyan tourism authority said it isn't fair, and he was talking about -- not about the deaths of the people in the attack in the hotel in Kenya, but about how the contagion effect of terrorism was undermining Kenya's attempt to build its tourist industry. There are lots of contagion effects.

And finally, and very generally, I'm running out of time Karen. Finally and very generally, policies for adjustment are weak. The point is that there are winners and losers. Now, when I first started doing welfare economics we looked at ways in which winners could over-compensate losers as a basis for defining welfare increases.

The point is that whereas at the national level, to a greater or lesser extent policies are put in place to compensate losers --there are redistributions and protective policies and restructuring policies-- the global mechanisms for that are extremely weak. So if the Bangladesh textile industry goes under because of competition from China, there's no mechanism by which there can be any flow of resources to compensate for that. That's between two developing countries. But between north and south it's just as -- it's extremely widespread that the globalization process generates adjustments and restructurings where there are losers who have no resources, no mechanism whereby they can be compensated for their losses.

Since I've run out of time I'm going to stop at that point. There is a policy agenda that we might come back to.

(Applause)

KAREN TRAMONTANO: Okay, while Gerry makes his way up here, let's open it up to --

(TAPE CHANGE.)

KAREN TRAMONTANO: -- on the floor and try to do what we did yesterday, if people don't mind. We've got mikes ready so if you raise your hand, we'll get the mike to you. Give me your name and affiliation.

BILL DOUGLAS: I'm Bill Douglas from the SAIS International Development Program, and the panel has noted that the developing countries are concerned that they have trouble getting access to their exports in the markets of the developed countries. And I asked this question at another conference last week, but it came up again, so I'll ask it again. I was up at an auto workers' plant in Wilmington talking about globalization, and I mentioned this, the concern of the LDCs that they don't have access to the U.S. market. And the workers there burst out laughing. They found that a ludicrous assertion. And they said, when we go to the store trying to buy American, there's nothing there that's made in America. What should I tell them?

KAREN TRAMONTANO: Okay, let's take a couple of questions and then we'll turn it over to the panel. We've got one up here.

STEVE CHARNOVITZ: Hi, I'm Steve Charnovitz. I have a question for Zanny. I'm not sure that you've specified right what the problem is in the WTO. You're suggesting that the rules are rigged against developing countries. It seems to me that the examples that you gave are not manifestations of the rules, the problems with agriculture or textiles or tariffs generally, escalation. These are problems with national policies that are not sufficiently liberal. It's not the WTO that's requiring those policies, it's the WTO that's establishing a mechanism to undo those self-defeating policies. And if there is any rigged rules really, it's that the WTO is too tolerant of developing country protectionism. The whole special and differential idea, which I perhaps contrary to Gerry think is perhaps a part of emerging international law, because we also see the common but differentiated responsibilities in the climate change regime.

But this notion that developing countries don't -- aren't even expected to make reciprocal obligations, which is part of the original GATT, or the GATT as amended, is I think a real rules problem that leads to some of the things that he talked about, the developing country protectionism against each other. So I would submit perhaps an opposite thesis for you to consider: that if there's a problem in WTO rules, it's that the WTO doesn't do enough to encourage countries to have more liberal trade policies and encourage people to understand the benefits of trade and to deal with problems of economic adjustment and have a more open trading system where the civil society and private sector can participate.

KAREN TRAMONTANO: Sandra.

SANDRA POLASKI: Sandra Polaski, Carnegie Endowment. This is a question to Nancy and Gerry who faithfully stayed within their time limits talking about the general question, and therefore didn't have time to get into policy prescriptions. I'd like to ask if both of them could suggest two or three of what they think would be the most significant policies to improve the fairness of the outcomes of globalization. Zanny did take some time to address it, at least on the financial side, but if you want to add a point that would be welcome, too.

KAREN TRAMONTANO: Okay, let's go back to the first question, and I'll put it to the panel, I guess. Bill Douglas from SAIS, what does he say to the UAW?

ZANNY MINTON-BEDDOES: Can I also just address the second one, since it was --

KAREN TRAMONTANO: Sure.

ZANNY MINTON-BEDDOES: You're right, Steve. I was using the word "rules" too loosely What I meant was the existing arrangements of tariffs, non-trade barriers et cetera, the existing trade arrangements was what I was including in that rather loose use of rules. I don't mean the rules of the game, so to speak, and you're absolutely right. The rules of the game are too weak in some sense in that they don't force greater liberalization by developing countries. But I think, and maybe I should think of a different phrase, but if you look at the whole gamut of trade protection as it is now, there are products that are of great interest to the poorest countries where there is insufficient access in rich countries. And in that sense, the game is rigged.

Now, it's not that the WTO rules per se forced that outcome, but it's the current game. I mean, I agree with you wholly. I guess that leads to what I would say to the UAW worker. When you go to Wal-Mart it's hard to find stuff that's made in the U.S., there's a lot of stuff from China. That's because it's manufactured goods that have very low tariffs in the U.S. What you tend not to -- you won't find many agricultural products that have come from outside the U.S., and you will find relatively fewer textile products than you ought to, and shoes than you ought to. Most shoes are now made outside the U.S., but there would be even more imports if the playing field were -- if you had lower barriers than you do on textile goods.

So what I would say to the UAW man is that for the very poorest countries, 70 percent of their exports are in farm products and agricultural products or labor intensive textiles. And those products can't get into major markets like the U.S. and that's what they're complaining about.

KAREN TRAMONTANO: Nancy, do you want to start out first with Sandra's question?

NANCY BIRDSALL: Yes, I think it's an important question where we present the -- I think you're saying, Sandra, where the impact is greatest changes in policy, which it's interesting, it's not necessarily -- it's not necessarily the same question as what are the most -- what are the areas of greatest perceived unfairness? I think in terms of impact, the big issues are trade and aid and we've talked already a lot, various people here, about agriculture. And I would add to what Sandy said. You could imagine a country like the U.S. doing a major report even, being more transparent about the range of policies that are affecting developing countries.

The list is the subsidies in agriculture, the high tariffs, the peaked tariffs. I just have here, the rich countries, the average figure is 40 in terms of the ratio of the highest tariff to the average. Among poor countries which, of course, have somewhat higher tariffs, that peak is about seven times the average tariff. So there are hidden peak tariffs, and the escalating tariffs are another problem. So trade is the area where the impact could be tremendous, especially in agriculture and where the perception and the reality of unfairness is greatest. And the irony about improving trade policy is that ultimately it would be better for consumers and workers in the U.S. so that it is not a win-loss situation. And the U.S. is one example.

If you think of even programs like AGOA, the African Growth and Opportunity Act, which seems to create more access for the poorest African producers, when you actually look at the content of the AGOA setup at the moment, it is so restrictive, it is so discretionary in terms of the president's or Congress's ability to turn it on and off for each country. It has rules of origin that are so complicated that it basically amounts to very little at the moment because it's so -- the administrative barriers for particular countries in Africa to get on the list, in a sense exclude those that are weakest from an institutional point of view.

Then on the aid side, we really have a system now that is almost in complete disarray in terms of donor coordination, a kind of hopeless, ongoing effort to coordinate in which there's a lot of tied aid. The donors really, in a sense, are not accountable to anybody. They're not accountable to their own country legislators for a lot of structural reasons and they're certainly not accountable to the people that they're affecting most. So I would say trade and aid are the big ones.

Now, unfairness is much more -- is very noticeable, obviously, in areas like the immigration regime but I'm not sure that those are areas where, at least in the next decade, the kinds of incremental changes that are very possible in trade and aid, are likely politically -- or would make that much difference.

GERRY RODGERS: The way to approach the policy issue, if we're talking fairness, is to try and look at what are the sets of concerns that need to be addressed simultaneously for individuals, for households, for families and how can those packages be put together. Packages which actually ensure that if there's an adjustment problem there's a reassurance and a sense of confidence that people's objectives can be maintained. That is a general principle that I think gives rise to implications, not only at the global level, because I mean, I agree with Nancy at the global level but it also gives rise to policy implications at both national and cross border levels. National in the sense of how our social objectives maintains in under globalization and contrary to the general impression that the space for public action is reduced by globalization.

There are many examples of countries which have managed to effectively maintain social policy. The Finlands of the world who maintain a space for social policy which permits them to participate more effectively in globalization on the basis of trust and participation in a democratic process. And I think that that's a critical element which often doesn't get into the debate.

Obviously there's a question of national capabilities which are part of the national policy agenda too. But then they hit a brick wall if there isn't a friendly international environment which is where you have to hook in the international agenda. But the international agenda isn't only a question of sort of global governance and global institutions. It's a question of those economic activities which cross borders, the way in which global enterprises operate and the rules under which they operate and the extent to which they can embed in their every day behavior, some of these key social objectives.

There's a corporate social responsibility agenda which, I think, is also part of the policy agenda which needs to be brought in. It's a question of how local impact on the things which are important to people in terms of employment and incomes can be generated from international production systems. How do international production networks hook up with local production capabilities? There's a policy agenda there too.

And then there's the global policy agenda where a concern with integrating the rights and the employment and the protection and the participation of the democratic agendas in a coherent way and not breaking them down and having a separate trade agenda, a separate finance agenda. These things are interrelated. They need to be considered as a whole and that's -- there are attempts to do that which -- but they're partial. There are attempts to integrate labor standards into trade agendas and that's only part of the story because one is also concerned with stabilizing incomes and generating employment. So the international system needs to bring together these different elements in a more coherent package if it's to be able to respond to the concern for unfairness. Unfairness isn't just one element, it's all these elements together.

KAREN TRAMONTANO: Do you want to go over here?

JOHN LANGMORE: Thanks. John Langmore from the ILO. I thought those were all excellent presentations, but I just wanted to suggest some additional asymmetries that I think are very important. And one is obviously just the power of corporate concentration. The fact that the framework of the international market is largely provided by enormous corporations almost all of which are based in developed countries and which are therefore able to organize their production and pricing and taxing and sales and so on, in ways that are in their own interests to a significant extent and those interests are basically the shared interests of developed countries and not the interests of developing countries.

And particular examples of that are taxation. The OECD has a policy of expecting that taxes will be paid in the headquarters country of corporations not at the place where the income is earned. So the developing countries lose an enormous amount of tax revenue through that kind of policy.

It's also true that industrial concentration, I think, allows markets to be manipulated in ways that are generally to the advantage of developed countries and several speakers spoke about that. There's also the political factor which was mentioned but I think could be emphasized even more. The WTO is a relatively -- has a relatively equitable political structure, but of course the Bank and Fund do not. And that does make a very big difference to the -- or potential difference to the structure of policy within those organizations. But then, as well, the developed countries have the wonderfully effective OECD, which is a lobby for them. But there isn't a developing country organization of nearly equivalent intellectual or political power, at least intellectual power.

And then finally, there's just the enormity of the difference in the base of income, wealth and correlated with that, power, from which the two groups start. And that has enormous implications in numerable ways which have all ready been spelled out to some extent. It's important, I think, to be very clear about the extent of the asymmetries so that we can, as Gerry suggested, give more attention to ways of compensating for them.

JERRY LEVINSON: Jerry Levinson, Washington College of Law, the American University. I didn't find Miss Beddoes very convincing with respect to the UAW. The fact of the matter is that for Mexico electronic parts, auto parts are flowing into this country and putting enormous pressure on plants to move to Mexico. The Mexicans are now finding out that they have a problem vis-à-vis China. So they're losing foreign direct investment to them as well. So I don't think that your commentary about tell the UAW that agricultural exports are the main problem for the developing countries is very convincing. But what I wanted to address to you and ask you to address specifically, since you were just down in Brazil and Argentina, for the last 20 years for the most part the IMF and World Bank have been dealing with like-minded center-right governments which have, particularly in Latin America, embraced the Washington Consensus which really derives from Baker's 1985 speech at Seoul, the joint meeting in Seoul in 1985.

Now we have center-left governments, first in Argentina and now elected in Brazil. Now, Nancy Birdsall has referred to the Cardoza government's policies as brilliant, but 60 percent of the Brazilian electorate voted against continuity of those policies, and those policies have left Brazil with this large external indebtedness, a problem, and this perception that the equity issue was not significantly addressed during that period.

My question to you is, do you think that the IMF, the World Bank and the international financial system in general is supple enough now to accommodate a change of priorities of center-left governments which seem to be emerging, which appear to want to elevate the income distribution equity issue to the same plane of importance as the protection of corporate property rights? Just to conclude, just to finish. In this town once it became apparent that Lula was going to be elected, the question has been, would he adhere to the IMF 3.75 percent primary budget surplus target and pay the external indebtedness?

I would put the question the other way round. Can the international financial community and the IMF adjust to the fact of center-left governments with a different order of priorities, or are we on the way to a train wreck, six months to a year from now, a train wreck called Brazil, between the aspiration for equity or addressing those equity issues and the demands of the financial community that you would assign so much resources to repay the external indebtedness that you really don't have anything left over for the social agenda.

KAREN TRAMONTANO: Okay, let's take one more question.

KIMBERLY ELLIOTT: Thanks. We saw Gerry's figure on the terms of trade, commodity prices. We all, I think, now about the situation with coffee exporters, and I don't think there are any trade barriers in that sector. So what I'm wondering is, is anyone on the panel concerned that agricultural trade might be Bill Easterly's next development panacea? Are we putting too much focus on this one issue, and do we really -- it's going to take incredible political capital to get significant agricultural liberalization in Europe, Japan, Korea, elsewhere, the U.S. even.

And I'm just wondering, at the end of the day, is what we're going to get out of that really going to be worth the effort, especially for the poorest, smallest LDCs who, you know, are not going to be in grains and the big exporting sectors, and I just wondered whether we're maybe putting a little bit too much in this one basket?

KAREN TRAMONTANO: Okay, thank you. Let me ask the panel with respect to John Langmore's comment, both in terms of corporate concentration and the interesting statement that the WTO is a relatively equitable structure, which some of my former colleagues may have a little problem with, but that an equitable structure is lacking within the IMF and the Bank. Anybody on the panel want to cover that-- Nancy?

NANCY BIRDSALL: I thought that was a really interesting question. You know, I haven't really thought of this problem, although there are lots of people constantly raising the issue of corporate concentration. I don't think of it as an area where you can address the problem by somehow pushing for global policies that would lead to de-concentration. I think that's part of a global economic system that's more integrated. And as long as there's some competition it doesn't worry me too much that there are big multinationals. I think you get to the core of the problem when you start raising issues about taxation policies of different countries in the OECD community and in developing countries.

And I think it's very important and very worrying that, for example, the Sadio report that was done at Kofi Annan's suggestion -- it was really prepared by a group including John Williamson at the IIE -- raised the possibility of having some kind of global institution that would not have tax authority but that would at least look at issues of tax harmonization. I believe the U.S., among others, just really would not let that rise to the agenda at the Monterey conference last March on financing for development. That is an example of, I think, short-sightedness, in that we do need some kind of sense of at least common information, potential for using some national tax systems as a mechanism for compensating or for transfers in the sense of a social contract that would assist the poor countries develop the assets they need in order to compete in a world of multinational corporations.

The interesting example that's been raised by Devesh Kapur, who is doing a monograph for us at the Center, it's been raised before. It has to do with the problem of the brain drain which sometimes results in returned investment and so on, but sometimes not, the fact that there are higher returns for people in settings where there's all ready a lot of human capital, contrary to the usual assumption of economists that human capital might also go to where it's most scarce. No, we all know that it's much better if you have a university degree from Malawi to work in New York or London than to stay in Blantyre. But anyway, Devesh has raised the point that it is the U.S. and no other country in the world that is able to tax all of its citizens and all of its residents. All of its citizens, even if they're abroad.

And no other country can do that because no other country has the same enforcement mechanism. A Malawian doesn't feel the need, in the U.S. to pay taxes to the government of Malawi. But in the case of some countries it might be possible to have bilateral tax agreements that would provide for transfers back to an immigrant's country of origin. It's just one example of many. I think the other related example comes up in -- well, I won't go there. That's too complicated.

I want to say something about Gerry's question. I think it's a great question. Will the international community be supple enough to adjust to some changes? And I think the answer is definitely yes for the multilateral banks. I have much more concern about whether the IMF, as an institution, will make that adjustment. I think, we don't see yet the signs that it can and it will.

The IMF is looking a lot like the European Central Bank in a way. You know, it's just got one set of ideas that it's been working on for the last 30 years and like the European Central Bank, seems obsessed with that one idea which in some vague way has to do with austerity and reducing inflation and so on and without enough attention to the trade-offs. In the case of the Central Bank, it's inflation and employment. In the case of the IMF, it's a much more complicated set of trade-offs.

But I think that the multilateral banks will come along and in particular, Gerry's old home of the Inter-American Development Bank. The constraint there is whether at the international level, the shareholders of those institutions will try to sustain or -- a system now in which, if the IMF doesn't say okay, it's very difficult for the multilateral banks to move. There's this kind of this quiet shadow arrangement that the IMF always has to be first with the okay nod and which, of course, is in a way eliminating what might be some healthy competition at least in the intellectual thinking about dealing the downside of globalization. So we have to look to -- now, I want to say something if I can, because I was the shortest maybe on the --

(Laughter.)

Kim Elliott's excellent question. I think it's the right one to ask. You know, will freer trade in agriculture be the next panacea that Bill Easterly undoes. You know, I think it's not -- my view is it has to be fixed. The unfairness of the current system has to be fixed, in part, because it is the poor and the least skilled within developing countries that are suffering the most from the lack of job creation in agriculture. Zanny made the important point that a lot of the barriers are in the south too and that's true in the textile and apparel market as well. But somehow it seems to me that if the rich countries don't take some leadership, as they are, you could say, at least on paper, trying to do now in the Doha development round, they don't take some leadership in that area, it will be very hard to see, very surprising to see a lot more unilateral reduction of tariffs in the south in those two sectors.

The question is whether, if you don't get dynamism in rural areas because agriculture starts to thrive, do you ever start to climb up the ladder? And a lot of development economists are quite convinced that the answer is no. You need to start by having a raw market where you have consumption and you have production and things are moving along and people start to save and you start to develop from the ground up in the poorest rural areas. And it's probably the same with textiles. You know, the East Asian countries got a leg up in the manufacturing area, starting with areas that require the least skilled labor and then they were able to move up a ladder.

At the same time, it's absolutely true that if we condemn countries forever to primary commodity exports without -- and keep escalating and peak tariffs, the kinds of things that say, okay, Brazil can export oranges but not orange juice, Kenya -- or West African countries can export cocoa but not chocolate. Then opening up the agriculture market all by itself without allowing for that dynamism and that stepping up the ladder to agro-industrial products is not in itself going to work.

KAREN TRAMONTANO: Zanny.

ZANNY MINTON-BEDDOES: I've got three that I would quite like to comment on briefly. The first one was the very interesting comment you made about corporate concentration. You mentioned that the WTO had a relatively equitable structure whereas the IMF and the World Bank did not. I think at the risk of being the free market ideologue around here, I would submit that that is true but I would also argue that potentially the WTO will become increasingly ineffective as a result and that the Bank and Fund don't have one country, one vote structures, but arguably since they are essentially mechanisms for lending money from rich countries to poor countries, it's not actually feasible to suggest that they ought to have one country, one vote.

And I would also argue that there are actually very effective mechanisms of doing that whereas other international organizations that are based on one country, one vote, notably most of the U.N. system is considerably less effective. And the risk with the WTO is that the equitable structure it has, if it's not reformed in some way, will make it an unworkable place because, right now, one country has veto power. And I would suggest that if the WTO is to become an effective rule maker of globalization going forward, we have to have a more streamlined way for it to function because you can't have an international system functioning where Bhutan -- actually I don't know if Bhutan is a member -- but some small country can hold up the entire system.

So I think you're right but I would challenge that actually that will end up being a hindrance to the effectiveness of the WTO.

INAUDIBLE QUESTION

ZANNY MINTON-BEDDOES: Well, the U.S. is also the largest contributor to the IMF. So I would submit that in the real world, the country that gives the most should have a relatively larger say in what happens to that money.

Turning again to the IMF one -- I'm clearly rapidly becoming the IMF's apologist--- I think I disagree with Nancy. I think it's just too simplistic to say is the IMF now going to be supple enough to deal with a new political reality? Firstly, the IMF has dealt with a large number of center-left governments in its history. There have been bouts of center-leftism in Latin America notably in the mid-1980s. It's dealt with a number of center-left governments in central and eastern Europe in the 1990s. So it's just simply not true to say that the IMF has a history of dealing with center-rights and not with center-left.

What is true is that throughout the 1990s, there was, among the elites in many Latin American countries, an acceptance by U.S. trained economists of the kind of overall model -- let's call it the Washington Consensus -- I would submit that Lula's team buys into that consensus too and that they are very sensible people who have every desire to weigh the aspirations, as you put it, of greater equity but they do not want to do so at the expense of short term populism.

They are not the center-left governments of the 1980s. They do not think that the answer to Brazil's problems is to print money and run large deficits. What they are trying to do is within the real constraints that financial reality imposes, which is not IMF-imposed reality. It's the reality of the current situation that Brazil finds itself in with its debt, which is a Brazilian situation it's not an IMF-imposed situation, that they want to create room to maneuver for themselves but not to do so at the expense of pulling the whole country down into some debt default morass. Where I think one will need leadership from the international institutions, particularly from the IMF, is in assisting them in doing that. My own perspective is that I think that Brazil will default, will have to at some point but doing so in the least painful way possible is the challenge for both the Lula government and for the IMF.

I simply don't think it's helpful to suggest that it is something that requires a huge turnaround by the IMF to deal with some kind of new political reality. I think it's much more that both sides have to accept the current painful financial reality that Brazil finds itself in and find a way out of that. And only frankly, when Brazil has macroeconomic stability and financial stability is there any hope for any serious improvement in equity over the long tem. I think that's the lesson that we often in these discussions of what's wrong with the Washington Consensus and the inequities of the current system, we forget that basic populism has been tried in Latin America a lot over the past quarter century and has failed.

And so what we have to do is try and find a way forward where we don't lose the good of what we've learnt in the 1990s, which is that macroeconomic stability matters, but find a way to make -- within that framework make policies more effectively equitable.

INAUDIBLE QUESTION

KAREN TRAMONTANO: The prerogative of the chair is going to move to the next two questions because we're over time. I'll go to my colleague Lael Brainard first, and then whoever wants the last word after Lael, please raise your hand.

LAEL BRAINARD: I just wanted to ask maybe Nancy and Zanny to comment on the fairness question, distinguishing between trade through the WTO and the increasing proclivity we've seen on the part of the U.S. to negotiate bilateral trade agreements, whether the terms of those agreements, if you look at them, are more or less positive for the developing country partners because of the -- , whether it's because of the relative bargaining power, whether that system of moving towards bilateral free trade deals may in some way leave out sets of countries, or -- maybe you think it actually works in the reverse direction, I don't know.

KAREN TRAMONTANO: And John Audley has got a question right there.

JOHN AUDLEY: Thanks. John Audley, Carnegie Endowment. A slightly finer point to Lael's question: Would you recommend to the countries to undertake the more ambitious agenda articulated in Doha as they meet in Cancun? And then a second question --

NANCY BIRDSALL: Did you say industrial?

JOHN AUDLEY: No, the developing countries. So, in essence, what advice would you give these developing countries that are about to engage the United States in Central American negotiations, conclude the FTAA and perhaps expand the WTO negotiations to include the Singapore issues?

The second question I had relates to the discussion about technical assistance. Adding to the morass with regard to technical assistance is a more focused attention on technical assistance to make developing countries better negotiators. I'd like to hear comments on that particular narrowness with regard to technical assistance, especially since many of the issues of concern have to do with the more structural problems of education, healthcare and others that create the foundation for effective entry into a global trading system. Thanks.

KAREN TRAMONTANO: Nancy, do you want to start off?

NANCY BIRDSALL: Well, in terms of Lael's question about bilateral agreements, I did mention that it made me uncomfortable to see that the U.S. was pressuring Singapore on its capital -- open capital account arrangement and not so open capital account arrangements. And I think the other example in a bilateral arrangement that's worrying is that under the NAFTA agreement it's not clear at all that the U.S. has played ball, you know, stuck with the game as it's supposed to be played, on the trucking issues and the tomato issues and so on.

And so that does seem to be an example -- those are both examples maybe of how we are in a world in which the bigger market can be more powerful. And in general on any bilateral, even multilateral enforcement arrangement where the enforcer who say in a dispute resolution wins, if it's a tiny country the penalties that it can impose on a big market are relatively small. Now, luckily I had a discussion about exactly this point with Kim Elliott the other day, who raised the question earlier, and she pointed out to me that there ought to be a warning light on how the U.S. and the other OECD countries handle a series of bilateral negotiations, because they may be able in a bilateral setting to get deals that are not as good for the weaker or poorer or smaller market.

And that illustrates the larger point that Zanny made and that others have made, that the multilateral trade arrangement is a kind of public good, from which, if it works well, the poorer, weaker countries can benefit. So, I think it's a good question that Lael raised, and I hope Kim is going to help us think more about it and create some warning lights. On John's question, I'll ignore the first part, what advice to developing countries because he and many others know better how to answer that question directly.

But I would like to say on the question of technical assistance for negotiating, I think it would be much better to frame this issue not as technical assistance, which gets us into the big mess with donors and donor coordination and kind of the idea that there's an assistance strategy. What I'd like to see is that the rich countries, through the WTO or through other mechanisms make grants available to poor countries and let the poor countries use the money to buy the best lawyers if they want in New York or Washington or London in dispute resolution.

Give them the flexibility to use those resources and forget about this idea that somehow there's going to be a lot of emphasis on training. Just, you know, step up to the plate and make the world less asymmetric. That's the way I would see it. Thank you.

KAREN TRAMONTANO: Zanny on either question, both questions, and then we'll end with Gerry.

ZANNY MINTON-BEDDOES: I think my answer, Lael, is that I think a world of large numbers of bilateral trade deals --which would not just be from the U.S., but we're seeing them sprouting up all over the place, China's doing lots, the Asian countries are doing lots -- to me is a very much a sub-optimal world. I think a web of bilateral trade deals makes for a complete nightmare in terms of global trading, because you'd have all sorts of rules of origin, all sorts of distortions, quite apart from the idea that big countries can impose their terms more easily on single poor countries in bilateral deals.

I don't like that idea at all. I much prefer the notion of pushing ahead on the multilateral system. There is, in the eyes of some, notably Ambassador Zoellick, a linkage between the two. And this administration makes much of the notion of competitive liberalization and pushing forward on all fronts of bilateral trade agreements, regional and multilateral.

My own view is that that is -- there may be some political logic to that, but I think it's a very risky strategy and I think that you end up with the bilateral deals because those are the ones you can push through and they're relatively easy to get through Congress here, and you end up not doing the really heavy lifting which is the multilateral deals. So I would hold out like a true purist for progress at the multilateral level.

What would I say to the developing countries in Cancun? My own sense is that there are many areas where the developing countries in the WTO negotiations are their own worst enemies: they're organized into groups that are pushing for quite narrow interests and also quite retrograde. Retrograde has a tone to it which I don't like, but basically they are trying to slow down the process on areas that they worry about. India is a classic case in point. India is basically trying to slow the whole process down on every single possible area it can. My own view is that the developing countries would do much better to band together and acknowledge that they also need to offer things on the table, but to push as a block much more for the things that they want from the rich countries.

And I think at the moment the strategy has been a realization amongst the developing countries that they are powerful enough to stop things, but they haven't gone beyond that to recognize that they actually are powerful enough to push things if they work together. And that may sound Pollyannaish, and it may be -- you know this much better than I do, and it may be much harder to do in practice. But I just get a sense every time in Geneva, people just roll their eyes when you talk about the Indians and they roll their eyes when you talk about various other developing countries and say , "you know, these guys just never want to do anything". And I think that's a very unfortunate perception, and if you could turn that round and say, the developing countries say we want this, we really want this, but this is what we want in return from you, it would be a much more positive dynamic.

KAREN TRAMONTANO: Gerry.

GERRY RODGERS: I just want to pick up on a couple of points, the process of trade liberalization and its legitimation in people's minds. I think this is related to Kim's point about liberalization of trade and agriculture, but it's also related to the UAW point.

The national policy agenda is not necessarily trade liberalization. It is a national policy agenda in which trade liberalization is an instrument, and it's a powerful instrument. But the notion that national policy agendas which respond to the needs and priorities and preoccupations of different groups are illegitimate if they don't coincide with the trade liberalization agenda needs to be considered very carefully. And moves towards trade liberalization which don't take that into account run into social problems.

And so I think the notion that you can consider trade liberalization as sort of a technocratic process without understanding the social underpinnings of it and the needs of different groups within that process, I think that needs to be questioned. And on --

(TAPE CHANGE.)

GERRY RODGERS: -- change patterns of gains and losses. There are going to be people who will win and people who will lose, countries that will win and countries that will lose. It's a process which needs to be understood and managed very carefully. A big bang approach to trade liberalization and agriculture would probably have substantial negative fallout.

So I think the point is, and it's related to the UAW point, the concerns of different groups are legitimate and have to be part of the political agenda. I think that's an important point to take into account, especially of legitimacy. And there's a question of legitimacy on the other issue of the role of the IMF or the Bretton Woods Institutions more generally. Not only center left -- I heard an ex-president -- a center right ex-president in South America describing the IMF as the firefighter which destroys the house while putting out the fire. And I think that some -- it's once again a question of the way in which the basic objectives of societies and economies are integrated into this broader political process.

But when the financial process is considered the ultimate goal, if you don't get the financial environment right, the rest is impossible, that's the argument, that's a recipe which over the last 10 or 15 years has shown relatively little progress. Countries which have attempted to play by the rules and get their financial systems in order have actually made relatively little progress on the social goals. There's a problem of integrating these social goals into the agenda alongside the financial ones, and that's where the existing international system falls down. We don't have a way of treating the financial and social goals simultaneously and thinking of employment and protection and rights as part of an integrated agenda, which also clearly includes the financial objectives which have to be part of the story because they're part of the story. And that's the route to greater inclusion in globalization.

I think thinking of it as a social process, one also has to think of the social actors. Once again, it isn't a technocratic issue. It's a question of policies which are designed by constellations of social actors in dialogue and hopefully in a democratic process. The role of business and labor and of different groups in society, and of governments in construction of this agenda, is the foundation of legitimacy. And if one starts by treating trade liberalization or financial stabilization as prior to that agenda, I think you run into a brick wall.

KAREN TRAMONTANO: Well, I have successfully run us over time, and I apologize. My sense is there are still a lot more questions in the room, so we're going to take a break. I want to take this time to thank our panelists. Please, let's give them a round of applause.

(Applause)

I know a little bit about what their days are like and how busy they are, and I know taking this amount of time to be here this morning is a huge, huge commitment on their part. So thank you very much. Let's take a couple of minutes and perhaps you can chat further with the panelists and then we'll start promptly at 11:00.

(END OF PANEL.)

THE BROOKINGS INSTITUTION
THE CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE
THE INTERNATIONAL LABOR ORGANIZATION

MAKING GLOBALIZATION WORK: EXPANDING THE BENEFITS OF GLOBALIZATION TO WORKING FAMILIES AND THE POOR

PANEL III : "WHAT ROLE FOR LABOR STANDARDS IN DEVELOPMENT AND GLOBALIZATION?"
PARTICIPANTS:

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TRADE, EQUITY & DEVELOPMENT,
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TUESDAY, DECEMBER 3, 2002
11:00 - 12:30 PM

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SANDRA POLASKI: --With this panel we turn to the discussion of policy ideas to make globalization produce better results for workers and the poor. Yesterday's panel laid the basis for this discussion by reviewing the empirical data on trends in poverty and income distribution over the last ten or fifteen years. What we can conclude from the presentations by our panel of experts on poverty and inequality is that globalization has not caused these problems—poverty and inequality were serious world problems before the current round of globalization began in earnest in the mid-1980's. But at the same time, the research shows that globalization has not made any strong contribution to solving these profound challenges.

Branko Milanovic's concluding statistic was sobering: More economic growth occurred at the global level from 1960-1980, before the current round of globalization, than occurred from 1980-2000 when globalization was in full swing. Martin Ravallion's research shows that the major gains that have been made in reducing poverty over the past twenty years occurred in China, and to much lesser extent, India. China maintained strong constraints on capital flows and public ownership of most production and services during the period of great poverty reduction. Both China and India maintained high tariffs, and China joined the WTO only last year. So the progress that has been registered against poverty cannot be credited primarily to globalization.

Our last panel discussed some of the structural shortcomings of the international economic system that produce unfair results and that need to be addressed if the benefits of globalization are to be more broadly shared. None of this is to suggest that we roll back global economic integration. Rather, it highlights the heavy burden that rests on all of those who advocate continuing integration, and I include myself, to come up with concrete, feasible, achievable changes to current international policies, rules and regimes in order to achieve more poverty reduction, more equitable distribution of the gains from trade, and better results for more of the world's population. These policies must be constructed with a view to their differential impact, and must be particularly targeted to benefit workers and the poor. We need better international agreements, treaties and rules that are shaped with a view to their distributive consequences. Arguably, we need better institutions to implement better rules and regimes.

The purpose of this panel is to discuss concrete ideas for addressing these challenges. Our panel is entitled: "What role for labor standards in development and globalization". Our panelists will address a set of questions, which I will share in a moment, that are designed to elicit practical, workable ideas from them on the role of labor standards in achieving better poverty alleviation and income distribution. Let me introduce the panelists first and then I will come back to the questions. On my right is Kimberly Elliott, who is a Research Fellow at the Institute for International Economics. She has written numerous books and article on labor standards and trade, including the forthcoming "Can International Labor Standards Improve Under Globalization?" Kim serves on the National Academy of Science's Committee on Monitoring International Labor Standards. Next on my right is Robert Lawrence, who is a professor of trade and investment at the John F. Kennedy School of Government at Harvard University. He is also a Senior Fellow at the Institute for International Economics. He served as a member of President Clinton's Council of Economic Advisers from 1999 to 2001 and has been at Brookings during several periods in his career. He has written over 100 papers and articles on topics in the field of international economics. On my left is Anne Trebilcock. Anne is Deputy Director of the Policy Integration Department of the International Labor Organization office in Geneva. She has been with the ILO since 1983, working on international labor standards in the areas of labor law reform, social dialogue and public international law. From 1999 to 2002 she was co-director of the ILO's program on fundamental rights for workers, and in that capacity contributed to the annual reports that the ILO has been issuing for the last couple of years, providing much greater detail for all of us on what is happening around the world in terms of respect for worker rights.

So we are lucky to have these three panelists whose research and thinking [microphone is switched on]-- sorry, I hope you heard at least some of that. (Laughs.) Is there anyone who didn't hear the panelists' names at least, because if so I will repeat them! (Laughs.) Good, I see that even those in the back say they heard me.

I would frame the discussion for the panel in the following way: Earlier panels mentioned that we have had tremendous increases in flows of products through trade, tremendous increases in flows of capital through capital market liberalization, but we do not have the freeing of labor flows, the flow of workers and individuals through immigration that we had in the previous round of global economic integration at the end of the 19th and beginning of the 20th centuries. So, in a sense, labor—that is, workers—are stuck in their countries while capital and the products that they produce are more free, which clearly produces a disproportionality in terms of the impact of globalization on the different actors in society. I don't think anybody in this room expects that there is going to be a tremendous liberalization of immigration in any of the developed countries in the foreseeable future. Perhaps some changes around the edges, but not massive immigration flows on a legal basis. And so therefore we turn to the question of what can be done to improve the conditions for workers within their own countries, with capital flowing in and out, with products flowing in and out? What can we do to improve labor standards, to improve working conditions, to improve income distribution for workers, particularly in the developing countries?

The questions we have asked the panel to address are, first, is there a role for labor standards in improving the gains from trade—and the distribution of the gains from trade and economic integration—in developing countries? Second, what are the most promising channels by which labor standards can be used to improve working conditions, worker rights and distribution of gains from trade? If we use a linkage between trade and labor, what precautions are necessary to avoid protectionist abuse of that linkage? Third, how can labor standards be improved in developing countries within their economic constraints, and yet without sacrificing growth? Finally, if we don't use a trade and labor standards linkage, what other methods could be used to improve poverty alleviation, income distribution and employment outcomes, and what is the probability of the adoption of those other programs?

So with these questions I'd like to open our panel. Same rules: each panelist will give a ten-minute presentation. I'll give panelists a nine-minute sign. That should leave us ample time for discussion. I just want to point out that the agenda has some built in flexibility and so we'll have the full hour and a half for our panel, even though we began a few minutes late. Lunch will be served outside this room beginning at about 1:00, and so we have plenty of time for your questions.

Kim.

KIMBERLY ELLIOTT: Thank you, Sandra. I think Sandra framed the question very well, which is that there is currently a marked imbalance in the global system with both freedom of mobility for capital and for goods, and, because capital and goods are mobile, they also get to call on international rules to protect them. By contrast, the rules for labor are much weaker, so that workers both have no exit option or limited exit options and have to rely on the weak, corrupt local and national governments that investors and traders seek to constrain. So there clearly is an asymmetry there that I think needs to be addressed, and labor standards are one way of doing that. I think the previous panel also set us up very well in that labor standards are one means of addressing some of the fairness issues in the international system.

But I think that the case for doing more to support international labor standards is not just fairness, it is also about making markets work better and about making democracies work better. I know everyone in this room knows what they are, but I always think it is useful to explicitly remind people what the four core labor standards are. They are freedom of association and the right to organize and collectively bargain, freedom from forced labor, the elimination of child labor, and non-discrimination.

Those things are about opening up opportunities for workers, about meeting basic market principles of voluntarism and choice in the workplace. So they are consistent with both better markets and better societies. In fact, there is relatively little controversy about three of the four. Nobody thinks forced labor is a good thing; nobody thinks it's good for development. Nobody thinks that discrimination on a broad range of grounds is acceptable. There is also now a large literature on the role of gender discrimination in impeding development, including a big World Bank study on the topic. On child labor, the concern is not whether something should be done, but how and, in particular, how to address poverty, which is the major cause of child labor. But, again, I think there is broad agreement on the legitimacy of these three standards.

Where the controversy comes in is really in two areas, and that's where I will focus this morning. One is on freedom of association, especially in developing countries, and the second is the issue of linking labor standards to trade and the use of trade measures to enforce labor standards.

The typical objection that you hear to unions in developing countries is that they are corrupt, elitist and rent seeking. Well, where that is true, I think what you will find is that the country is typically either not democratic or only weakly democratic and is probably has a closed economy as well. And in those environments, I suspect that the policymakers, the politicians and the firms are probably corrupt, elitist and rent seeking as well. And I think the solution is exactly the same. It is not to eliminate unions or repress them; it is to expose them to competition and to ensure that they are transparent and accountable to their members.

–In an environment promoting globalization and democracy, freedom of association is more likely to channeled in positive direction. It is clearly related to freedom of speech, freedom of assembly, and to democratic principles. And if unions and freedom of association are being repressed, I suspect you will find that other civil liberties are being repressed as well. Globalization and democratization also help to discipline what Richard Freeman and James Medoff called the “monopoly face” of unions and encourage the “voice face.” By giving workers a voice, policymakers can help to alleviate the backlash against globalization that we see in a lot of countries and it can make reforms more sustainable.

On more practical or pragmatic grounds, it is a simple reality for developing countries producing consumer goods, especially apparel and footwear, that globalization means that their labor standards are going to get greater scrutiny from NGOs, and through NGOs from consumers. Consumers consistently, in survey after survey, say that they will avoid buying products if they know they are produced under poor conditions.

Now, the evidence on whether they will pay more for good conditions is a little weaker, and that is a problem. But the basic risk here is of losing market share if you are exposed as having poor labor standards. In addition to that, with the phase out of textile and apparel quotas in 2005, it is going to be difficult for many of the smaller, low productivity countries to compete purely on the basis of price. So it may be that labor standards can be a marketing tool for some countries that otherwise would find themselves squeezed out of these markets by China and some of the other larger and more productive developing country exporters. Demonstrated compliance also could be a lure for large brand name multinationals who are concerned about protecting their brand reputation. They might want to seek out developing countries that can certify that they are broadly in compliance in with the core standards, perhaps through the ILO, perhaps through some of the private sector multi-stakeholder initiatives for monitoring and verification of labor standards.

And, once the apparel quotas phase out in 2005, there is going to be a much more competitive environment in the textile and apparel sectors, and some smaller developing countries may find it in their interest to promote stronger international enforcement of labor standards in order to prevent a race to the bottom -- not from the top, but from the bottom -- among the developing countries themselves.

Finally, the principal problem in most of developing countries is not the content of the law. In fact, a lot of them wrote their laws with assistance from the ILO. The problem is lack of capacity to enforce the laws. And there again, I think that governments and employers and multinational buyers might think a little more openly about the role of unions as cost effective monitors. There is a great deal of pressure on governments to better enforce their labor standards and from consumers on firms to better respect labor standards. And that is generating a lot of pressure to do more monitoring and verification, which can be costly. Having a worker organization that is in the factory every day and that knows what the problems are is a much more cost effective way of improving the enforcement side of the labor standards.

I am running out of time so let me quickly lay out the most controversial part of my talk: is there a role for the WTO and for trade sanctions to enforce labor standards? I agree with the statements from Singapore and from Doha and from Quito last month that the ILO is the competent body to deal with labor standards and that it should have the central role in promoting and enforcing labor standards. But if there are trade-related labor standards violations that are intended to promote exports or to attract foreign investment, the WTO should address those particular problems. It does seem to me that this falls within the scope of what it the WTO is supposed to do in terms of disciplining trade distortions. And, I believe that it is possible to guard against the slippery slope to protectionism. I don't think protectionism is an inevitable outcome of having a limited linkage between trade and labor standards.

First of all, if you look at what's happened under the NAFTA labor side agreement, if you look at U.S. implementation of worker conditionality under the Generalized System of Preferences program, there is no evidence of these things being used for protectionist purposes. And, in fact, we had in this room just a little over a week ago a session on the FTAA where Thea Lee, of the AFL-CIO said essentially, "look, if we want to be protectionist, we know how to do that. We have the escape clause. We have anti-dumping rules. We don't need to do this under the rubric of labor standards. There are lots of mechanisms if we really want to be protectionist."

So I find little evidence of protectionist intent, but even less evidence that a U.S. administration would use these tools in protectionist ways given all of the safeguards and the differing interests that come to bear on any administrations deliberations. Even the supposedly labor friendly Clinton administration was not more aggressive in using GSP conditionality or anything else to suggest that it would be likely that these rules would be abused.

But even if you don't want to trust the Americans when it comes to contingent protection, there are safeguards that could be built into the process. One is simply to ensure that any use of trade-labor links undergoes multilateral review. The dispute settlement system, whatever its problems, has worked at least to a degree to give developing countries an avenue to protect their interests under the international trade rules. So point one would be to have the WTO subject the use of any linkage to multilateral review and, again, to limit any WTO link to trade-related violations and not use it to enforcing all labor standards.

A second safeguard would be to use Article 20 to link trade-related violations of core labor standards. Article 20 allows certain exceptions from the general rules under specified conditions. Article 20(e) already allows countries to ban products made with prison labor. f That provision could be expanded to encompass all of the four core labor standards, though defining what would be an actionable violation is the big issue here. But the advantage of the Article XX approach is that it allows you to take measures against only those products that are directly affected. I would call this a trade measure, not a sanction. And this would alleviate the concern that some people have raised that a trade sanction, could be used to target higher value-added export sectors that provide better jobs. For example, someone might take evidence of problems, say, in the low-wage apparel sector, and use it to target exports with better jobs, say in the electronics sector. Under Article 20, that would not be possible. .

Returning to the idea that there needs to be a multilateral review, a second safeguard would be to require any country taking action under an expanded Article 20 provision to show an ILO supervisory report, or some evidence from another outside body confirming that there is in fact a problem. In sum, there seems to be scope for at least thinking about a role for the WTO. I would not argue that these trade sanctions are going to be a panacea, but I think they should be available for egregious and otherwise unremedied violations that are related to trade or investment. Thank you.

(Applause.)

ROBERT LAWRENCE: Thank you very much. Many of my comments are basically elaborations of what Kim has said. Although we agree on many things, we are certainly not unanimous, as I will indicate when I get further into this presentation.

Firstly, I agree that labor standards can play an important role in development. If you think about the kind of components, the institutional components that are required for a development strategy, surely they include things like property rights, regulation, competition policy, and mechanisms to manage conflict. And I think in each of these areas, in all these areas, basically labor standards can play some role. By and large, I would refer – I'm referring here, as Kim did, to core labor standards. If effectively used, these can indeed raise incomes and improve working conditions.

Basically, one way in which standards operate is to save on transactions costs. They set norms. One example, although not among the core labor standards, would be a minimum wage. A minimum wage, even one set at a market clearing level, would not affect the aggregate level of employment, but certainly would ensure equity and indeed avoid morale problems that might arise in a market in which the wages were -- even the least well paid workers had to be bargained over.

Similarly, as Kim already elaborated, principles of nondiscrimination facilitate actually the optimal use of labor, and indeed encourage competition in the labor market. And, likewise, I would associate myself with her statement which had to do with the rights to organize and to bargain collectively. Again, as countries actually have developed, they have found it increasingly useful to have workers organized. That, again, allows for collective bargaining to take place for the setting of wages and is a mechanism for dealing with the inevitable conflicts that arise in wage determination.

Now, all of these standards can -- the devil, as they say, is in the details, because certainly they can also be used in counterproductive ways that could actually be a hindrance to economic development. In particular, if unions set up a system with privileged insiders, the outsiders in that kind of a system can well be hurt. The country in which I was born, South Africa, has a very powerful union movement, and it also has a 40 percent unemployment rate. Now, I wouldn't want to put the full burden of explaining its unemployment rate with union workers, but certainly there is a labor market there that doesn't operate very well, and I think it has to do -- that doesn't mean to say I'm against the principle of having unions participate. It has to do with some specific decisions which have been made.

I think, likewise, when it comes to labor standards, setting the wrong minimum wage can be counterproductive to development. Similarly, having restraints on the ability of firms to adapt to changing circumstances, through restrictions on firing and so on, can be counterproductive and discourage them from hiring. So I think this is a complicated issue, and it's precisely because it is a complex one that while I'm in agreement with the notion of core labor standards, I think it's one whose details have to be worked out on a case by case basis, given the setting of individual countries.

I do think, though, international standards can also play a role in dealing with some of these issues. Firstly, there is the potential for the Good Housekeeping Seal of Approval, an important role in setting of standards generically. Firms who have -- because of asymmetric information, firms often have -- will benefit if someone else can certify to the quality of their product. Likewise, since consumers do care about the conditions under which products they purchase were produced, a neutral certifier can help raise demand for those products. In addition, I think countries, as they determine which policies they ought to follow, require technical assistance and that's where an international institution comes in, and can learn from others' mistakes.

I think we also have to recognize, though, that the motives -- and let me turn now to the issue of what other kinds of international agreements should be used to support labor standards. I think here we have to accept that the motives behind the call for labor standards, particularly in trade, are very complex. As I see it, there are at least three different motivations. One is altruism, a genuine belief that these standards are required in order to improve the lot of workers in developing countries and elsewhere. A second is clearly a protectionist motivation, the desire to protect workers at home. A third motivation is one that is not often appreciated but I think I think is very powerful, particularly in the case of the United States.

If you go back and you look at the history of U.S. support for the International Labor Organization, John Winant, who was a delegate -- a delegate and then ultimately I guess president of the ILO, coming from the United States, his motivation was very, very interesting. What Winant said was that -- or what Winant found when he was governor of New Hampshire in the 1920s was that he had a tough time getting a federal minimum wage. And that's basically because the states were given jurisdiction over minimum wages, and while he could persuade New York and some other East Coast states to join him in setting a high minimum wage, he had a lot of trouble with the Southern states. And he then -- since in the U.S. Constitution international agreements have parity with federal law, by ratifying an ILO convention Winant figured that this would be a mechanism actually for getting a federal minimum wage.

And in fact it seems to me that this third dimension is far too often ignored. It's not a coincidence, in my view, that the U.S., with one side of its mouth, is an enthusiastic supporter of bringing labor standards into international agreements, but with another side of its mouth has refused to actually ratify the conventions in our own country. And it seems to me that a lot of the drive from the United States is an externalization of an internal conflict in the U.S. over the right kind of labor regime.

This points out -- this example points out to me the great dangers of actually using international agreements in order to effect domestic transformations. It's always tempting to use a trade agreement. Liberal economists are frequently enthused with the idea of using a trade agreement in order to bring about the social changes that they would like to see. I think ultimately these changes should be domestically driven. They do have to command consensus domestically, and I am concerned about imposing them on countries without the domestic support which I think is necessary for them to work effectively.

With that in mind, I am also concerned -- and, indeed, I think Kim gave us quite an interesting example of the slippery slope. She began by saying that she was only interested in trade related kinds of infractions, but she also mentioned that what she sought was an enforcement of core labor standards in the WTO rules, if I heard her correctly; only trade related core violations. I think that's a complicated road to hew, and I think -- well, I'd like to hear her clarify those.

But be that as it may, I am concerned about the use of these devices, particularly because it seems to me that there are basically two -- I gave three motivations for why labor standards are promoted in developed countries. It seems to me that there are two motivations primarily why labor standards are often not supported as being part of trade agreements in developing countries. The one is the group of developing countries who actually believe in labor standards but know that they have a real tough time in enforcing compliance. And it's not because they wouldn't choose to do so if they had the capacity. And it seems to me for those countries the right solution is to try to enhance their capacity, as opposed to trying to punish them in order to do that.

There are another group of countries for whom labor standards of certain kinds are actually seen as a dramatic political challenge. And the fact is you can talk about simply allowing some human rights in China, but I think what you're really saying when you do that is telling the current regime they ought not to be there, and they see it that way. You can talk about -- in some other countries about simple principles of nondiscrimination, which seem to us, and indeed are, fundamental human rights, but those regimes also will see these as a prescription for their political demise.

And so what you're faced with is the question of whether in a multilateral trade negotiation you want to exclude those countries, in essence, who are like that. Now, I don't want to include them in all arrangements and I don't want to do away with pressures on countries to improve their human rights in general and labor standards in particular, but I am particularly concerned that a demand on countries who are not yet prepared to implement those changes could -- well, basically what I think what it would do is stall trade negotiations, and that's why, ironically perhaps, I'm somewhat more friendly to the bilateral trade negotiations which can, it seems to me, be deeper than was Zanny in the last session.

I don't think all bilateral deals are good, by the way, and I would say again that the devil is in the details of those agreements. But where a country is quite willing to agree to higher labor standards, where it seeks to use an international lock in mechanism in order to enforce them, I quite frankly don't have a problem. So it does seem to me then that instead of a cookie cutter approach we have to leave a lot of room for diversity, precisely because I think when it comes to this set of standards, they can be counterproductive.

And also -- and this is where I'll end -- what's really critical is the policies that accompany them. If you look at the question of child labor -- it's a good example but we could go into others later on -- it's one thing to say, well, you ought not to employ young children, and, God knows, I think that's true. The question is where do they go if you don't employ them? And so obviously an effective strategy to deal with the problem of child labor doesn't simply involve a ban on their employment, but involves provision for them either to receive an education; it requires compensation to the parents to make good on the shortfalls in income for the household. And so it's essential then that complementary strategies be adopted.

It's like globalization in general. You can't simply follow a naïve rules-based opening of your economy without the supporting changes in domestic policy. And I think in exactly the same way; labor standards really, to be operational, need to be accompanied by a host of other supporting policies. Since I've run out of time, I'd be happy to go into some of those in the Q&A. So thank you.

(Applause.)

KIMBERLY ELLIOTT: While Anne is getting set up, I would just interject. If anybody had any doubts that IIE enforces a company line, this ought to do away with that perception.

ANNE TREBILCOCK: While she's setting the project up, I'm going to warn you that this room is going to sound pretty much like an echo chamber very soon. I think both of the co-panelists have already made a lot of points that the ILO would certainly agree with in terms of the usefulness of labor standards and how they contribute to development. I think if you look at the language of development, with the emphasis on empowerment, on participation, better governance (including of the labor market), stability, you see the ways that labor standards can underpin those things that are necessary for development.

But it's also true that in order for labor standards to fulfill their functions, which include enabling people to claim the benefits of wealth creation, to protect workers, to provide for greater security and stability, you need a supportive framework that includes macroeconomic, political and also administrative arrangements to make them realize their potential.

Now, as was pointed out, the range of labor standards really is quite vast, and it goes from policies around employment, social protection, to more specific issues of occupational safety and health and, of course, the core labor standards that we'll take a particular look at today. I think it's important to emphasize that labor standards are not imposed. They are the product of discussions between member states, between employer and worker representatives to the international labor conference. They are the product of that mechanism, and an international labor convention is voluntarily assumed; there's no obligation to ratify.

Once a convention has been adopted, most conventions contain what we call flexibility clauses. There are many ways in which a convention can be applied, so there is a wide range of different solutions, country-specific solutions, to meet an international standard. Conventions can also be updated, and they have been. The ILO's have been undergoing quite a renewal of its stable of international labor standards.

And I think the other thing to bear in mind is that international labor conventions are subject to a system of review that fosters transparency. It fosters accountability once those obligations have been voluntarily assumed by a country, whether it is developed or developing. Also important in the context of development is that labor standards fit squarely within the broader vision of human rights. And there is, of course, a major thought stream in the development community about rights-based approaches to development.

Mention was made of the four core labor standards. They come out of a process that began, some people say in the OECD, but also I think more specifically in the Singapore Declaration, which was picked up by the ILO to adopt what is called the Declaration on Fundamental Principles and Rights at Work. This was adopted in 1988, and it does focus on the four categories that Kimberly Elliott mentioned. I think it's important to see these as enabling rights for employers and workers. Freedom of association, in particular, is something that employers enjoy just as much as workers, and you see that right this week in terms of what's going on in Venezuela.

But more importantly, they are also enabling principles for countries and about how countries can position themselves in the world community. The previous slide focused on the obligations on all ILO member states under the constitution of the ILO, because the constitution is the basis for the 1998 Declaration. But this Declaration also imposes an obligation on the ILO itself, and that is to assist member states in realizing these fundamental principles and rights at work, and to encourage other international organizations with which we have arrangements to support those efforts by member states.

The Declaration itself also contains a follow-up mechanism, which is a way of producing information, both reports from individual countries that have not yet ratified the core conventions, but also global reports that take a more thematic look at issues such as forced labor. And you have an example here. There's a copy of the declaration at the end of this global report, Stopping Forced Labour. The Declaration itself contains safeguards. It stresses that it should not, nor should labor standards, be used for protectionist purposes. Indeed, it states specifically that neither the Declaration nor its follow up shall be invoked to call into question the comparative advantage of any country.

The preamble to the Declaration recalls the more political and economic context that produced it, and it recalls that social justice is essential to universal and lasting peace, something that is unfortunately all the more relevant today than it was a year and a half ago. It points out that economic growth is essential but not sufficient to ensure equity, social progress and poverty eradication. And it stresses the need for there to be universal respect for fundamental principles and rights at work as a basis for economic and social policies that are mutually reinforcing. As Kimberly Elliott pointed out, they are basically enabling principles.

But what has been the impact of this Declaration so far? One important thing is that we do have a universal definition of what fundamental principles and rights at work are. We know that it is these four categories, and we don't have a different definition across the multilateral system. We also see that there has been broad endorsement of the principles in the Declaration, including its links to employment, as we see in the Johannesburg Declaration adopted this past September. The Declaration has also produced a surge in ratifications of the core conventions: we have about an 85 percent ratification rate, and in some cases, forced labor and discrimination, it's over 90 percent of the member states. The Declaration has been a vehicle to stimulate an expansion in both the scope and also the depth of cooperation between the ILO and its member countries, with an important involvement of workers and employers organizations, and between the ILO and other organizations.

Now, what happens if a Convention has been ratified? I'm going to take one particular example that's been in the press a lot, Myanmar and forced labor. As I mentioned, upon ratification there is an ILO supervisory machinery that comes into play – and I apologize to those of you in the audience who are already very familiar with this, and also for going over it quite quickly. What's important about the ILO system is that it opens up the possibility for employers and worker organizations to stimulate a dialogue with governments. Increasingly, you see that where a government signals that it has the political will to improve a situation that the supervisory procedure has pointed out, there will be assistance forthcoming to help them deal with it.

But forced labor in Myanmar was a case where the political will was not present. Despite ratification of the convention on forced labor in 1950, there was no serious application of its provisions, and over the years the supervisory procedures pointed that out. To make a long story short, this led to the creation of a commission of inquiry under the ILO constitution. That commission of inquiry issued a very detailed report of findings of forced labor in very extreme conditions and made certain recommendations.

At that point the government still denied that these practices constituted forced labor. There was then an ILO conference resolution on Myanmar, calling upon it to implement the convention and inviting others to examine their own relationships with the government of Myanmar. Eventually, shortly thereafter, the government did start to amend the legislation that was causing some of the difficulties, but forced labor was still persisting in practice. This was ascertained by a high-level onsite visit. Eventually Myanmar agreed to what has been in place since earlier this year, which is a presence in the ILO in terms of a liaison officer in Rangoon.

Now, the situation is not yet resolved, and I will say that the pressure continues on the government to do what is necessary to actually enforce the orders it has issued to end forced labor, and indeed to have mechanisms of verification that in fact the problem has been resolved. So we're not yet at the end of the story here, but I think you see that over a period of time with sustained pressure you do get some results.

Now, a lot of the forced labor in Myanmar is related to public works and the forcible taking of the civilian population to help the Army in building roads and that sort of thing. One of the ways that the ILO works in a way alongside standards in a complementary fashion is to support labor intensive public works construction, but in a way that does not rely on forced labor, in a way that respects all the fundamental principles and rights at work. While no one can predict the future, if the government were to show the political will that they're really serious about doing things in another way, the world community would be forthcoming with some support on how to accomplish these development goals without using forced labor.

I think you've already had a good round from the other panelists about how freedom of association can support development. I would just add the importance of having institutions that prevent and resolve disputes in a labor relationship. To pick up on the theme of the morning, which seems to be "asymmetries", where you have a well functioning labor relations system which is based on freedom of association, you have social dialogue that corrects for information asymmetries. This can help to mediate change in a society, and can produce more equitable results within countries. That's one of the reasons the ILO is supporting social dialogue in connection with the poverty reduction strategy papers that are becoming the main vehicle of poverty reduction in the least developed countries.

Discrimination has been touched on a little bit.

SANDRA POLASKI: Close.

ANNE TREBILCOCK: There is an important dimension that involves ethnic strife. Gender has been mentioned. That's a key variable, particularly because discrimination disempowers women, and women have been seen as an important vector of development. But equally important is the ethnic dimension, and the fact that when you have discrimination in a society you have a threat to stability and to security. Child labor as well, there are crossovers between the existence of child labor and forced labor. There are crossovers from the presence or absence of freedom of associations and to the presence of unhealthy safety and working conditions, and there are crossovers to phenomenon like HIV/AIDS where you have a shortage of teachers impeding educational provision, and production of orphans who have to work (or who engage in prohibited child labour). Child labor is clearly both the result of and a perpetrator of poverty.

In terms of the ILO's own cooperation program, it was the issue of child labor that really got the ILO to move beyond its supervisory procedure to a system where there is a broad range of technical assistance, what we call technical cooperation projects. These include focused efforts on trying to eliminate child labor in particular sectors under time-bound programs and the like. We now have a more limited but certainly existing program of technical assistance on the other three principles as well, and there is an important new special action program on forced labor that focuses on trafficking and on debt bondage. And trafficking, I think, is a good example of how you see the downside of globalization and the threats to security, the undermining of the rule of law in a way that is both shocking in terms of human terms, but also very big business for organized crime.

Our cooperation has also been increased with development banks. There's an agreement with the Asian Development Bank doing work on gender, child labor, occupational safety and health and productivity. And, finally, I would mention that in our own programs we have what are called decent work country programs that incorporate standards as part of the means of action.

What's still needed? Well, I think one need is to have improved understanding of the dynamics of particular labor standards and development beyond the core standards. We require the development of stronger institutions of participation to facilitate change and to promote growth with equity. Another need relates to fundamental principles and rights at work to strengthen them, but to also use them more and to have them better flanked by macroeconomic, political and economic frameworks. Finally, as pointed out by several speakers this morning, we clearly need some enhanced policy coherence at the national and international levels.

Thank you.

(Applause.)

SANDRA POLASKI: Thank you, Anne, and thank you to all of the panelists. Is the microphone on now? It's not on. Now? Okay, thanks. I would like to take just 30 seconds, as the moderator's prerogative, to add a footnote to a point that Robert Lawrence made, which I think is a very important component of the discussion and is not always put on the table in this conversation. That is his discussion of the three motives for linking labor standards with international rules, such as trade or other international rules. He listed the third motive as being one of trying to obtain domestic policy changes through international pressure. And I think he's absolutely right, that is frequently a motive in these policy debates. My footnote is just to add two examples of where that motive was exercised not by developed country governments, but rather by developing country governments, in a way that I think was actually very positive and produced successful results.

One example occurred in the case of Chile. As you know, Chile and the U.S. have been in negotiations for a free trade agreement for a couple of years now, and one of the items on the table has always been the insistence by the United States that labor standards be included in any such agreement, including enforceable labor standards. The Chilean president, Ricardo Lagos, was elected on a platform which in part promised some long overdue changes in Chilean domestic labor law. Those changes in fact had been stalled in the Chilean legislature by vested interests. The Chilean legislature, you may know, has certain "super majority" rules, so you can't say it is a purely democratic institution.

The Chilean president used the fact of the trade negotiations to push through the Chilean labor law reform that he had promised the public. He said, in effect, "We will not get a free trade agreement with the United States until we have modernized our labor law to an adequate degree". And he was thus successful in persuading a majority of legislators to pass the labor law reform. And that, I think, is seen as a very positive development by the majority of the Chilean population, who supported his election on the basis of a platform that included such reform. It was certainly seen as positive by the Chilean government.

Second quick example: Guatemala. Guatemala has had a very, very backward labor law. As part of the peace agreement ending the long civil war, the government agreed that they had to modernize the labor law to give more rights to workers. The existing labor law was very unbalanced in favor of employers and against workers. It literally was considered to be one of the factors in the war, and therefore it was one of the commitments in the peace agreement. Nonetheless, the peace agreement ran for several years without those labor law changes that had been promised in the peace agreement, because they were blocked in the legislature by vested interests.

In 2000, the U.S. government began a review to decide whether to extend additional trade preferences to Central American countries under the Caribbean Basin Trade Partnership Act. And in the course of the government's review -- I was in the government at the time -- we reviewed the fact that there had not been progress on labor law reform in Guatemala. We said, basically, we cannot extend additional preferential trade benefits to you, benefits that by U.S. law are linked to respect for basic worker rights and international labor standards. We simply cannot extend these additional trade preferences to you until something is done to effectuate this commitment that you made in the peace agreements. And, indeed, the government of Guatemala was able to enact significant advances in their labor law—not total labor law reform, but significant improvements. And a very senior official of the Guatemalan government told me, we're glad you kept the pressure on us.

So this isn't just a motive that can arise in developed countries. It's a motive that can arise in any country, and indeed in some countries it's very important to be able to bring to bear the pressure of the international community to achieve a better, more equitable set of laws domestically. Having taken that moment of prerogative, I'll now open the floor to comments, questions, and observations from the audience for our panelists.

John?

No, behind you. John Audley.

Q: Thanks. John Audley, Carnegie Endowment. Anne, you didn't describe your relationship with the WTO. Would you, if you have one? Second, a quick question. In Chile and Singapore discussions, a new approach, the use of fines as opposed to sanctions, has been tabled by the United States. I wonder if the panelists would care to comment on it? And then to add to Sandra's footnote, our scholars here at the Endowment talk about China's motivation for accession to the WTO being to promote internal reform, and I'd like to hear Dr. Lawrence's comment with regard to that kind of external pressure voluntarily accepted by the Chinese government. Thanks.

SANDRA POLASKI: Terry Collingsworth.

Q: Thanks. I'm Terry Collingsworth with the International Labor Rights Fund. I'm curious, since there's a consensus among you for using international labor standards positively as a development tool, that not one of you mentioned the role of international business in encouraging the perpetuation of the current system; that by definition globalization means that there is international business transactions occurring, that someone is buying these products often knowing that they were made under substandard conditions. And I'm curious as to whether you have any thoughts about how to reach that question. Are there regulatory schemes that would assist in this process by focusing on the behavior of the companies that are involved in these transactions?

And then the second part of the question is: what is the organized opposition to this consensus of implementing international labor standards? What role does business play in that, and can you make their case? Why is it that a company would say, no, no, we're against the notion of extending the benefit of these labor standards to workers in the developing world? Is that there position? Is it simply wanting to keep prices low, or is there a more philosophical case to be made?

SANDRA POLASKI: Jerry Levinson.

Q: Well, I was struck by Professor Lawrence's concern about international pressure to bring about domestic changes, but we see that all the time in the international community. I mean, after all, the World Bank and the IMF are intervening all the time. I mean, the extension of conditionality, structural adjustment now and specifically in labor -- they now intervene in labor markets for what they euphemistically call labor market flexibility, which are measures designed to make it easier for firms to fire workers without significant severance payments. That's an intervention on the part of capital; that's not a neutral intervention.

The World Bank World Poverty Report, page 74, actually says that they can't unqualifiedly endorse freedom of association and collective bargaining because in their view it depends upon the economic outcome. So in the year 2002 we can't even get the World Bank to endorse the concept of freedom of association and collective bargaining as a core worker right and as a human right. So I'm just struck by -- since we're talking about asymmetric intervention, what we really have is a massive intervention by the international community on the part of protection of corporate property rights, and almost a complete abdication with respect to abuse of worker rights.

KIMBERLY ELLIOTT: Can I pile on here on Robert, because I wanted to go back to John's question in the earlier session and ask Robert where he would draw the line in the Doha agenda between what is acceptable and unacceptable external pressure for internal reform? Where in that agenda, from a development perspective, would you draw the line?

SANDRA POLASKI: Let's pause there. That's a long list of questions already, and let me remind you we have plenty of time. So we'll allow the panelists to comment on those questions and then we'll take another round of questions. I think we'll start with John Audley's questions first, to Anne.

ANNE TREBILCOCK: Thank you, Sandra. I did refer to the reference in the Declaration to international organizations with which the ILO has agreements under our constitution. This does not include the WTO. That being said, the Singapore Declaration of course specifies that the ILO and the WTO are to continue their cooperation. That is a cooperation which I would describe as cordial but light.

To give you some examples, our Governing Body has a Working Party on the Social Dimensions of Globalization. There have been invitations to the WTO representatives, including the former director general, to come and speak to the Working Party, and that has happened. There are meetings of a more informal nature between the current director general of the WTO and the director general of the ILO. But beyond that, there are not more elaborate institutional arrangements at this point.

We do have cooperative agreements with a number of international institutions, from the U.N. system to the OECD to regional groupings such as development banks in the Asian, African, Americas regions -- and as well with regional integration entities such as the Andean Pact arrangement. I would just like to mention something in regard to China. There is a memorandum of understanding signed between the ILO and the government of China, which calls for a long program of cooperation on a whole range of issues, and it includes the four fundamental principles and rights at work. So we may see some development there.

SANDRA POLASKI: Would any of the panelists like to comment on the question about fines versus sanctions as a remedy in trade agreements?

ROBERT LAWRENCE: Yes, I would. A number of questions have been addressed to me about the use -- how does this go on -- button? Now I've got it. A number of questions were addressed to me about the use of external pressure. I'm not against a variety of external pressures to encourage countries to improve their general human rights performance. I do think, for instance, that firstly the power of persuasion is a very important one, putting the light on countries, I think; in addition, providing incentives to countries, particularly since for many countries the issue has to do with capacity. It seems to me that simply using sanctions can be counterproductive under circumstances in which it isn't the question of a will; it's a question of inability to implement. Now, when it comes to the use of fines in general, I'm rather concerned about this development. For one thing, I have a view of the WTO as being a system based on reciprocity in trade. And I think when you bring fines into the picture you change the nature of the system very fundamentally.

Some people talk today as if the WTO allows trade sanctions. I don't think that's accurate. That isn't what happens in the WTO. What happens in the WTO is a country makes a concession, agrees to lower its tariffs, say, then doesn't -- in return other countries lower their tariffs. It turns out the first country didn't actually fulfill its obligation, therefore the other country is allowed to rebalance concessions. That's not a fine or a penalty. And I think if you move to fines, you change the nature of the system fundamentally.

Let me also add that the United States has a rather dismal record of fulfilling its international financial obligations when it chooses not to do so. You can go back to the Jay Treaty, where the United States Congress -- as you know, any fine would have to be appropriated by the Congress. We think always of these things being imposed on others; we should also realize they can be used against us. We haven't -- how long did it take us to pay our United Nations dues? Have we ever? Yeah. So you can see what happens when the United States is fined.

I actually think one of the -- the stroke of genius in the trading system is that the enforcement mechanism is self-contained. And I think to move to a system of fines actually would -- is not desirable. And I don't see why somehow trade is regarded as the holy of holies, in the sense that responses with trade are protectionist, but imposing a fine, which after all imposes a cost, is something we should -- you know, we should just willingly accept as an improvement. So I guess I'm skeptical of that.

I'm not against external pressure, but I think a system such as in GSP, which is designed to give preferences for those who meet certain conditions, is more likely to get the right kind of responses. Just let me finally add, on the question of China, the crucial element is that the Chinese themselves -- the Chinese themselves endorsed their joining of the WTO under the conditions which they negotiated with us. That's different, it seems -- and we could hold out for other kinds of conditions, and indeed if the Chinese see it as in their interest to sign an agreement which is going to implement human rights, labor standards and so on, I'd be all in favor of that.

The hard question, the really tough question was, was it a better bet to entice the Chinese into the WTO, despite their current human rights practices, in the hope that the dynamics of internal reform will eventually lead to improvement? It seems to me that was the choice that was made. And I believe that had we sought today from the Chinese leadership a meaningful commitment to human rights as we define it, I believe they would not be -- would not have been so enticed.

KIMBERLY ELLIOTT: Maybe just one thing on the fines issue. My concern with the fines is a little different. I share some of the practical concerns about how they would be used and put in place, and what the effects would be. But my real concern is with where the bilateral FTA negotiations are going with these agreements on labor and environment. The way they are using fines is a very elegant, very clever means of meeting the Trade Promotion Authority negotiating objectives, but essentially they take labor and environment off the table and do not really do anything serious to improve labor and environment conditions. So my concern is not so much with the fines per se, but that they are part of an overall package that just avoid these issues.

SANDRA POLASKI: Would any of the panelists care to comment on the question by Terry Collingsworth about the role of business, the stance that business has taken toward labor standards, and the role of regulatory schemes?

KIMBERLY ELLIOTT: I don't know that I've heard of any of them flatly say they're opposed to core labor standards per se. Most of it focuses on this issue of how do they get enforced and whether or not it's through trade agreements. And there are also some things going on the voluntary side. I think that's where the role is right now for multinational corporations; it is mainly with these private, multi-stakeholder, monitoring and verification efforts.

One of the questions, I guess, is whether it's possible to make anything meaningful out of the OECD guidelines, which now do have this reporting function involving national contact points. There is potential for that to be a mechanism for raising more transparency on what investors and multinationals are doing around the world in the labor, environmental and other areas. I don't see on the horizon any time soon any sort of formal regulatory mechanism on the investment issues .

ANNE TREBILCOCK: Thank you. I would just like to make a couple of comments about that issue. One is that I think it's very difficult to lump all employers together, and I think that's important to bear in mind. Look in particular at the employers who have come forward to participate in the Global Compact, which is an initiative of the U.N., together with business; it specifically includes respect for the fundamental principles and rights at work, the purpose being to bring to the fore good practices of companies which pledge not only to adhere to those principles but also other human rights standards and environmental standards. I would also mention the ILO Tripartite Declaration on Multinationals, which provides a framework of conduct, if you will. It's a voluntary instrument but it has a follow up procedure within the ILO that is, again, a source of information and some policy guidance.

And finally, where there are situations in countries where there are allegations of violations of freedom of association by a particular company within a particular national framework, those can be brought to the Committee on Freedom of Association of the ILO, which is a tripartite-type committee that issues decisions in relation to findings of whether there has been or has not been a violation of freedom of association within that context. So there are some avenues available in the case of employers which are not like those in the Global Compact who having adhered to those basic principles.

Thank you.

SANDRA POLASKI: Comments by other panelists on the private sector, the role of business regulations? If not, we haven't had a response yet to Jerry Levinson's question, though we've touched a bit on the question of international pressure on domestic policy. But we haven't had a response yet to Jerry Levinson's question about what he called the asymmetry of intervention, that the international institutions intervene on the side of capital but not on the side of workers. Does anyone want to talk about that asymmetry of intervention?

ROBERT LAWRENCE: I think one of the problems -- the real problems that actually free traders confront is that frequently the IMF is confronted with a financial crisis, and therefore has an opportunity to bargain with countries, and tends to make a lot of demands about structural changes which it thinks are in the long-run interest of the country rather than focusing on dealing with the financial crisis as ought to be narrowly defined. The result is that we have the implementation of liberalization at possibly the worst times, which is when the countries are undergoing the wringing out from a financial crisis. In addition, what the country is trying to do generally, although often unsuccessfully, is to keep its exchange rate rather strong. And yet we know that the best kind of macroeconomic policy to accompany a trade liberalization would actually be to have a weaker exchange rate.

So I think it's partly because of having to deal with crises, and erroneously, in my view, trying to extend the scope of what they ask for too broadly to too many structural considerations, as opposed to the priorities of dealing with the financial crisis; that frequently what they're seen as doing is being simply on the side of capital. I don't think it's really fair to say that what the World Bank is trying to do in its broader structural programs -- although that was a good quote you gave with the statement on unions in general. Certainly I don't think it's fair to write off all of the measures that the World Bank has achieved and is trying to accomplish by saying that they're simply on the side of capital. I don't think that's a fair characterization.

SANDRA POLASKI: Let's go to another round of questions. We still have ample time.

ANNE TREBILCOCK: Can I just add one thing on the question of the international financial institutions? There is acceptance at the highest levels, certainly in the IMF and in the World Bank, with the possible exception of freedom of association and collective bargaining, of the importance of respect for core labor standards. It is also true that sometimes this message does not seem to get down to the troops on the ground. And where that happens, there's a dialogue that ensues. We have regular contacts with the World Bank around the Poverty Reduction Strategy Papers, and the ILO has been very forceful in explaining that if you want to have country-owned poverty reduction strategies, you simply cannot have this without the participation by and of the employers and workers in that country. And I think that that's just a fact.

SANDRA POLASKI: Questions? Yes.

Q: Paul Tennassee, the World Confederation of Labor. I think one of the elements that you miss out when you deal with making a case for core labor standards is the lack of inclusion of the history of the labor movement in those countries. For example, in Latin America and the Caribbean you can't speak about the history for human rights or the achievements for human rights without including the struggles of the trade union movement. So it's not an external pressure for core labor standards. This has been a long struggle of peoples in those countries.

The second point is that I think that I don't quite agree with the last speaker fully with what she said about the IMF and the World Bank. I think my understanding is as you speak with these staff and the leaders of these global institutions, they are still in the days of slavery in a sense that in their mindset unless core labor standards can be -- it can be shown empirically that it is profitable, they don't support it. In other words, slavery, there were people who supported the end of slavery because it became uneconomical, not because slavery was bad. And I think we shouldn't have any illusions about this because the World Bank and the IMF have structural adjustment programs which force people to do a lot of things, but they don't do that with core labor standards, especially with the right to organize.

The other point I think we have is a serious problem that I think has not been touched here -- and I think increasingly it would become the center of a lot of problems in global governance -- is that we have a contradiction where all these institutions are supposedly intergovernmental. The ILO is intergovernmental. All these governments signed these conventions. The WTO is, the World Bank is and the IMF is. But none of the others respect what they signed at the ILO. If you look at Johannesburg, the declaration -- final declaration in 2002, every agreement was subjected to WTO rules. Go through it and you will read it. But when it comes to the ILO it's a totally different story. You have the buts and the ifs and a whole set of different language.

So I think we have a serious problem and we have to deal with the governance issue. What are we going to do about these governments that sign these declarations in one place and ignore them in another? What does it tell us about what is going on at that level of global governance?

SANDRA POLASKI: Elizabeth?

Q: Hi, I'm Elizabeth Drake from the AFL-CIO, and one thing that I found sort of troubling in Professor Lawrence's presentation was this supposed dichotomy between enhancing capacity and punishing or using sanctions, and the idea that simply using sanctions is counterproductive. And I don't think anyone anywhere is advocating simply using sanctions. I think every discussion of sanctions is in a larger context of enhancing the capacity of those countries that do have the political will to actually improve labor standards. I know the American Labor Movement has been very strong in supporting increased aid and technical assistance for those countries that are willing to improve their labor standards.

But the true dynamic in the global economy is those countries that are not willing to improve their labor standards, and those countries create more and more pressure on their neighbors to also reduce their labor standards, or not improve their labor standards. And I think China is the key example here, and I think the issues that Kim raised of South-South competition and what's going to happen when the multi-fiber arrangement expires are key issues. And in the last panel everyone pointed to the unfairness of textile quotas and tariffs, and it was implied that the solution is to simply get rid of all of those tariffs and quotas, and there's a question of who's going to benefit from that? How will those benefits be distributed both within countries within workers -- between workers and capital, but also between countries -- between developing countries?

China -- most studies that I've seen show that China will benefit disproportionately from getting rid of these textile and apparel tariffs and quotas at the expense of other developing countries that at this point are able to benefit from unilateral trade preference programs like AGOA and the CBTPA. So I'd like people's thoughts on that. Isn't that going to create more negative incentives for countries to lower labor standards? Isn't that going to speed up the race to the bottom? And it's not simply a neutral act to get rid of existing tariffs and quotas. It's not necessarily just pro-poverty and pro-poor and pro-workers around the world. There are distributional impacts.

And the final point that I wanted to raise was this question about one motivation is protectionism and another motivation is to improve U.S. standards. And definitely improving U.S. standards is a motivation of the U.S. labor movement, obviously, and we would welcome any country levying sanctions against the U.S. because we're in violation of ILO core labor standards, which we are. That would increase our bargaining power here within the United States to improve standards. And so I think that puts the lie to some of the protectionist arguments that we're willing to invite trade sanctions on the U.S. if it means that we will be able to improve labor standards for workers here in the U.S. So any comments that you have on that would be welcome. Thank you.

SANDRA POLASKI: Greg Schoepfle.

Q: Greg Schoepfle, U.S. Labor Department. I have a two-part question. The panel has focused fairly well on the ILO core -- ILO defined core labor standards, with the exception of Bob Lawrence's allusions to wages as examples of labor standards. But in the new Trade Promotion Authority, Congress has redefined the list of core labor standards, taking out nondiscrimination and substituting acceptable conditions of work. How does that complicate the question if we go from more of a rights-based standard to something which may be based upon levels of development?

Second part is really to Anne's point. How do we make a long story shorter and more transparent? I think the issue of alternatives to the ILO came up from the perception of the lack of the ILO being able to work for solutions to violations of -- or apparent violations of labor standards around the world. Is there a way of making the ILO more effective and transparent in terms of addressing issues? And is there another example other than Burma to point to, in other words, in terms of actually taking action? So is there a way to sort of address the feeling of the need to link with trade to get sort of what some people have called enforcement mechanism with teeth, as opposed to a solution that would be done through the ILO? Thank you.

SANDRA POLASKI: I think we can probably take two more questions and then we'll have a round of answers. Yes, in the back. Claude Barfield.

Q: I'd just like to follow up with a question that just came, and then an earlier comment by, I think, the guy from the International Labor Confederation. And that is the point was made that the ILO, like the WTO, the IMF, the World Bank, et cetera, is an intergovernmental organization. And that's actually not quite true. The ILO is a corporatist organization in that it has representation of both labor and management. I think that was no problem, and is no problem so far -- as long as the ILO is -- and let's face it, that's what it is, a kind of hortatory organization.

But if you come to the question -- or raise the question which was just raised here, that the ILO at some point might be given a role in leavening sanctions, it seems to me you have got major questions of democratic legitimacy there because the ILO, unlike the WTO, is not just represented by governments. I would only say in passing, we went through a phase such as this in the United States with the first New Deal where we had a regulatory system in which the government got into bed with government and labor, and we didn't have very happy results. And I think the same thing might very well happen on the international level.

SANDRA POLASKI: One more question. Mike Allen.

Q: Thank you. Michael Allen, Global Alliance. I was interested in the comments Kim Elliott made about promoting perhaps a different form of trade unionism in developing economies, partly because we've recently completed a series of surveys, one-on-one confidential interviews with just over 10,600 workers, largely in Southeast Asian developing economies. And the agenda that these workers themselves articulated in terms of their priorities and their priority needs and interests in the workplace were really around what I suppose we would call here a quality of work life agenda.

Yes, they were interested in decent working conditions and protection from arbitrary management abuses and so on, but they were primarily interested in human resource development issues, acquiring skills, health education and so on. And it seems to me that there is at least a kind of embryonic agenda here for a new form of trade unionism, what some people have called associational unionism, rather than the kind of wage bargaining-obsessed adversarial trade unionism that we've all come to know and love in the Anglo Saxon economies.

But the second point was really -- and I suppose this is my question -- in terms of the voluntary initiatives in the multi-stakeholder initiatives that have been referred to, the likes of the Fair Labor Association and SA8000 and so on, yes, there are global brands that are committed to these initiatives, but they are a tiny percentage of global companies that have global supply chains. Really, we're only talking about clothing, footwear and toys, if you like, Nike, Gap and Disney. These are the only companies that are in any way committed to codes of conduct and extensive systems of monitoring and verification, and even those regimes are problematic. How do we really generalize from those sectors and, to a certain extent, enforce the initiatives that are taking place at a country level?

If one looks at Vietnam, for example, Cambodia, and to a certain extent Sri Lanka, these are national governments that are committed to, if you like, a branding or a marketing exercise of themselves as labor friendly organizations. Again, that's problematic when one goes down to the company level, particularly when you've got at the enterprise level Chinese-owned firms with largely Korean managers operating in Vietnam, Vietnamese enterprise zones and so on. So how do we generalize the good practice from these voluntary initiatives?

SANDRA POLASKI: Thanks. I think I'll try to group together some of these questions because they are overlapping, and then allow the panelists to take them on as they will.

First, there were a couple of questions about global governance issues. Paul Tennassee raised the point that all of the commitments and agreements at Johannesburg, at the Sustainable Development Summit, were made subject to WTO constraints or disciplines, except any of the commitments on worker rights and the ILO -- that asymmetry again. And the comment was made about the ILO as a corporatist organization where governments, employers and workers together decide the rule. The question was asked whether, if there were a move for the ILO to become involved in some greater, more authoritative decisions or enforcements, such as sanctions or fines, if that would not raise questions of democratic legitimacy.

Would anyone want to comment on these governance questions?

ROBERT LAWRENCE: Yes. I think it is important to appreciate that the WTO, for good or for bad -- and I'm not so enthusiastic about this -- is a comprehensive single undertaking. You don't have the ability as a country -- although developing countries have some exceptions and often have more time to adjust; you take it all on if you sign. By contrast, it seems to me one of the great strengths of the ILO is in fact the fact that it has a set of core standards but then has a whole other host of conventions to which countries can subscribe. So it is of a very different character.

And while the core standards have been elevated to a higher rank, nonetheless it does seem to me that it would be -- while you can refer to the WTO's rules and, in a sense, most of those countries at Johannesburg who are members certainly have accepted through their national governments obligations to comply, by contrast when it comes to the ILO those countries, through their national governments, many of them have not accepted to comply with those norms. So it seems to me that's where we stand.

Now, on the one side it does seem to me that when we look at this from the standpoint of developing countries with very different kinds of capacity, that the ability to gradually ascend and assume increasing obligations is a great virtue. And I think one of the problems of the World Trade Organization is that the rules that have glibly been written by developed countries have been done so in ignorance of the kind of costs that simply implementing those rules actually impose on the least developed countries. So it seems to me when we talk about the enforcement of labor standards, we have to get down on the ground and realize that we're talking about countries who have grave difficulties in their administrative capacities and that they have to make some very, very tough choices.

That's why it seems to me that at the end of the day, it's not a question of trade or aid; they have to be complementary. And the more extensive international agreements are, the greater the corresponding obligations to provide countries with a capacity to actually implement these agreements. And I would have said exactly the same things about intellectual property as I would about trade agreements. They too, while appropriate for some countries at some stages of development, are not necessarily appropriate for all.

SANDRA POLASKI: Anyone else on the question of governance?

KIMBERLY ELLIOTT: A couple of comments. One, I think, on the comment really, not question, about the history of labor movements and the role in the past in promoting democracy and human rights and worker rights I think is a very good point to keep in mind. Also on Robert's point about government capacity, I think the aim of international labor standards has to be to empower workers to protect their own interests. And if you can do that, then you have much lower demands on government capacity to pass regulations and to enforce them. The more you have unions in the workplace, then the more I think it becomes a self-enforcing kind of a system.

On the consistency of rules among various international institutions, I think Anne mentioned the increasing collaboration or cooperation between the ILO and the Asian Development Bank. One interesting thing that I picked up in some of those documents was the idea -- which I don't think the Asian Development Bank has necessarily endorsed, that the development banks should require social audits on their own projects. They would not necessarily condition a loan or a project on the core labor standards, but a social audit would have several benefits. One, it would simply bring transparency to the working conditions in these projects.

Secondly, it would create a demand for auditing agencies-- whether they are for profit or non-profit, it would help to build up this market for standards and create a demand for these auditing and verification agencies that could then be used by multinational corporations, other donor agencies, whoever it may be. Right now there are very few such agencies and for the multinationals to consider requiring social audits would be one way to start to build up that capacity.

And my last comment is on Claude's question about the ILO's tripartite structure and giving it more teeth. I think that he's exaggerating the problem because, in fact, at least in the Burma case and the way I read the ILO constitution, Article 33 calls on the International Labor Conference to recommend to its members what action to take. But just as under the WTO, it is ultimately the government that decides what action to take. In the ILO as well it would be the governments that would decide what, if any, action to take, though the tripartite members, the employers and the workers, would also be involved in the decision on what to recommend. But it would remain the responsibility of the government to choose what to do and whether to act. So I think that the legitimacy problem is not as serious as Claude fears.

SANDRA POLASKI: We're rapidly getting toward lunch time, but let's have a quick round of responses on the question of competitive pressures between developing countries, whether this is pushing down labor standards even where governments might wish to maintain them within their own country, and whether the end of the ATC is indeed a good or a bad development for developing countries. Any comments on these questions?

ROBERT LAWRENCE: I actually think that there's an exaggerated sense -- implied in the question is an exaggerated sense of the power of labor standards. Most estimates suggest that membership in a union, certainly in the United States, raises wages by about 15 percent. So if you are worried about competition from a country that has a dollar a day wages and you were to wave a wand in that country and to implement the best system of labor standards you could, I would venture to suggest that the wages of those workers will go up to $1.30. And that would maybe be a generous number.

So it doesn't -- it seems to me that to the degree that there are -- so that's why I've never actually believed that those who say that the desire for labor standards are motivated by protectionism really have a very credible argument, because it seems to me that if you're worried about a low wage competition, labor standards aren't going to do it for you. Basically, they may moderate some of the wages, and in certain circumstances where rights are violated, you could well imagine advancing wages, but as a broad characterization, it doesn't seem to me that that's where the pressure is.

Secondly, I think it's important to note that there are some reasons, quite compelling in my view, to believe that labor standards may actually enhance productivity when used wisely. And that would mitigate the pressures for a race to the bottom, therefore, because they actually may pay for themselves and not give rise to the competitive losses. Not in all circumstances. They could be unwise, but they might do that.

I do think the point about China's competitive pressures on other developing countries is germane. There will be increasing pressures from China, and I don't think actually if we could wave a wand they would evaporate were China to adhere to labor standards. I think that inevitably as more and more countries – (audio break) -- there is going to be increasing competition. Now, the good -- one aspect of this is that we have seen incomes and wage growth in China grow considerably, not because of labor standards but because of increased productivity. China is a noteworthy example of a country that has made immense headway in alleviating poverty. So I don't mean to advocate the Chinese model in its entirety, but it does seem to me that at the end of the day what really will alleviate the pressures is economic development.

SANDRA POLASKI: Thank you. I'll give a moment to Kim and then to Anne for a final comment if you wish.

KIMBERLY ELLIOTT: I was just going to relate this to Mike Allen's point that there's only a small number of companies that are involved in monitoring and verification efforts right now. If labor standards have the positive effects that those of us who believe in them sense they will, then exporting companies are just the wedge, and presumably they'd get better results, as Robert was saying, in terms of productivity-enhancing effects and in terms of reducing conflict. In that case, presumably other firms in the rest of the economy would begin to follow and the government might also see advantages and begins to promote and enforce standards more effectively itself.

That may be idealistic, but one at least hopes that there would be spillover of that type. And I think I said in my comments that I think what Elizabeth was asking about was not a race to the bottom from the top, but from the bottom among developing countries. And as I said in my comments, that gives progressive countries a reason to begin to use labor standards as a marketing tool and to use standards as a way to differentiate themselves.

SANDRA POLASKI: Anne?

ANNE TREBILCOCK: Thanks, Sandra. Just quite briefly I would like to contest this old myth that the ILO has no teeth and that; it is not transparent. I think the refutation of that exists on our website where you simply have to look at the last reports of the Committee on Freedom of Association, the last reports of the Conference Committee on Application of Standards, the last published documents of reports from governments under the follow-up to the Declaration of 1998. You see that there is progress -- sometimes it takes time, but there is progress and you can see that these are human rights instruments. You compare that to other human rights regimes and the ILO comes out looking extremely good.

I think as well that it's important to look back a few years and see how this whole debate has evolved. It is very clear that it is no longer perceived as a north-south issue. There is an important south-south dimension, an important realization that labor standards can, under the right circumstances -- I would agree with Robert Lawrence about that -- be a powerful force for development. There is a global consensus on the core labor standards, and that is the base of moving forward.

At the same time, it's clear that we have some incoherent actions by the same member states, as mentioned by several speakers. The phase out of the Multi-Fiber agreement, as an example, is not something that has been imposed. It was agreed to by the same set of governments that agreed to have other actions under Monterey, Johannesburg, and the ILO Declaration. The real message here is the need for much greater coherence in the international system, but that will need to reflect greater coherence in national systems. Thank you.

SANDRA POLASKI: Let me just sum up the panel by saying that if Robert Lawrence's estimates are right and that implementation of freedom of association could improve workers' wages by about 15 percent, and that implementation of all the core labor standards perhaps by 30 percent, then that outcome is well worth fighting for, well worth struggling to find policy instruments to effectuate those results. And certainly for those workers, that marginal improvement in their livelihoods, their working conditions and their household incomes would be very vast.

And so I want to thank all of the panelists for making their contributions about how we can move forward along those dimensions. (Applause.)

Lunch is served outside in the hallway now at 1:00. You have plenty of time for lunch. We'll resume at 2:30 here for the final panel of the conference.

(END)

THE BROOKINGS INSTITUTION
CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE
THE INTERNATIONAL LABOR ORGANIZATION

MAKING GLOBALIZATION WORK: EXPANDING THE BENEFITS OF GLOBALIZATION TO WORKING FAMILIES AND THE POOR

PANEL IV: "SOCIAL PROTECTION: WHAT SHOULD NATIONAL POLICIES LOOK LIKE?"

PARTICIPANTS:

SEBASTIAN MALLABY, THE WASHINGTON POST

KEN ROGOFF, ECONOMIC COUNSELOR AND DIRECTOR OF RESEARCH, IMF

CAROL GRAHAM, VICE PRESIDENT AND DIRECTOR, GOVERNANCE STUDIES PROGRAM, THE BROOKINGS INSTITUTION

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CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE
1779 MASSACHUSETTS AVENUE NW
TUESDAY, DECEMBER 3, 2002
2:30 - 4:00 PM

Transcript by:

SEBASTIAN MALLABY: My name is Sebastian Mallaby. I'm from the Washington Post. I'm your moderator. As I sometimes say at these events, I'm always pleased when I get asked to moderate because in some cynical quarters of this city the notion that a journalist could exert a moderating influence on anything is regarded as implausible. So I'm very pleased when Brookings or Carnegie eschews this kind of cheap cynicism and makes the leap.

We've got a great panel. Over there on the right is Carol Graham, who is the vice president and director of governance studies at Brookings. She's also consultant to most of the international institutions that I've ever heard of and the author of more books than I think I've recently read. Next in the central quarter of the gamma quadrant we have Professor Ken Rogoff of Harvard and now also chief economist at the International Monetary Fund. Professor Rogoff is -- it's a bit of a pity to moderate him since he's extremely funny when not moderated, so I will try not to moderate much.

And on my left here we have Dalmer Hoskins, who is the secretary general of the International Social Security Association and has a long résumé going back before that in U.S. government service. So I'll keep it brief like that and start with Carol Graham. Everyone's going to speak for 10 minutes and then we'll open up for questions.

CAROL GRAHAM: Thanks, Sebastian. I'm going to speak from down here. (Pause.)

I've been working on poverty and inequality and social safety nets for many, many years. We have seen the pendulum swing from sort of the supposed universal provision of social services in the '60s and '70s to the virtual contraction of social policy during the early years of adjustment in the early 1980s to a flurry of programs for the poor -- after the publishing of "Adjustment With a Human Face" by UNICEF, which really highlighted the need for social safety nets. There was a real blossoming of these things called "social funds," which is a model of social welfare services that are provided "from the bottom up", so to speak. These are little funds that are set up to respond to proposals for need and then the funds are delivered through a semi-autonomous institution rather than through public sector institutions.

These safety net programs sprouted up everywhere all over Latin America and Africa. That was accompanied in much of the developing world by a move towards a much greater private sector role in the provision of public services, in the health arena, in the pensions arena, in the education arena with the move to vouchers.

And so now as we think about the question, what should social policies look like, I think a good place to start is: Where are we? What model do we have to follow? We clearly don't have any consensus on there being any sort of universal provision of public services being particularly viable from a fiscal standpoint for most poor countries. But it's also clear that this social fund model, which is very appealing in certain ways, is not an adequate provider of social services at the national level. All of the experiences with the new move from the private sector and the public sector arena show that there are some gains that can be made, but there are also cases where that doesn't work.

So really, where are we? How should we think about what social insurance policies should look like in developing economies where there are obviously limited fiscal resources and where we have lots of models to follow, but where there's often weak administrative capacity. Now, one of the things that happened with the whole move towards social funds on the one hand and private provision of public services on the other was that you moved away from a universal-like thinking about social services to an approach that was targeted towards the extremely needy, with the idea that alternative mechanisms, and often privately provided mechanisms, would take care of other levels of society.

This coincided with the whole Washington consensus move towards smaller, leaner states. And so the way the state provided social policy was smaller, leaner and more efficient. And certainly this social fund model for the provision of many public services, at least of social welfare safety net services, is very efficient and appealing because of that, because you circumvent the public sector. You can set up an outside corporation that's managed by a private sector manager that responds to demand from the bottom up. It's got all kinds of appealing things. In fact, the Bush administration has recently copied it with its setting up of the NCA account. Sort of forget the public sector bureaucracy providing foreign aid, let's set up a small, lean mechanism that works well, that's efficient, that responds to demand.

That clearly is a model that has a lot of appeal, and I've written a lot about the benefits of this kind of model, particularly in poor countries with weak administrative capacity. But what we find is that it's a model that also doesn't do very well at covering all of society and that as we move forward, this is probably a model we should build from, but maybe it's not quite enough.

One way to start is to look at what is happening in developing economies. What do we know about what's happening to people in terms of vulnerability and insecurity? You read a lot about vulnerability and insecurity. I'd like to take a slightly different approach that comes from my own research on income mobility and many -- a couple of developing economies, some of this in collaboration with Nancy Birdsall, and to just give you a couple of snapshots that might highlight how we might be thinking about what social contracts should look like going forward, and also that gives you a snapshot of what's going on in terms of public perceptions about insecurity and vulnerability.

First of all, what do we know about mobility in the developing economies? Well, one answer is we don't have a lot of good data because we have to follow the same people over time, but we do have some data. And this is just an illustration that I think is actually quite telling. This is a comparison between the United States, which is known to be sort of the land of mobility and opportunity, and Peru, both over a 10-year period. Now, Peru is -- you don't want to say typical -- middle income, developing country during a period of transition to the market. Now, just the United States -- this data is in income and the

Peruvian data is in expenditure, so the Peruvian data actually underestimates how much mobility there is.

Let me just briefly explain this. The vertical line is where people started up. These are income quintiles, these are where people start in an initial year. And the horizontal line is where they end up. And then this diagonal bold line is people that start and finish in the same quintile. So people in that bold line in the United States -- sorry, I'm covering it up. People on this bold line start and finish in the same quintile. So 61 percent of people that start in the bottom quintile are still there 10 years later in the United States, 60 percent of the people that are in the wealthiest quintile are still there 10 years later. But if you're interested in sort of rags-to-riches stories, if you look this way, one percent of the people that started in the bottom ended up in the highest quintile 10 years later in the U.S. Those are the rags-to-riches stories.

And if you look here at these, these are people that went downwards. So 3 percent of the people that were in the highest quintile in the United States fell all the way down to the bottom quintile, those are the riches-to-rags stories. So you get a sense this is a society where there is mobility, there is -- people move around.

What about a poor, developing economy where one assumes that there's less opportunity, less ability to go from rags-to-riches? Well, here's Peru during a 10 year period and if you look, there are even more rags-to-riches stories. Five percent of the people that started in the bottom quintile were still there 10 years -- went up all the way to the top quintile. I think that's quite impressive. And this is data in expenditure, and expenditures fluctuate less than income.

That's the good part of the story. There actually are with a turn to the market, get a sense that there is room for people to actually have opportunity. On the other hand -- here's the less happy part of the story and where the whole social contract comes in. And if you look at the fourth quintile, which is roughly middle class for Peru, only 32 percent of the people that started off in the fourth quintile were still there 10 years later, and an awful lot of them moved down. And if you look here, 11 percent of them moved all the way down into poverty. And quintile two in Peru is pretty near poverty if it's not poverty. So over 20 percent of the people that were roughly middle class 10 years ago are at or near poverty 10 years later.

What explains that? Why is there so much maybe upward movement, but also downward movement? Well, I don't have a complete explanation, but here's part of the story. These are wage differentials in Latin America in the 1990s, and what we're seeing is that even though one would have thought with the opening to free trade and the opening of capital markets that because Latin America has excess unskilled labor that unskilled labor would benefit. In fact, the group that really benefited from the opening to the market in Latin America were people with higher education, and this is higher education relative to primary. I think a very compelling line is this yellow line here, which is -- these are wage gains. If you look at this line here, people with secondary education relative to primary actually had a relative loss.

Completing a secondary education no longer gets you very much. But if you think about prior to the opening to free trade, people with a secondary education usually had a fairly stable, relatively privileged middle class life. Maybe it wasn't middle class by U.S. or European standards, but it usually meant a job in the public sector that was stable, if not perfect, and a certain amount of stability. And what we've seen, and as you saw from the mobility matrices that I just showed you, there's a lot of downward mobility for people that were in the middle. That's part of this story. Now what are people thinking?

One of the things that determines I think populations' views about social contracts and what the government should be doing is how they think they're doing. Well, this is Peru in the same period for which you saw the mobility matrices. And this is a survey I did with Richard Webb, who is based in Peru, where we wanted to see how people thought they were doing. We had objective data on people's income mobility and we wanted to see how they thought they were doing. We asked them how their situation today was compared to 10 years ago.

This is objective mobility, income change on this side and this is perceptions on the right, so how they answered the question. And what we find, these two bars here are the people that had the most upward income change, that almost 50 percent of them said that their situation today was negative or very negative compared to 10 years ago. So when we first got these findings we thought they were odd. We repeated the survey a couple of times to make sure it wasn't a timing issue, we broadened the sample, whatever. These are all people on our panel, we just got more respondents, and we kept getting these findings fairly consistently.

We called these frustrated respondents, people with positive income mobility but negative perceptions, our frustrated achievers. One thing that we thought was, maybe it's just Peru. I was born in Peru, maybe Peruvians are a little weird. Richard's Peruvian, we thought maybe it's Peru. But we then got similar data for Russia and we got an even higher percentage of frustrated achievers. What explains these negative perceptions? Well, part of it could indeed be what I call the "curmudgeon effect." There's some percent of every sample that's going to say things are bad, no matter how good they are. But that is in the realm of behavioral economics and I've written a whole book on happiness called "Happiness and Hardship," and if you want to know more about the curmudgeon effect, read that. But for our purposes, in terms of social contracts and social policy, what else is driving these frustrations?

Well, we actually find that -- we posited that maybe it was insecurity and vulnerability that was part of the problem. And indeed these frustrated achievers had on average a much higher fear of unemployment in a question that was posed to them, and all kinds of other fears about job security, dissatisfaction with their job, a number of things that suggested that they felt very vulnerable. We also found that these people were not the poorest people in the sample. In other words, they didn't start out at the very bottom, they were sort of in the lower middle or middle of the income distribution. So these weren't people that are very poor that are frustrated, these were people in the middle that are worried about falling backwards.

We also find -- and if you think about Peru or Russia or many of the developing economies, people in the middle have no unemployment insurance, so even if they have a stable job and things are going well today, they don't know how they'll be tomorrow. They're really -- most of the focus of social policy in the past few years during the whole adjustment period has justifiably been on the very poor. But we find that people in the middle are now very vulnerable to falling into poverty and there is no social contract.

The other thing that we find about these frustrations is that they correlate with less support for market policies, less support for democracy, more support for redistribution, and also with worse outcomes in the labor market. In other words, people with higher frustrations, higher fear of unemployment and who assess their economic situation in the past -- their past economic situation better than the present one actually perform less well in the labor market. They earn less income in future periods.

All of this suggests that these frustrations are bad for markets or for democracy. Now, everything we know about the United States OECD countries suggests that we need a middle class, a sort of satisfied middle class, that that's important to function in markets and democracy. And that this, in my view, among other things, this suggests that we start to need to think about a social contract in these societies that really includes the middle class, that no longer just focuses on the poorer through sort of ad hoc policies such as social funds and other kinds of safety net policies -- not to dismiss the importance of these policies, but that we need more than that.

We need to think about how could this be viable? Whenever you discuss this, most people immediately think, okay, well there are all these fiscal constraints, and indeed there are, and that if you started to talk about social contracts in these societies you would have a flurry or a wave of sort of calling for populous redistribution, that you would really have sort of this un-meetable demand for redistribution and expenditures and everything else.

Well, actually, I'm not so sure. Some of my new looking at data on people's views about redistribution, causes of poverty and other things in Latin America -- now, this is only Latin America, I can't speak for Asia or Africa or others, but this is just an illustration -- shows that actually there isn't this clear relationship between poverty or inequality and demand for redistribution. This is a graph where -- this is GDP per capita adjusted in PPP terms (purchasing power parity), and on this axis is the percent of respondents in these countries that responded in -- this is a question that says does your country need more productivity or more redistribution?

And we find actually that it's actually in the poorest, more unequal countries that a much higher percent of respondents says they would need more productivity. Within countries there is some link between being poor and supporting redistribution, but it's not straight forward and I'll talk a bit more about that.

What this suggests is that sort of poor people in poor countries are not necessarily going to, you know -- that if you started to talk about effect of social policy, that you're going to get this wave of support for unsustainable fiscal policies. Now, one of the things that I've done is compare attitudes about redistribution and about equal opportunity in Latin America and the United States, just to get a sense of, is Latin America more like the

United States with a big social welfare system or is it more like Europe? And I'll wrap this up quickly.

But just quite telling, the percent of respondents in Latin America in 2000 and the percent of respondents in the United States General Social Survey -- a large survey of the United States -- that says that poverty is due to lack of effort versus to other causes, circumstances beyond the poor's control, the percent is exactly the same. Thirty-six percent of people in the U.S. and in Latin America say that poverty is due to lack of effort.

The exact same percent of respondents in the United States and in Latin America thinks that their children will live better than they in the future, so one of the arguments that's often made about the United States' more limited social contract compared to Europe's is that people have a very strong belief in their upward mobility in the future, and therefore they don't vote for redistribution because they really believe that they will get ahead, that their children will get ahead, and they don't want a lot of taxation burdening that.

I'm going to skip a couple of slides. All of this is to suggest that we could talk about social contracts in the Latin American or developing country context without these fears that they will be driven by sort of unsustainable calls for redistribution. The most recent findings I have that I think are quite telling of this whole idea that the poor aren't necessarily going to be out there screaming for redistribution. In fact, I don't think they believe the state can do it effectively, which is another issue altogether.

This is from the 2002 Latinobarometro data set, region-wide Latin America dataset, and this is a question that asks individuals if taxes should be lower, even at the expense of social welfare spending. So taxes should be lower even if social welfare expenditure suffers. And traditionally in years passed if you've looked at any kind of question about taxation or redistribution, there's always been a very strong correlation between being wealthy and saying we should have less redistribution.

This is a year 2002 -- what we find here is that there's a negative relationship between answering the question, taxes should be lower, and being wealthy. We found this surprising. We even squared the wealth index to see if there was possibly an effect even higher at the income levels, that maybe our sample was missing something, but we still get this negative relationship. And then we even split the sample into -- I don't have the slide for this, but we split the sample into just the wealthiest half of our sample, saying, okay, these are the people that would be likely to be paying taxes, we get the exact same result where the wealthier are saying -- are not in agreement that taxes should be lower at the expense of social welfare expenditure.

I think this suggests is that people in Latin America, a region where there's a lot of vulnerability as well as insecurity, really are starting to see the need for a social contract, and that I don't think that social contract has to be sort of the classic view of universal expenditures with high levels of taxation, but that we can think quite creatively about it. And I think we have a lot of models to look at.

We have, for example, the social fund model. We've learned that the private sector, that NGOs, that non-state actors can be very effective in providing social services. Chile's unemployment scheme, for example, they're one of the few countries in the region that have an unemployment scheme, is based on individual accounts with employer and employee contributions. This is not a social welfare, social insurance policy that's based on a huge sort of level of fiscal expenditures at the public level. So I think we can look at all the models, all the different experiments with private provision of public services, with NGO involvement, with social funds model, but think about how that could be generalized into a social contract that included the middle class as well as the poor.

Now all of this sounds very optimistic, there are some big, big challenges going forward, and I'll stop right after this.

One is, without stable growth, which seems to be elusive for Latin America right now, it's very hard to do this. Growth rates are low in the region, there's a lot of volatility with very high social costs. And secondly, a second huge challenge is bridging the gap between the formal sector and the informal sector, and between the near-poor and the very poor. So they're challenges. How you do this? I'm not sure. A lot of people are thinking about this. I'm thinking about this a bit. These are obviously constraints to getting an effective social contract, but I think they can be overcome, and I do think there are a lot of models to follow if you look at the regions very rich experiment with all kinds of different models for delivering effective social services. And they don't have to be models that are fiscally unsustainable. I'll stop.

(Applause)

SEBASTIAN MALLABY: Thanks.

Okay, Ken Rogoff.

KEN ROGOFF: Thank you. I appreciate the opportunity to participate in this conference and I'm sorry I couldn't hear the earlier sessions which sound very interesting. Carol gave her remarks based on very detailed research. I'm just going to, I'm afraid, give you some very general remarks on the topic. And I guess one basic theme of my remarks is throughout modern history there's been a tension between the need for social insurance and the need for a dynamic economy, which involves a lot of change, and may create problems with social safety nets provisions. Are there ways to provide social safety nets and social insurance that don't lose the benefits of modern dynamic economies?

If you have a very static, homogenous economy, which is possible to keep very egalitarian, very equal, then there's no need for social safety net in your village. But it's also one which loses a lot of the benefits of modern growth. I think one broad question all of us face when we look at the question of social safety nets and poverty is should we be looking at this from a national perspective or should we be looking at it from an international perspective? And certainly from the perspective of many poor countries, they don't just want to think about the poorest people in the country, but the general level of income in the country. If the general level of income in the country is $600 per person, then if we look at everyone as global citizens, most of the people in the entire country are poor in some sense. So if we look at poverty from a global perspective it gives somewhat different insights from looking at it from a country basis. What it means to be poor in the United States is very different from what it means to be poor in Rwanda.

So if we look at poverty from a global perspective it gives somewhat different insights from looking at it from a country basis. What it means to be poor in the United States is very different from what it means to be poor in Rwanda.

If we look at things from a global perspective, the good news is -- to the extent there's good news -- that India and China have had significant growth, especially China, China the last 20 years, India the last 10 years. And India and China are home to more than half the world's poor, and this has had a very significant effect in diminishing the number of poor in the world. The exact numbers are hard to know because they're based largely on dubious survey evidence. But I would cite two problematic recent NBER studies by Xavier Sala-i-Martin and Surjit Bhalla that shows significant decline, although there's debate about this.

That's the good news. The bad news is that Africa is one of the poorest regions of the world, their population's growing very rapidly compared to other regions in the world, so looking forward, if we look at poverty from a global perspective, it's something that will likely rise if we don't do something soon about the overall level of income in Africa.

I want to speak a little bit about this issue of the tradeoff between a changing dynamic economy and the social safety net. I'm actually going to end up on Japan, which I realize is not a developing country but is a good illustration not just of the economics of this problem but of the broader political economy. And obviously all kinds of technology, globalization, trade, breed change. And this change is good for some people and bad for some people. Global growth is overall good and there are going to be more people who win than lose, and over time maybe whole generations will win, but within any given generation that's not true. I mean, autos drove out the horse and buggy, horse and buggy manufacturers lost. If we go back 25 years, computer typesetting drove out typesetters from the printing business, that took a long time but that was very traumatic.

There's this constant issue of how you deal with the fact that change causes some people to lose, while at the same time getting the benefits? And I want to point out that trade and technological change are very, very similar in this regard. And there's a story, you know, apocryphal teaching device, many of you have heard but I'll say it again. There's some inventor in a country that mainly produces wheat; the inventor figures out some way to turn the wheat into oil. He's justly celebrated and income goes up and he becomes a national hero. But then one day somebody finds out that, no, he was trading the wheat for oil abroad, and all of a sudden our hero becomes a villain for doing this.

And it really illustrates the fact that trade and technological change have very similar effects and this issue of trying to trade off between the efficiency of the economy and trying to provide equality really is at the heart of many of the debates about globalization and how one goes forward, and they're not easily answered. One thing I wouldn't say we do know, in the sense that I'm not sure we know anything for sure in economics, but there's been sort of an increasing view in the academic literature about the importance of institutions for economies and the importance of institutions in successful growth and successful globalization. There's a very large growing recent literature in economics looking at how various regions of the world have got very different institutions depending on how they were colonized 150 or 200 years ago.

An example In places where the Europeans lived, they set up much better institutions than in places where the Europeans basically didn't live and were just extracting resources. And the subsequent countries' national governments, after they became free of colonialism, inherited many of these institutions and it's very costly to change them. It's not easy. An example looking back at history is that Russia, of course, was conquered by the Mongols, but the Russian Czars inherited their tax system, their system of governance. That isn't something that changed overnight. These institutions aren't very easy to change.

Another point I would make, and there might be some debate about this, but I don't really think there should be, is that trade is fundamentally positive just as technological change is, although it is very important to find ways to deal with the social safety net issues, and I think in the broad sense that was Carol what saying. And a third point I'd make is that capital market liberalization is something that's much more nuanced when the benefits are, I think, reasonably clear when institutions are strong, when macroeconomic policy is strong. But the results are much less clear and more nuanced when that's not the case.

Speaking about the IMF, it has placed an emphasis on social safety nets in its programs to the extent it has any leverage over the issue. It works very closely with the World Bank which has the microeconomic and social expertise to really think about the specifics of these. And perhaps this is an aside, but one thing I find having come to the IMF is we're often accused of promoting austerity everywhere that we go and particularly regarding social safety nets and the poor. There are many criticisms about the IMF that I agree with but this is not one of them. I think this is more like observing where you see a lot of sick patients, there are doctors, and you conclude that the doctors must have caused it -- I think actually nearly the opposite is true, that the IMF typically relieves austerity in the short run, which is in fact why it's brought in. It relieves austerity partly through its loans and partly through the confidence that its programs build.

The governments typically come to the IMF when they completely run out of credit and no one wants to lend to them, often their citizens don't want to lend to them, and no one wants to hold their currency. They may have been running budget deficits for a long time, which is not always the case, but it's very often the case when countries come to the IMF. And when the IMF steps in and to the extent it provides loans, to the extent it builds confidence, the austerity is less than it would be otherwise. If you've been running a budget deficit of 7 percent and a current account deficit of 7 percent or 8 percent for years, and all of a sudden you have to balance your budget, you are going to be in for austerity. And if no one wants to lend to you any more, you're going to have to balance your budget. And in the first instance, and there are many, many cases certainly of emerging market crises where the IMF comes in and that's the situation.

Now, it is true that the IMF makes loans, it doesn't give grants and there's a case for thinking about that. So eventually the money is repaid, usually after the crisis has passed. This money doesn't go to private shareholders, it gets re-lent to other developing countries as crises emerge.

And maybe being slightly unmoderated, as Sebastian was saying, an analogy that I like to use, which is a true story, is that just after I got out of school, my older brother, Hal, ran into some financial difficulties. He and his wife Laurie had torn apart their small Washington apartment because they were going to replace all the plumbing and electricity, and at the same time she was expecting a baby and his business failed. He had a baking business and it failed and he was strapped for cash. He came to me for a loan. I gave him money unconditionally with no interest and he could repay it any time he felt like it, which isn't exactly a perfect analogy, I know.

And obviously Hal and Laurie faced a lot of stringencies. They couldn't finish their apartment for ages and weren't exactly eating meals out and going on vacations, but they didn't blame that on me because I had lent them money under these circumstances. And I admit this analogy is not perfect, but there is a core of it that I think is true and important.

Let me come back to this issue of social safety nets, which admittedly the international financial institutions have relatively little leverage over. I spoke in terms of there being a tradeoff between providing insurance and efficiency, but if you look at the political dynamic maybe that tradeoff -- having a good social safety net -- can diminish that tradeoff rather than increase it.

I think of very good examples in Japan today where I think most leaders in Japan full well understand that significant restructuring is needed of the banks, of the corporations, and you can throw in that they need to have fiscal stability, medium term fiscal consolidation, and deflation's not so great. But everyone understands that this restructuring is needed, but it is going to lead to unemployment. There are sectors such as the distribution sector and the construction sector which are extremely inefficient, and when the banks restructure and/or the corporations restructure, there will be a rise in unemployment. And Japan's capacity to deal with this is very limited. It does not have a strong public social safety net, much of it was provided through these implicit lifetime guarantees that corporations gave.

And this lack of a strong social safety net in the public sector is definitely a major element blocking change in Japan today. So it doesn't have to be that having a social safety net is totally at odds with growth, that in fact having a good one makes you feel better about being open to trade and technological change when you experience adverse shocks. These are very difficult problems and I welcome some of the results from this conference. That's all I have to say.

SEBASTIAN MALLABY: Great, okay. So now Dalmer Hoskins.

DALMER HOSKINS: I hope people in the room are not going to report back to Geneva to the ISSA Secretariat that I decided two minutes ago not to use the speech which I thought I was going to do. Because I decided after listening to the two previous speakers that it would be more useful to you perhaps to provide a third perspective on this issue, a perspective of someone who's working in an international organization with social security institutions, because the International Social Security Association is attached to the ILO but takes care of the institutions that actually pay the benefits of old age sickness insurance, disability, family allowances and so forth. And I've been doing the job for about 10 years and I'd sort of like to share with you the perspective that I've seen over this 10-year period.

What I have seen is in fact a growing crisis about social protection and social security. Bernard Kouchner, the former minister of Health and Social Security of France, said recently to me -- he said, "The only thing that is less well understood than social security is probably nuclear power plants." And I think he has a point, because in many countries around the world there is a real crisis of confidence in the future of these social security systems. And one could spend a long time here talking about all the factors that have come together to create that, whether it's in developing countries or in industrialized countries. Certainly a slowdown in economic growth is really at the core of this problem.

But further than that I think also the models, as we just heard Ken say, models were exported by the ILO, by the ISSA, by the colonial powers and so forth, and it became more and more apparent as we reached the '90s and into the 20th century that these models were not really working as well as we thought that they should work. Why? Abuse of the models was certainly a major problem, corruption. And I'm not speaking of really just putting the hand in the till, I'm talking about the fact that governments often in developing countries are keenly aware of the fact that the largest single source of capital of a country is sitting usually in pension funds belonging to social security.

And so these moneys, particularly in Latin America, were sponged off for various national development projects and the money is gone. And it's no wonder that compliance became an increasing issue in these countries as people saw and understood very well that when they came to claim benefits that it was not going to be at the level of protection that they had been told.

Beyond that there's another very big issue that Carol referred to that I think has created a tremendous credibility gap, and that is in fact that coverage stopped growing. It was assumed by I think my colleagues in the ILO and in the ISSA that we would see similar development as you had in Germany and the United States and Austria and France, Italy and so forth where the social security schemes began with a core of workers and the organized industrial sector was very much a part of the collective bargaining arrangements, workers and employees and their role in providing social protection, and the assumption was that that would grow over time to be a universal protection program, as it did in the United States.

Someone like Stan Ross, who's sitting in the room, who's a former commissioner of Social Security, can tell you that this growth took a long time in the United States. Today we don't think about that. But in fact it took decades for the United States social security program to become more or less universal. That did not happen in Latin America or in Asia, or in Africa. In fact, with the growing informalization of the economy in these countries, those national statutory obligatory social security schemes are either not growing or actually declining.

The figures coming out of places like Argentina, Brazil, Mexico and of course Eastern Europe now are really very sobering, as we see that the number of people actually contributing to the schemes is declining. This now creates a tremendous challenge for the ILO, for the ISSA, because it means that the models that we've relied on in the past have to be retooled, rethought and we have to do something that Carol mentioned, and that is assume that those existing models are not going to protect a large number of people in the rural sector and in the informal sector.

And so what will be the approaches for them? And I do agree with statements that have been made by both the previous speakers. There are fiscally responsible ways to provide social safety nets, there are techniques that can be done. But, my goodness, what a challenge we have facing us now, because in fact we have relatively little knowledge and experience in knowing how to fit together systems of social protection that are going to be extremely messy.

Some of it is going to be social insurance. Some of it is going to be social assistance. Some of it is going to be non-contributory universal benefits, such as are being experimented in places like Brazil and South Africa. Of course, a major part of it is going to be private sector managed insurance for health or for pension, and some of it is going to be those old ideas of the mutual benefit societies, cooperatives and other grassroots-based organizations.

Now, I wish I could say to you today that we are developing a comprehensive approach to this, that we know how these pieces are going to fit together to provide a decent level of protection for all these different categories. But I think that would be really very fallacious on my part and dishonest, because we don't. We don't know that. But this is a big challenge for my colleagues in the ILO as well as in the ISSA.

And it leads me to the question of what will be the role of these international organizations? And those of you who know the ILO well know that there's a long, long tradition of over 75 years now of conventions, of recommendations dealing with social security. If you want to go on to the Internet you will find a whole listing, beginning with the famous Philadelphia Convention 102 which lists standards for social security protection.

Now, there's no question about it that when you read those today, they may from time to time appear a bit quaint. However, those standards do still count because when I go to countries I talk to ministers and so forth, they are often very keenly aware of those standards and use them as a kind of a benchmark. I also see something happening which is a bit frightening to me as an official of an international organization, but I think it's going to come and it's going to come no matter what we people in the ILO or ISSA want, and that is what I would call the benchmarking movement. And that is that these institutions, these governments want to know how they are doing vis-à-vis their neighbors or vis-à-vis other people. And they want the international organizations to provide those benchmarks. They want measurements.

Now, this is quite extraordinary as we begin this century. This is very unlike what my experience was as a young official when most of the meetings that we held at the ILO and the ISSA, people came and said what a great job was being accomplished in their countries. Today, there is more transparency, more honesty.

(Tape change)

Today there is a new interest in measurement and evaluation . It's happening with great rapidity in the European Union, where of course you can see the politics of that, why they're measuring their social protection systems one against the other. But it's also happening because of something which makes a great deal of sense when you think about it, and that is computers.

Computers in the hands of these big administrations that pay pensions and healthcare benefits and so forth have provided the managers with all kinds of information about their performance that they never had before. And so the first thing they want to know is, what's the other guy doing? What's the level of benefits? Are the level of benefits doing anything about relieving poverty? How long does it take to get the benefit? What's the accuracy rate? How do women do? How do men do?

All these questions are now being asked because there's a tremendous flow of information going into the hands of these managers. And they're looking to the ILO, they're looking to the ISSA and other international organizations, and they say, okay, benchmark us so we know how we're doing. That's going to be quite a new challenge and a different kind of challenge than we've had in the past.

So I've been told that my time is up, but I would just finish by saying that I think one of the most severe problems that we face, and why we need meetings like this is the fact that the people that I work with, the managers of these programs themselves say to me time and time again, what is this program for? And it means to me that there has been an important change in the leadership at the national level of most countries. The core values that were mentioned today by Gerry, the principles of social protection that the ILO has espoused in the past are things which are perhaps not well understood by the people who are now in charge.

Now, why is that so? Well, because yesterday they ran the railway. They may have been the head of the national mines. And today they're head of the social security system. Is it any surprise that they don't know about the core values, the principles? Hardly. But it means that there is a lack of clear thinking at the national level on where the social and the economic fit together, and that is probably the biggest challenge. Thanks.

(Applause)

SEBASTIAN MALLABY: Thanks, Dalmer. Now, we're going to open up for questions in a second. But I'm going to exercise my prerogative to ask the first question, which is perhaps because I was asked to do this by a former Clinton official. What struck me as most interesting is the kind of third way opportunity in this discussion. The times when the obvious trade off between social security nets on the one hand and economic dynamism on the other, that circle can be sort of squared and you get a kind of win-win opportunity. And so Ken Rogoff mentioned, you know, the way that in Japan if you had better unemployment insurance it might be easier to undertake some of the structural reform that that economy needs to undergo.

My favorite example from the last 12 months of political economy in Washington is that it seems to me crazy that it took so long for trade adjustment systems to be included into the trade liberalization package, because you know, if you can win Democrats over by offering them better insurance for people who lose their jobs because of trade, you can then move forward on the trade agenda and generate the dynamism and growth that you want, because you've offered a better safety system. But it seems to me that the most extreme example of this potential sort of win-win came up, if I understood it right, in Carol's talk at the beginning where she seemed to be making the argument that there's some evidence that insecurity in the workplace can actually inhibit workplace productivity. It's not just bad for happiness, it's sort of bad for output.

And that's a pretty -- to me, a pretty new and striking notion, the notion that -- the idea that, you know, you need to have the goad of insecurity to make you work harder and be more productive is I think -- sort of underlies a lot of the commentary on Euro-sclerosis and so forth. I mean, so I'd like to ask you first, and maybe Ken could comment too, do you really think that the evidence on this sort of insecurity effect inhibiting output is stronger than the kind of counter story, which would say that, you know, the more acute the incentive to work hard, the more people will work hard?

CAROL GRAHAM: Well, this is -- I'd hate to generalize across sort of any kind of global level, because this is based on surveys in a couple of countries. But we've basically found -- first, as we did this research we found that there were all of these people that were upwardly mobile that we thought should be the most satisfied with the market, with democracy, the sort of most productive people in society. And we found that they were tremendously dissatisfied and insecure.

And so one of the follow up questions was then, well, does it matter? So what. If they express these frustrations maybe they're just curmudgeons, as I mentioned. So, do we care? Well, the answer was looking more deeply that, yes, we care because they actually are very clearly more anti-market, less supportive of democracy and we found that they perform less well. In other words, they -- given somebody else of the same income and education level, people with negative perceptions and higher fear of unemployment actually earn less in future periods. Now these are pretty new findings, but we're finding that they're pretty robust.

And I think it does -- I think one issue, if you think about the extent of insecurity, there's a range. I mean, I think there's a lot in the Euro-sclerosis kinds of arguments. Or if you look at the very -- the non-performing public sectors in Latin America or some of the developing economies several years ago, where workers had a tremendous amount of job security and no incentive to perform, and so that's one extreme that's obviously not productive.

But the other extreme is what we're seeing is that people that are nominally middle class face a very real threat of falling into poverty. In fact, we see that they fall into poverty and then they move in and out of poverty quite a lot, and that this seems to have a counterproductive effect on their overall -- on the one hand on their economic performance, and on the other hand, probably equally importantly, on their views about the system. I mean, who are they going to vote for? What kinds of policies are they going to support? Which, if you aggregate that, could result in very negative outcomes at the aggregate level.

So to the extent that some forms of social insurance could allay some of those fears, I think you could get a win-win kind of situation. And I guess the point I was making in addition to that is that most of the models that we're seeing for poor or developing economies are not models where people are either expecting or where designers of policies are thinking about sort of these very large public systems with a lot of redistribution, but actually models that really hinge on, you know, individual contributions and pooled insurance schemes, and all kinds of other things where one can be creative about creating more security in a way that does enhance economic growth and individual performance in the labor market.

SEBASTIAN MALLABY: Ken, would you like to comment?

KEN ROGOFF: I don't have any broad comments. It's a -- certainly it's an interesting hypothesis. Certainly we all feel in some sense that we live in this dynamic changing world, but it's kind of stressful. And that reflects itself in many aspects of life, and certainly the workplace is one. The American economy's a very dynamic economy and yet people, you know, move every seven years and are dispersed and not sure where -- the typical American might not even know what city they're going to live in, in 10 years. It's very different than Europe. The American economy matches jobs and workers much, much better than the European economy does.

But one could admit that there are trade-offs to this, so that's an interesting -- I think Europe probably is on the wrong side of the curve in terms of having -- it's extremely difficult to reorganize the workforce. The national wage bargaining in Germany is thought to, you know, considerably contribute to their almost 10 percent rate of unemployment now. But there are trade-offs to these things and I think it's important to investigate them, not just as economists but as sociologists.

SEBASTIAN MALLABY: Okay, let's go to the floor. Back there on the left.

ARNA HARTMANN: My name is Arna Hartmann and --

SEBASTIAN MALLABY: Arna, there's a mike coming.

ARNA HARTMANN: My name is Arna Hartmann, I'm from the World Bank, primarily with experience in East and Central Europe and Africa. Now, I would like to make a rather provocative statement, in the sense that in the globalization debate where we're looking at the question of how can one buffer the impact of -- negative impacts of globalization in local economy, I argue -- I would state that the role of social security and social systems in which it can play is vastly overrated. Now, why do I say this? We very often talk about this debate -- place it in the debate of social security in distribution policies vis-a-vis growth policies. Is it fiscally sustainable? Is it a model one can follow? Does it impede economic growth? That's a very relevant question in those countries where there are institutions and where there's social consensus and where you can have a social compact.

I would argue in many of the developing countries, that's not even a question. I mean, as Ken said, in many countries if ever you try to a bad macroeconomic crisis, the issue is not whether there is money to increase health expenditures from two to four percent or whether we'd use it. The issue is how to get it there. There are no institutions which can deliver the services. And if they deliver those services, it goes to the wrong providers. I mean, yes, you can pump up the expenditures but then it ends up in the tertiary hospitals. So the institutional underpinnings to the distribution patterns are in many of the developing countries not even there. That's point number one.

I mean, I myself, my own experience, I was massively involved in East and Central Europe using government -- very senior government officials, thinking how we can target $10 families child assistance efficiently to the right family. At the same time the agricultural bank went bust and massive amounts of money were lost. Banking supervision didn't take place. I'm trying to say that this debate is necessary, but we should not overstate what it can actually contribute that instrument in many of the countries.

My second point is that where the increasing change impacts of globalization, financial systems collapsing, GDPs going down by 10 percent, enterprises collapsing, the institutional oversight is so important for social protection and welfare that we have to really put that on the map as part of social protection. I mean, banking supervision, ownership rights, rule of law is often more important to the welfare of the poor than the $10 we hand out through carefully defined targeting systems.

In particular, while the swings in globalization are getting bigger, capital flowing through, commodity prices changing, technology changing, the importance of institutions as an instrument of social protection I think really has to be put on the map.

DALMER HOSKINS: I think I would agree with 90 percent of what you said. There's 10 percent that I wouldn't. The bottom line often in building a social protection system is getting the money to finance it. And therein lies probably one of the greatest challenges in Eastern Europe or in Africa or anywhere, and that is that there has to be some kind of income tax collection system or some way for the government to get revenues.

And that really throws light on the weakness of most governments and most public institutions, because in many of the countries of the world which have a social security system in place, take the Philippines or take Indonesia, one of the reasons why the population is not sufficiently protected is because of the weak capacity of the institutions. If a country like, well, let's take Mexico which is much closer to us. If the law for the pensions and health insurance system was administered as it should be, about 60 percent of the labor force would be covered. The true number is probably only 30 percent, and a lot of that is due to the lack of institutional capacity, the inability to collect contributions and to identify people to keep adequate records.

So it's extraordinary. And I'm glad you mentioned Eastern Europe, because I can't tell you how many meetings I've attended in recent years where we sat around debating about the different models, public protection, private protection and so forth, and then when I came back two years later found out that it was in a bad state of affairs because the institutions that had been given the reform were not able to do it.

SEBASTIAN MALLABY: The problem seems to be that weak institutions become an argument for not giving money to them, and if you don't give money to them they stay weak. Sorry, do you want to --

CAROL GRAHAM: Well, I just wanted to comment maybe on a slightly different aspect of the comment. I certainly agree with you on the whole problem of weak institutions and particularly on this tax collection point. But that said, I think we've made some headway in thinking about models where countries that don't have institutional capacity or they have very weak public institutions where one can take advantage of other kinds of organizations and other ways of delivering benefits, it can be pretty effective.

And I think this was pioneered in Bolivia, in a very tiny, small country with very weak institutions in the mid '80s with the emergency social fund, where the fund was set up outside the public sector. A very small fund administered by 20 people with a couple of guys with private sector backgrounds basically running the fund, and consulted with people that knew about poverty, about social welfare services. And in the end this little fund was not only tremendously effective at administering a lot of both government money and foreign aid, it was particularly foreign financing in the case of Bolivia, but it doesn't have to be.

But the point is that this became a model going forward for delivering social services more generally, where taking advantage of local institutions, taking advantage of NGOs that were very good at health services delivery, taking advantage of rural organizations that in Bolivia are very vibrant, it became the way that they now both make decisions about how to allocate health and education services and how they actually provide them. These institutions are part of the process.

And so you have a situation where you're building a different kind of institutionality, it's not the kind that we envision from the sort of centrally driven public administration, but it's an institutionality that's developing in Bolivia, and institutions ultimately are endogenous to the context in which they develop. And it's a model that's been so effective that not only was it copied all over Latin America and Africa, but as I mentioned before, the MCA is really a social fund model, and this was an institution that was built in a country with no institutions starting off.

I agree with the constraints posed by weak institutions, but I think you can get into a sort of catch 22 situation where you say, well, if countries have weak institutions they can't grow, they can't have social policy, we can't give them aid, so where are we, because we really don't have any kind of recipe for going into countries and building institutions.

SEBASTIAN MALLABY: In a sense the new global fund for AIDS and TB and malaria is supposed to be a bit like that in that it can disperse grants directly to hospitals run by religious organizations or whatnot. It doesn't have to be money disbursed to government where the institutions may indeed be weak.

Do you want to say anything? Right here in the front.

JOHN LANGMORE: I'll probably have to shout. I wanted to raise a question about --

SEBASTIAN MALLABY: Could you identify yourself?

JOHN LANGMORE : Yes. My name is John Langmore. I work for the ILO, but you mustn't blame the ILO for what I'm about to say. I wanted to raise the question about whether there are really any countries that are so poor that they shouldn't have some degree of social protection. I used to be a member of parliament in Australia and I came to the conclusion that people in the electorate wanted above everything else security. And security is a complex concept and there are many dimensions of it, but part of it is having some minimal income support.

And I think probably that's an element in the thinking of most people in most places. It may not be, but you can challenge that if you want, but I think it's probably true. If that's true, then are there any countries that are so poor that they shouldn't aspire to some kind of social protection system. I'd certainly strongly agree with Carol's empirical observations. Her research results, they seem to ring true to me absolutely.

I had a very interesting -- heard a very interesting presentation from SEWA, the Self-Employed Women's Association in India, which represents about half a million very, very low income women. And they've set up a micro insurance scheme with tiny contributions to be drawn on in major emergencies, and there was an education program to do it, but they were doing it. It was a -- it's a non-government organization and it was serving some purpose in that situation. That's one model of which and there are many others.

But so I'd just like the comments of the panel on whether they think there are really any countries that shouldn't aspire to have some kind of social protection system.

SEBASTIAN MALLABY: Who wants to take that?

CAROL GRAHAM: Well, I think the answer is no, there's some form of social protection, or should be some form in every country, and what you find in countries where the government doesn't do it, I think usually you find that people organize themselves in some way. It may be imperfect, but just a couple of examples.

During the hyperinflation in Latin America in the late 1980s I worked in several different countries. Peru was one where a very dramatic adjustment program was implemented virtually without any kind of social safety net, at least for the first couple of years. And people had no jobs, no money. The urban poor were extremely, extremely poor during this period and they organized themselves around pre-existing organizations, soup kitchens, mothers' clubs, whatever it was and very effectively made less resources do for more people in sort of a pooled insurance, pooled cooking, all kinds of other schemes.

Now, these are very, very, very bottom level, self-survival kinds of things, and one can argue that they can also be poverty traps, because if you are in a pooled insurance scheme you may not look for opportunities beyond your neighborhood or all kinds of -- they're not perfect solutions. But the point is that through, you know, bottom up collective organization a lot can be done in terms of protecting the vulnerable, and often they're -- often if the government doesn't step in or if the international organizations don't step in, people do it themselves.

And one of the tradeoffs when external actors come, and I certainly saw this in the case of Peru as well as some other places, is when governments -- often inefficient governments with weak institutions came in with, okay, we're going to protect the poor and often with political designs behind that objective. They often disrupted very valuable pre-existing group insurance schemes and group insurance systems. So I'm not sure this really answers your question, but I think what the point is that in very poor context there's often a lot going on from the bottom up, and that one should be quite cautious before dismissing it and also should try and build from it.

SEBASTIAN MALLABY: Could I ask a follow-up question which might draw on your expertise in happiness? The one article I've read about this --

CAROL GRAHAM: Much nicer talking (cross talk) social security.

SEBASTIAN MALLABY: -- the happiness -- my favorite happiness article argued that happiness is basically correlated with income. You get happier as you get richer up to about a cutoff of something like $10,000 per head. And then once countries carry on developing beyond that level, there's as mysterious failure of correlation. People don't seem to get much happier even though they're getting richer and richer and richer, which would argue first of all for massive transfers of foreign assistance from rich countries to poor countries, because the extra cash will generate more happiness in the poor countries. But it would also set in a sort of interesting context, Ken's opening remarks about the tradeoff between dynamism and safety nets.

If this $10,000 tipping point has any truth to it, it would suggest that we should have a lot of safety nets in rich countries because we don't need the extra dynamism and growth all that much, it won't make us a whole lot happier. But, we shouldn't go for such a strong tradeoff in poor countries because we do need the dynamism and that will make people happier in poor countries, because there the correlation between growth and increased happiness holds. Does that chime with what you know?

CAROL GRAHAM: Well, it does. Maybe one part of your story that might not totally fit, but you're very right. At the very bottom income levels more money makes people happier, and after a certain point when basic needs are met, what happens -- what matters to people is keeping up with the Joneses, it's what their neighbors have. And we have all kinds of evidence of people with the same income level, if you have -- one of them lives in a wealthier neighborhood, they're less happy than the one with the same income level in a poorer neighborhood, because their reference point is higher.

So you're -- the point that if we -- that getting poorer countries up, yes, more just sheer dollars in those circumstances, an extra dollar to a poor, hungry person is going to make them happier. From my own surveys, it was middle income people that were more concerned about insecurity and dissatisfied with their upward mobility, while very poor people were much more satisfied with just getting ahead a little bit.

So that part of the story is quite important. After a certain level of income, things like secure employment, marriage, health, all kinds of other things seem to play a role that's as great if not greater than income. One thing though about -- you're placing more emphasis on security in the developed economies and sort of not worrying so much about the dynamism. One finding that might contradict that is that unemployed people are very clearly much less happier than other people. But studies have been done that show unemployed people with full income replacement are still less happy than others.

In other words, it's not just the insecurity of being unemployed, that's a big part of it, but it's the whole issue of identity with employment, with a decent job, with being a productive member of society. And so then maybe you can't get beyond the sort of dynamism versus low growth trade off as easily. But certainly in the developed economies I think you have a -- the money versus happiness trade off is there.

SEBASTIAN MALLABY: Do you want to add to that?

KEN ROGOFF: Yeah, I'd just make a couple of points and then respond to the original question, which is somewhat rhetorical because clearly every country, if they had a good social safety net, could benefit from it.

In fact, there are quite a few studies that show that villages which are largely autonomous in poor countries have very good social safety nets, because everybody knows each other and they're able to insure each other, albeit at very, very low levels of income. And if they traded with the other villages, the insurance would be harder but they might grow faster, and that's a trade off. So I mean there are many mechanisms for social insurance.

At the same time, it doesn't mean it's not possible to make mistakes in trying to construct social insurance and safety nets, that you could imagine through the lens of a government that didn't have the best institutions perhaps having a program which was very expensive and didn't benefit people equally. So a bad social safety net is not necessarily a good thing. But any country that can develop a good, efficient social safety net, it's a good idea no matter how low the level of income.

DALMER HOSKINS: I wanted to respond to John Langmore's question with just a very personal opinion, and that is that I think no matter how poor a country is, probably what it deserves first is health. And that sounds so simple, but in fact when you look at some of the projects that are going on in very, very poor countries, it's kind of surprising that they often start with pension policy. There must be a reason for that. We can speculate on that.

I have my own reasons why I think it's pensions and not health. It has to do with the Ministry of Finance often. But organizing health is really, it seems to me, a priority for the very, very poor. And there are some very interesting experiments going on at the grassroots level in providing primary healthcare at the village level, grassroots level, and the ILO is very active in that area.

I wanted to just get one last shot on this institution building. It's not so desperate as it may sound to all of you. I was recently in Gambia and I was visiting the government and the Social Security Institution and they were showing me some really very sophisticated record keeping techniques, identification of workers, employers and so forth, taxation system. And I said, "Gee, what consulting firm did you get this from?" You know, "Is this Price Waterhouse or what?"

And they said, "No, no, no, we got it off the Internet." I said, "You got it off the Internet for free?" And they said, "Yup, we got it off the Internet." They had got it off the Internet and they had started to implement it. Of course, there were a lot of people there with an education to be able to take advantage of that kind of information.

The critical thing for a place like the Gambia is, however, how to protect the money once it's collected, because there are so many temptations from ministers and so forth. And there is where I wish that the ILO and the IMF and all the other organizations would look at how we can develop firewalls to make sure the monies are used for the purpose they were intended. Now, that probably means strong boards with worker and employer representatives, or transparency. I know democracy is the easy answer. But there must be all sorts of techniques that have been developed over the decades in other places which would be applicable, because that is at the core of institution building, isn't it?

SEBASTIAN MALLABY: There was a question right in the back from the gentleman there.

MR. : Yeah, I think the lady --

SEBASTIAN MALLABY: Okay. Sorry, let's go to her then first.

ANNE TREBILCOCK: Thank you. My name is Anne Trebilcock from the ILO. I had a question about the data from Peru. It looked to me like the timing of when you had these drops in -- when you had people moving from the middle class to poverty and when you had less return on secondary education coincided completely with the coming into force of some pretty radical labor law reform in Peru. One main feature of that reform was to create new categories of workers, who were no longer considered employees and therefore were no longer coming within the legal framework to be covered by the social security system. And I just wondered if you could comment on that. Thank you.

CAROL GRAHAM: I think, you know, probably within our sample there might be some workers that indeed had taken -- this was a way of trying to reform what was one of the more rigid labor laws in Latin America by allowing people -- companies to use temporary contracts. I mean, I don't have information on whether individual respondents were on temporary contracts and got laid off, but it's equally likely that the same -- that those -- that that scenario, which is a plausible one, could also be a respondent that was working in the informal sector and got a temporary contract working for a company, which was better than his or her informal sector job. So it is really hard to say how that would play out.

It was a period -- this data covers a period of both fairly dramatic adjustment, although it starts almost at the end of the adjustment and a very, very large growth boom, 14 percent growth at one year, and then an adjustment at the end of the period. So it's hard to make the case that the trends are driven by extreme recession or lack of growth, because there was quite a lot of growth and then a minor adjustment at the end. So I just -- but I would be -- and also, given the percent of workers in Peru in the formal labor force, which is less -- I think it's about 50 percent, if that, again I wouldn't think the results would be driven by the temporary hiring law and that if -- to the extent it came in, it could play out in either direction. At least half our sample are workers in the informal sector.

SEBASTIAN MALLABY: We have time for one more question. Right here in the front.

BILL DOUGLAS: A comment, if I may, rather than a question.

SEBASTIAN MALLABY: Could you identify yourself.

BILL DOUGLAS: Bill Douglas from the SAIS International Development Program. And in regard to the question of whether safety nets are a trade off with the changing dynamic economy or a support of it, I was just reflecting as Dr. Rogoff gave the example of Japan where if they had a better safety net they could probably get more dynamic change. I've been reading a lot of Danny Rodrik and the basic message of both of his two most recent books is really that social safety net and domestic institutions for conflict management over costs of adjustment are a necessary condition for a dynamic growing economy. So he would vote on the side that they're not a trade off, that they are mutually supportive. Just a comment.

SEBASTIAN MALLABY: Well, since Rodrik sometimes has been known to criticize the IMF, perhaps we should get Ken to answer that.

KEN ROGOFF: Well, without implicating myself in every statement in Danny's book, I mean a well designed social safety net is a good thing and clearly (inputs in ?) conflict management are absolutely essential (off mike). That said, you know, there is -- it's very easy to -- you can't make sweeping generalizations about these things because, as Carol said, each setting is completely different and what arises when you set about to design something that is completely different from the panelists. And I think, looking at Europe, that's an example where it's very clear that they have reached a point where the social safety net model particularly points to their retirement and medical benefits are -- if not changed over the next 20 years, will cripple growth.

SEBASTIAN MALLABY: Okay. Well, thank you very much. Thank you to all the panelists and thank you to the questioners.

(Applause)

LAEL BRAINARD: I don't know if you can all hear me. I just wanted to quickly thank this panel, which has been terrific and very thoughtful, and also thank the organizers of this conference again, Karen Tramontano. A round of applause for her for bringing us all together.

(Applause)

And thank you very much for the ILO. I think this is fairly unusual for the ILO to join the think tank triangle here in Washington DC. It's been very productive, certainly from our point of view, to have you engaged in these discussions. We're happy the IMF and the World Bank have taken part through several of their experts. And I hope that this work will help to inform the World Commission, as well as some of the experts in this room as they continue their work.

I was pleased to note that Sebastian noticed that this panel has now turned conventional wisdom on its head. It appears more social safety nets are good for globalization, and I think the former panel suggested that more labor standards are also good for globalization. So I think we've come to some rather startling conclusions here today, and I hope those will continue to inform the debate. Thank you very much.

(Applause)

(End)