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GLOBAL INEQUALITY:
IS THERE A ROLE FOR GLOBAL GOVERNANCE?

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PARTICIPANTS:

Introduction and Moderator:

FIONA HILL
Director, Center on the United States and Europe

Featured Speaker:

FRANÇOIS BOURGUIgnon
Director, Paris School of Economics

Discussant:

KEMAL DERVIŞ
Vice President and Director
Global Economy and Development

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P R O C E E D I N G S

MS. HILL: Ladies and gentlemen, I would like to begin this evening's events. I hope everyone was able to join us next door for refreshments and I noticed actually some people have brought them in with them, so feel free if you didn't manage to get a refreshment to -- before they close it down -- to get one and come back in and join us.

I'm Fiona Hill, the director of the Center on the United States and Europe and I am delighted that you have been able to join us here tonight for what is the seventh Raymond Aron Lecture.

As some of you will know, this lecture series was launched in 2004 when our Center on the United States and Europe grew out of our program on France, which was set up thanks to the efforts of Phil Gordon, who is now the assistant secretary for Europe at the Department of State. And as 2004 was sometime around the centennial of Raymond Aron's birth, there was a decision made to name a lecture series we had been planning for some time in honor of this great scholar, writer, and philosopher and also to provide a forum for continuing our program on France in a very meaningful way, and to be able to invite distinguished French and American scholars, practitioners, and experts, to come and address issues important to the two countries. And we certainly have an opportunity to do that this evening with the seventh Raymond Aron Lecture and our distinguished speaker François Bourguignon.

Now, before I get into a proper introduction of the speakers, I'd also like to express thanks to the people who make this possible. As usual there is always a benefactor standing behind the scenes and in this case it's the policy planning staff of the French Ministry as well as our colleagues at the Embassy of France here in Washington, DC. And six years ago the lecture series was initiated with the backing of Giles Anderany, who was then the director of the planning staff, and it continues today with Joseph Milar as its current director, and we're just delighted and we have our colleagues here from the French Embassy and I'd like to say again, thank you very much.

Now, Raymond Aron was of course a multifaceted scholar. Most of us know him best for his theoretical work on war and peace, but he was very engaged as a political commentator and he also maintained a remarkable expertise on economic issues.

Now, last year, some of you who were here for the sixth lecture will remember that we had Jean Pisani-Ferry, the head of the Bruegel Institute in Brussels, also a very distinguished French economist, and we decided that we would continue this year with the theme of the economy given the fact that this is probably one of the most important issues in the transatlantic discussion right now in the wake of the economic crisis.

It's also an important issue, particularly this year, because it's at the very top of the agenda for the French presidency of the G-20 which just started in the past month, and France is going to be chairing the G-20 through all of its series of debates and initiatives through 2011 and will also be hosting two summits: one in Deauville in June and the other in Cannes in November. I'm sure the Cannes summit will be very popular among not just economists.

But in any case, President Sarkozy has already announced some of the objectives of this French presidency of the G-20 and they include a very important focus on development, especially on the role of commodity prices and the increased effectiveness of development aid for the least developed countries, and we thought that this would then give us a good starting point for the lecture this year, and instead of having a French official simply give us a list of priorities for the G-20, as interesting, of course, as that will be, we thought it would be extremely important to have the perspective of a leading French authority on these issues and especially on the discussion of global development, and who better than François Bourguignon to give us a perspective on what the G-20 and other multilateral institutions can do for development, especially as far as inequality is concerned.

For those of you who know Monsieur Bourguignon, he was the chief economist of the World Bank in 2005 when the World Bank's annual world development report came out and concluded that inequality was the primary obstacle to global development and that only social systems providing health and education to the poorest could tackle this problem.

Now, five years later after the financial and economic crisis has shaken the foundations of the global economy, we still have a lot to do, obviously, in this sphere and inequality is obviously on the rise as a result of the financial crisis and continuing to act as a brake on growth and development, and this issue has remained at the top of François Bourguignon's work in recent years. He's currently the director of the Paris School of Economics and a professor of Economics at the École des Hautes Études en Sciences Sociales. He first began his career studying statistics back at the French Grande École, ENSAE, and he's continued throughout his education to really expand upon his studies of mathematics and statistics and in fact he went on to earn a Ph.D. that was awarded the Merritt Brown Award for the best thesis at the University of West Ontario in Canada, so he has very much a transatlantic experience in his education.

He did his doctors in economics at the University of Orleans in France, and in ’75 came back again across the Atlantic, though further north than we are here, to become assistant professor at the University of Toronto, so he’s a North American transatlanticist, which is, of course, even better than just being an American-U.S. transatlanticist.

Back in the late ’70s he returned to France. He’s had a number of very distinguished positions at the (inaudible) French Center for Strategic-Research, and in 1988 he became the first director of a new entity, DELTA, which brought together the research units of a number of leading French institutions.

He’s been the author of numerous books, a hundred articles -- more than a hundred articles -- in leading journals, and then as I mentioned, he became the chief economist of the World Bank in 2003, succeeding Nicholas Stern, and then he moved to his current position as the director of the Paris School of Economics in 2007.

Now, just to add to the distinguished roster that we have tonight, we’re also delighted that our own colleague, Kemal Derviş, the vice president and director of Global Economy and Development Program here at Brookings will be able to join us as a discussant. Kemal is sitting here in the front row.

Now, most of you also know of Kemal for his very distinguished career both as a scholar and a practitioner. Until February of 2009, Kemal was in fact the executive head of the United Nations Development Program and also Chair of the United Nations Development Group. Before that, from 2001 to 2002, he was responsible for launching Turkey’s successful recovery from the devastating financial crisis as minister of economic affairs in the treasury of Turkey. I wish, of course, that he could play the same role here in the United States. So, fingers crossed, Kemal, that your expertise in Turkey can also help us here.

And before his tenure at the Ministry of Economic Affairs, Kemal had also had a 22-year career at the World Bank and he was there for a period the vice president for the Middle East and North Africa and also a vice president for poverty reduction and economic management.

And from the end of 2002 to 2005, Kemal was also a member of the Turkish parliament. So, as you can see, we have a vast array of experience here and all of it necessitates, of course, me now getting out of the way and turning over to François Bourguignon, and we are very delighted to have you here.

And I also have to make a note that François has tried extra hard to get here. Some of you will know that Europe is in the midst of an ice storm and Paris has been particularly hard hit, and I think François practically had to get on foot to the airport through Paris because the metro was frozen down. He sent his wife as the advance party, so we knew he had to come, and he had to take a flight very early this morning instead of yesterday, to get here and we just hope that he's feeling well, and we're just very pleased, again, that he could make it.

François, thank you.

MR. BOURGUIGNON: Thank you very much, Fiona, for these nice words. It's a great pleasure to be here and first I would like to thank the organizers for inviting me to give this lecture named after a very prestigious scholar. I also would like to thank them because by doing so they give me the opportunity or the occasion to re-read or, very often to read some work by Raymond Aron, which I didn't know, and I enjoyed that very, very much.

At the same time, I persuaded myself that probably I was not the best speaker for -- to talk -- to give a Raymond Aron lecture because, as a matter of fact, there are not so much economics in his work, there is much more politics, much more history, much more philosophy, than economics.

What I was really very struck reading his work by two things, the first thing that this man has an incredible lucidity about what was going on in the world in those years. I mean, he wrote very, very much in the ’50s, ’60s. He died, as -- which was just said, in the mid-’80s. And in those days in Europe there was a lot of ideology going on, many thinkers were really at the same time, ideologies, then what is really the big strengths of him was to have resisted that and to have been all his life of complete intellectual honesty, and there are not so many intellectuals with this kind of record.

The second thing which struck me is the fact that his work is very much affected by the world where he lives and this is a world which is out of two devastating wars, this is a world which is still engaged in a very acute Cold War, and this is really reflected in all his work. This is also a world where Marxism, or more exactly, communism, is still very, very strong, and again, this is a dominant -- this plays a dominant role in his work.

He died in the mid-’80s and because of that he didn’t see the end of the Cold War, he didn’t see the dismantling of the Berlin or the Iron Wall, and he didn’t see -- and this is the closeout to my talk today -- the new wave of globalization starting which as a matter of fact, would change many, many things.

So, while I was reading in particular the time of his late op-eds in French -- in the French press, I was asking myself, what would Raymond Aron have said about today’s world in front of this globalization process going on? So, this lecture is not really trying to answer the question for him, but certainly he would have considered the kind of evidence which I intend to present, with very much care and I’m sure that this would have influenced very much what he would have said.

And as a matter of fact, revising his work, I found this fantastic quote in an essay which is called “The Dawn of Universal History,” and by that I believe this is really that he already had in mind something like globalization. And the quote is following: “Humanity in the way of unification” -- this is really the translation in those days of globalization -- “inequality between nations takes on the significance that inequality between classes once had. The condition of the masses varies more from continent to continent and from country to country than ever before, at the same time the awareness of inequality is spreading and resignation to poverty and fate is getting rarer.”

I really believe that most of the issues that we are dealing with today are in this quote by Raymond Aron and this was written in 1961, and I really find this quite striking and really I admire the anticipation that this scholar had.

After that, to some extent, everything has been said and maybe I don’t have anything to add. What I would like to do is simply to put some flesh around this kind of argument, and as a matter of fact, to show that Raymond Aron was not completely right in expecting this increase in equality that everybody is talking about today -- not exactly right. I mean, he was right in one way, but not in the other way, so I would like to get to the evidence that’s valuable on some of the points that are mentioned in that quote, and then at the end of the talk to draw some lessons from that evidence.

So, this is the line of the argument that I will have. Global inequality, as a matter of fact, is falling. And this is an historical event in the sense that for a century and a half, inequality in the world has been increasing, although the last 20 years, more or less, inequality is decreasing. And this is certainly something which is not in the quote that I just gave of Raymond Aron.

A secondary important point is the fact that this process is taking place at a time where global growth is probably at its highest. So, you cannot say that inequality is moving down, is going down, simply because there is a kind of slow down in global growth. It is exactly the opposite.

Yet, what I want to show you that, in Aron's concerns, some points are still present, but maybe in a different way, and in particular there are two issues which I would like to focus on, one is whether behind this fall in global inequality we don't have a category of countries which have some probability of staying behind -- staying behind the emerging countries which everybody has in mind and which definitely are in the process of catching up with rich countries in the world. So, in that case, this means that part of the quote I just mentioned would be still valid, still relevant.

And a second point on which I would like to focus is on the question of knowing whether the fact that between-country inequality is falling, we should not take into account that within-country inequality may be increasing, and this is the first part of Raymond Aron's quote. When he talked about inequality between nations and inequality between classes, it is really between country and within country. Today, these are more analytical concepts that people working in this area are used to manipulate.

So, my last question -- my last questions will really be on what can be done. I mean, if these are the issues, it seems these are the concerns, in this world of globalization, this world in a way of unification, as Aron put it, the issue is how to prevent those two phenomena or two processes to take place, and how to avoid that this unification that is taking place in the whole world would stop because we would not be able to control those two tendencies that I just mentioned.

So, this is the line of the argument, and now let me first give some evidence on the beginning of the argument and then I will conclude with some views about what are the policy implications or what the political implications are, and the kind of advice that I would like to give to Mr. Sarkozy, the new president of the G-20.

First, the turning point in global inequality. This is technical, but simply, very quickly to show you what is behind the figures that I will show, to measure global inequality we are combining two types of data, data at the aggregate level, GDP per capita in countries. We might use consumption, we might use household income, things are more or less the same. Here I'm using GDP per capita and standard population data, I don't want to advertise the World Bank products, but all this is coming from the world development indicators, which are now freely available on the World Bank site. So, if people in the World Bank are there, they can thank me for the advertisement that I just gave.

Then you need purchasing power priorities because you cannot use standard exchange rates. We know that they are not reflecting the actual purchasing power. When you get to India you change your dollars into rupees, you can buy with those rupees much more than what you could buy with your dollar here in Washington. We have to take that into account.

On the other hand, now we need also within country, distribution data, so we now have more and more in many countries data on income distribution which are coming from household surveys which are basically giving you the mean income of the various (inaudible) of the population relative to the national mean. And the data I am using here are coming from the OECD. There is this very good work produced by the OECD lately which is called -- the title is "Growing Unequal," and it's really a view about the changing inequality in OECD countries since the mid-'80s. And I'm using the World

Bank, again, (inaudible) database where we have distribution data for many countries.

Some countries will be missing, small countries in general, then I'm simply arbitrarily deciding that the distribution is similar in those country as in neighboring countries, but this really has not big impact on the final estimates.

To show that there is a change in the evolution, I will combine these theories between '89 and 2006 -- it is not a theory, I did the computation only for three years -- with previous work that I have done with historian colleague Christian Morrison, which is about the evolution of the income distribution since the beginning of the 19th century.

Of course, the analysis is not as sophisticated and as detailed. There were many countries which are present today in the world which are in the United Nations, but which were not -- which didn't exist back in the 19th century, so of course instead of working with 180 countries, in this work we work with not countries -- so, there are three countries or groupings of countries, but we also show in that work that it is possible to -- this is satisfactory.

This is the evolution. So, you have two theories, this is starting in 1820 and the first theory is the historical data in the reference I just mentioned. And then you have another theory, which we have a discontinuity, so this discontinuity is due to the fact that we changed the way in which we compute global inequality, more countries, different purchasing power parity correction because new data are available and because of that there is a jump in the global inequality that is being estimated with this kind of technique.

The top curve, the blue curve, corresponds to the Gini coefficient, which is a very well known index to describe inequality which goes from 0 to 221, and the curve at the bottom, the brown curve, is another inequality measure which is basically the ratio between the 20 percent -- 20 richest people to the 20 poorest people in the world.

In both cases you can see that for practically a century and a half, inequality has been going up. It more or less plateaued around 1960 with some fluctuations, maybe still some increase, but at a much slower rate than before, and when you look at the change of theories, when you look at the 20 last years, '89 to 2006, this is the second bit of the two curves, you see that this time there is a decline. And this is something which is very, very strong. This decline is not a decline -- you can doubt about the data, you could say, okay, maybe there is some imprecision. I mean, this is very, very strong and this shows that there is definitely something important going on.

Now this, at the same time, corresponds to a strong decrease in poverty in the world. This is a curve which describes the proportion of poor people using the standard international threshold of $1.25 in purchasing power parity per head and per day, and this is only for developing countries and you can see that back in 1980 you had a little more than 50 percent of those people in developing countries being poor and today we are in that more or less 26, 27 percent. By the way, this means that the millennium development goal, which is to halve poverty by 2015, will certainly be reached at the global level.

Behind that we could also have represented the total number of poor people in the world. With this kind of decrease in the proportion of poor people, the number -- absolute number of people has also decreased.

The last piece of evidence I want to show is this one. These two curves represent the growth rates of GDP per capita in two parts of the world, the red one is rich countries, high income countries, and the blue one is the whole set of developing countries. What is quite remarkable on this chart is the fact that for many years -- I mean, it started in 1980 -- from 1980 to 2000, more or less, the curves are more or less similar. You have the same kinds of shocks in the global economy and the rate of growth of the rich world and the poor world are more or less the same. But at the turn of the century you have this divergence taking place in terms of trend. You can see that the blue curve is definitely above the red curve, and by very, very much. If you could read the vertical axis you would see that the difference between the two curves is something like 3, 4, 5 percentage points, so the difference is really big, and you have the same cycles in the two parts of the world but the big difference -- and this is what I call the decoupling of growth trends. And I didn't borrow this to Kemal Derviş, who has something very similar in one of his analyses, but this is something very important which is the fact that there is no decoupling in cycles, but there is truly a decoupling in trends. And this is what is behind the drop in global inequality that we have just seen.

To that evidence, which seems to be nice and going against the view that inequality is increasing and many people believe that inequality is increasing because of globalization, there are two caveats that I want to make. The first one is to realize that the reason why there is this drop in global inequality recently is because of the between inequality component and to show that here is a decomposition of total inequality into two components, the inequality that is due to the inequality between countries, the fact that the mean income in two countries is not the same, even if we assume that all people within a country have exactly the same level there will be global inequality because countries don't have the same income, and this is the blue curve. The pink curve is total inequality. And the yellow curve is a residual, which corresponds to the inequality that is due to the inequality existing within countries.

(inaudible) observe here that definitely what is driving global inequality is definitely the between-country inequality. What is driving the historical increase, what is driving the recent fall of inequality is between component. When we look at the within-country inequality, we observe something which is yet interesting. There is this big drop taking place starting a little before the Second World War, and continuing sometime after the Second World War. This is really the burst of the wealthier state. This may also be the fact that there are countries going to or adopting a communist regime, but you can see that this has stopped. This plateaued for some time and now there is a slight increase within-country inequality which is worth stressing. I'll come back to that for the moment, but for the moment you can see that this has almost no influence on global inequality. The dominant force is definitely the between-country inequality.

Let me get back to the second caveat that I want to focus on. It is a fact that the kind of argument I just had is not shared by everybody and we still hear people in public debates telling, how come can you tell us that global inequality has decreased? We observe that poor countries are getting poorer and rich countries are getting richer. And what is going on? I mean, how come do you get to the conclusion? Those people are not wrong. And I'll show you one evidence in favor of this view.

In this chart here, the top curve, it could have been blue, it would have been better, the top curve is the curve that we had before. It is the evolution of global inequality taking into account within-country and between-country inequality.

The curve at the bottom is a curve of inequality where we consider all countries in the world, we ignore within-country inequality, but we don't weight those countries by their population. In other words, because you know that China is the same -- weighs the same thing as Luxembourg and India the same thing as Dubai, okay?

Now, if you do that -- and so, if you look and the inequality measure here is the 10 richest over the 10 percent poorest, so if you have 140, 150 countries, this means that you are looking at the ratio between the mean income of the 15 richest countries over the mean income of the 15 poorest countries, and what you can see there, that inequality there has not declined, meaning that, yes, there are problems in the sense that it is true that there are some poor countries which are not doing well and the reason why global inequality in the top curve is decreasing recently is basically because those giant countries, like India, like China, of course, and Brazil, or these kind of countries, are doing rather well.

So, it is important -- I mean, this should not hide the fact that when we go to Sub-Saharan Africa in particular we will find some small countries which are not doing so well after all.

Okay, let me now look at what we may expect for the coming 5 to 10 years and about the two inequality concerns that I mentioned right at the beginning and let me try to substantiate these concerns. First, when we look -- I will go quickly on this -- when we look at the outlook for the following 10 years, and several people have worked on this, it does not make -- there is not very much doubt that developed countries will continue with slow growth, there are many reasons for that: public indebtedness, fiscal contraction, unemployment, new regulation of the financial sector, and the important fact -- and I think that we don’t insist enough on this -- the fact that developed countries are facing major restructuring process which is due to the globalization process. Definitely there is this industrialization process going on in many parts of the world and part of the slow growth is due to that. So, because of that, it is -- it will be surprising to see very fast growth in those countries in the years to come.

When we look at the big emerging countries, this is not true anymore.

Why? It's because those countries can rely on domestic markets and they will increasingly do that. There is a big debate today at the international level about whether China will move toward a more inward-oriented development strategy. I don't know when this will take place, but one thing I know, I believe, is that this will take place at one point in time.

Now, it may not be fast enough for many people in the rest of the world, but there are political constraints in China as in many other countries, and another reason why growth may be very quick in those countries, is that there is a lot of scope for more south-south trade and we already have seen that south-south trade is growing very fast and this will continue.

Now, those countries will also be affected by the fact that northern countries, rich countries, will not grow as fast as in the past and even if there is this catching up, we have to remember that rich countries still weigh something between 55 and 70 percent of global GDP depending on whether one is using PPP or not, but whatever we can think about this, it is most likely that the global equalizing in the world distribution will continue.

But what about Sub-Saharan Africa? What we observe today is that when we look at the evolution of the geographical composition of poverty combined with demographics, we observe -- and the economy grows -- we observe that poverty in the world is more and more an African problem. Okay? And I'll show this to you here. On this chart, this is the same chart as before, you have the blue curve for all developing countries, you have the red curve for all the rich countries, but now you have a green curve for Sub-Saharan Africa. And what you observe is that Sub-Saharan Africa has done very, very badly during the '80s and during the '90s. This is what has been called the lost decades for development. They are doing much better over the recent years. This is starting in 2004, 2005. And that many people in Africa, in particular, the African Development Bank, for example, believe that Africa is now on the same path as China, as India, et cetera.

I think there is a lot of debate about this. There is a debate on the cause for this growth, the resuming growth in Africa, whether it is structural, whether something has changed in Africa, and many people insist on the fact that the governance has much improved, that policies have much improved, et cetera, which is certainly true. Or whether there is something cyclical and in particular whether Africa today is not surfing on very high commodity prices.

Now, if this is the case, then this surge in growth might be temporary and there are conflicting influence of (inaudible) environment in the future which may explain or which may cause commodity prices maybe not to fall too much, but to come back to a more reasonable level, and there is no escape to the fact that there is a need for diversification in Africa which is, for the moment, not taking place at all.

So, to say that Africa is moving at the same time as all those big emerging countries and this will be the case for the years to come, for the decades to come, I think this is going too fast. There is still a poor country problem in the world, there is still a Sub-Saharan Africa problem in the world, and we cannot simply ignore that.

The second concern, and (inaudible) about the second concern which I mentioned at the beginning is what is going on with within-country inequality, with domestic inequality, and does it indicate that there is something going on in the world such that domestic inequality is in some way substituting global or between-country inequality.

What we observe is that over the last 20 years in many countries there has been a very substantial increase in inequality. When I look to the OECD countries over the last 20 years, half of which the countries have seen substantial, significant increase in inequality. Of course, the U.S. is a most obvious case. Here you have a list of countries. Plus-plus means that the Gini coefficient in those countries has increased by 2 percentage points at least. Plus means that the Gini coefficient has increased by 1 percentage point, but you can see that there are many plus-plus countries and not only the United States and United Kingdom, which is a case which is very well known, but also Sweden, Finland, Norway, Germany, Italy -- this is a big list. And France is a country where inequality has been extremely flat over the recent years, but we have signs that things are turning today and that there is probably an increase in inequality that is taking place.

Now, the issue that we have here is whether this is due to internal policies and we know that in some countries it is the case. In Sweden, for example, we know that there has been political changes such that the state is much less progressive today than it was 20 years ago, but is it the only thing? And isn't it the case that even when we look at market incomes before redistribution, et cetera, isn't it the case that inequality is increasing? And if this is the case, then we know that in all these countries there is a tendency for people to say the reason why inequality is increasing is because of globalization, is because there are some people who are getting out of their job -- who are fired from their jobs because of the restructuration of the economy, it is due to the fact that we have those top executives, those traders in the international financial market who are getting very high pay. This is a reflection of globalization and because of that we see that inequality is increasing in our countries.

Now, of course, the U.S. case is completely dramatic. Here I simply put a table which is showing the change in the distribution of the U.S. between '79 and 2004 when you look at the quintiles of the distribution, the 20 percent poorest, the next 20 percent, et cetera. The 20 percent poorest in the United States between '79 and 2004, in real mean income, has seen an increase equal to 6 percent in 25 years.

When you look at the top 20 percent in the U.S., in the same 25 years they have seen an increase in their real income, which is 70 percent. So, the difference is absolutely enormous.

If you look at the way in which the benefits from growth have been distributed in the U.S. during this period you realize that the bottom 20 percent has obtained 1 percent of the total additional income which was generated during this period, whereas the to 20 percent has gotten 70 percent of the total additional income which has been generated. This is really something very important, very big.

Now, the premise to know whether from that point of view the U.S. is an exceptional case or whether the U.S. is a forerunner, and again, we may believe that there are forces in the globalization process and this is something that economists have been studying a long time ago and very oddly they are not working anymore on this, assuming that this is -- the issue has been resolved, which is, what is the impact, what is the role that globalization plays behind this kind of evolution.

Also, we observe that in many developing countries inequality has increased. It has increased in China. There are conflicting evidence but people who have worked on the income distribution in India rather than the consumption distribution, tend to believe that there is an increase in inequality India, traditionally a very egalitarian country, and we observe an increase in inequality in countries like Vietnam, in Thailand, in Taiwan, so the only exception from that point of view is in Latin America where inequality was very high to start with, and it is true that over the last couple of years in Brazil, in Argentina, in Chile, there has been a decrease in inequality very much linked to very strong redistribution policies.

But this idea that behind the scene, or behind those policies, globalization, or there are forces in many countries which contribute to an increase in within-country inequality cannot be discarded.

Now, what is worrying is that if this is the case, then behind those increases in inequality we may have very strong forces against what Raymond Aron was calling the humanity in unification, I mean, against the process of globalization, and this will be a threat on the process itself and on the benefits that this process can generate.

This may be justified on economic grounds, or this may not be justified. It is simply the fact that people observe that there is more inequality, they observe at the same time that they are living in economies where big changes are taking place and they're also seeing those two evolutions and saying one must be the cause of the other. If this is the case, then there is a threat here for the whole process to stop or to at least go much more slowly because of that.

Now, I'm not saying -- and maybe this is a point on which we would have to go back in the discussion -- that globalization is necessarily good per se and for everybody in the world. Of course, we much have a much more nuanced view, but this is something which comes out of this kind of evidence that we have here.

So, let me conclude about the role of global governance in all this.

I would say that the first thing with concern number one is that we should make sure that the poor countries in the world, and in particular, those countries which are concentrated in Sub-Saharan Africa, are not left behind. What does that mean? This means that development assistance cannot simply be dismantled as many people today are suggesting. You have this now unfortunately well-known book by Dambisa Moyo on *Dead Aid*, where basically the suggestion is to get rid of aid. I don't think this is something possible. We have to agree on the fact that aid may not be always very effective, but there are big progresses to be made in the effectiveness of aid, but one thing we can observe is that if tomorrow we stop with development assistance, in many countries the educational sector is simply dead, the health sector is simply dead, and many infrastructure expenditures will not be met.

So, at this stage, considering that development assistance could be cut down in any substantial way is going completely against this concern number one of not leaving countries behind. We have to hope that at some stage those countries might become autonomous and we have to do all for this to be possible, but for the moment it is certainly too early to consider this.

Now, there is a problem, really, and the problem is, again, coming to some extent from globalization. What I can observe when I talk to donors in Europe and in my own country, when I talk to members of Parliament in my own country about aid, everybody has in mind the competition coming from China. And everybody is telling me, look, do you want us to give money to multilateral organizations, but this means that our flag will disappear. We want our flag to appear everywhere because we see that the Chinese are getting a lot of benefits out of this and we are not getting those benefits. And it is true that from that point of view there is an issue and globalization is generating some negative externalities in that community of donors. This is something that has to be thought about. Certainly this is an issue that the G-20 could be looking at, but this is not a reason for simply dropping or considering that development assistance is not important.

This is not the only important part in the policies of developed countries with respect to Africa. Trade policies are extremely important and for years we have tried to open up our markets to African countries, the result is very disappointing. It is very disappointing simply because we only did it in a very restrictive way and if for example we look at the case of Europe, this initiative which was called "Everything but Arms," which were opening up all markets in Europe except for arms to the exports from least developed countries, this has not functioned very well. Why? Simply because this was coming with rules of origin which were not -- which could not be met by many, many countries.

So, there is still a huge effort to be made I order to open up markets and in order to facilitate in those countries a diversification. It is very difficult to imagine that African development can take place jumping from an agricultural economy to a service economy or to simply accommodating exporting economy. They may be doing very well, but demographic pressure is such that those countries cannot do, or cannot develop in the same way as Gulf countries, for example, have developed. So, here there is really a very important role to be played by global governance.

The second part, of course, is to contain inequality within countries, whether these are developed countries or emerging countries. This can be done probably in different ways. Certainly more inward oriented development strategies in emerging countries will probably generate a more equal process of development than a completely outward oriented strategy. South-south trade is probably doing the same thing. And to the extent that the increase in inequality that is observed in those countries is due to globalization, it is possible that changing slightly and maybe making more effective development strategies will modify this aspect.

But there is also a need in most countries for more social protection and more redistribution at the country level and this is becoming a true global issue. Why is that? Because we can see in many rich countries that there is a resistance toward the welfare state, toward maintaining the welfare state as it is, and in some cases, try to make the welfare state still more powerful basically because people are telling us, look, if we do that, we are becoming less competitive with respect to the rest of the world.

So, here we typically have a coordination problem. If many countries are not moving in that direction at the same time, then it is true that there will be free riding and with free riding nobody will really get into the direction, and we have the risk that the inequality increasing process that we observe in some countries will continue and will strengthen all the time.

So, again, it seems to me that this is an important dimension that has to be considered in the line of the basic argument that I took at the beginning from Raymond Aron.

Now, unfortunately, I don't have the talent of Raymond Aron to write op-eds and to convince policymakers of the direction in which they should go -- more politician than policymakers, I should say -- but there is a real need for that and the G-20 may be the opportunity or may be the instrument to have these kind of policies or these kind of concerns being expressed and being taken care of.

I'm not, I must say, completely convinced that this will happen already this year. It is true that the French presidency reiterated the importance of development, but I was not very much impressed by what the Koreans said from that point of view, so if it is simply a matter of reiterating what was said and what is called now the sole consensus on development, I'm not sure that this will go very far. More has to be done and the more energetic position has to be taken.

On the other hand, I'm not completely clear on the fact that focusing on trying to repair or trying to improve the international monetary system which seems to be more and more the main goal that Mr. Sarkozy is trying to -- will try to achieve with the G-20, is very promising and it seems to me that the two goals that I have expressed in this presentation are certainly as important as the monetary -- international monetary system, but I'm sure that many people in the room are completely against this view.

So, better for me to stop at this stage. Thank you very much.

(Applause)

MS. HILL: Thank you, François. That was a really clear and, I think, not just informative, but very compelling case that you made and I know there's not a few, but quite a lot, of people who are trying to influence policymakers and politicians sitting in this room. I can see some of my Brookings colleagues right in front of me. And we also have one of our distinguished fellows Javier Solana, who many of you will know from his various capacities, sitting here in the front row. And I'm sure that a lot of people will be walking out of your presentation, especially when we've heard Kemal's remarks as well, thinking very hard about this and thinking of ways that they can take some action.

Kemal, over to you, and then I'll invite you to join us here for a discussion with our audience.

MR. DERVIŞ: Thank you very much, and thank you, François, for this wonderful overview, this wonderful lecture. It really was a pleasure.

One of the problems we have, of course, is that we agree on almost everything, so if you --

MR. BOURGUIGNON: I'm sorry. I'm sorry.

MR. DERVIŞ: -- if you -- I mean, it's very hard to kind of argue with François because first, his facts are there, his analysis is concise, and on top of that, you know, I agree with the approach, so that makes it a little bit hard.

But let me say a few things, more to reinforce, really, what he said, than anything else.

For a student of development, for development economists, for somebody who's interested in economic history, I mean, these things are essential. You know, we sleep with them, we wake up, we dream of these numbers, and we kind of live with them, and, you know, it is fantastically important, and I think one of the examples that is well known among development economists, but I think is always so almost shocking is that in the 1950s -- early 1950s, Korea -- Republic of Korea, was poorer than Ghana. And now with PPP it's about 12 times richer and when we think that this happened in 50 years, basically, it's mind-boggling. I mean, it's within our lifetime -- our, meaning somebody was born in '49, in my case, but anyway -- some of you obviously were, but in 50 years, this can happen. So, you know, while per capita income shifts and things like that, of course, take time, when you think about it, cumulative growth differences of 3, 4 percentage points, when they accumulate over a few decades, make a huge, huge difference.

Now, of course, you know, UNDP and, one has to remember that per capita income is not everything, one has to look at life expectancy and health and education, but also in these indicators we see the same kind of story. So, these are amazing trends when you think about it, and François showed us that there has now been a historical decoupling in the trend growth rate of the developing countries as a whole with some exceptions in Sub-Saharan Africa, but recently that even may be coming to the same, but, you know, that this decoupling is really historical. His first growth rate and, you know, it's a graph that I also utilize very often, and I think one other thing that one can think of, I think, when we look at this, is of course, have there been precedents, and Korea has been a precedent, Japan has been a precedent. I mean, Japan has really grown extremely rapidly after the Second World War and has closed the gap between -- which separated it from the traditional rich countries.

But, you know, we were talking then of about 1.3 million people roughly. If you just take China now, it's 1.3. I think if we make the mental experiment of reminding ourselves of the debates on Japan in the 1980s, I mean, think of what these debates would have been if Japan, instead of 130 million people, had been 1.3 billion people and if we add India, which is having an extremely strong performance now, you know, we're now talking about 2.5- to 3 billion people, we're not talking of 130 million people. So, in that sense it's completely unprecedented. It's a completely new phenomenon, which we all, I think, have to come to grips with and adjust to. So, I just wanted to reinforce these points, which are underlying François' projections and his presentation.

Now, one thing François did not enter -- and of course he only had one hour -- but obviously the question comes up, why? I mean, why is it that this is happening? That, you know, it wasn't happening until about 20 years ago, and now it's happening? And there are many reasons and obviously I don't have the time to go over all this analysis, and, you know, some of the reasons are not well understood, maybe, but going down to the basic we have three basic things that determine per capita income. One is the proportion of people who are productively employed in the total population.

It's very important, you know, the age structure of the population, and here the demographic transition in the emerging market and developing countries, of course, is a very important factor. The fact that the birth rate has gone down, the population pressure has gone down, and that now many of these countries have a share of the active population that is much larger and they are not aging yet either, so they're in some sense, at the optimal point of their demography. That's one important point.

Second, the amount of capital with which these workers work -- capital accumulation, and here I want to come back. Overall there is strong capital accumulation although it's very unequal when we look at the developing countries as a whole, but there is a lot more capital that's being invested -- accumulated, much more investment in many of these emerging countries. In India, in China, it is well above -- it's 35 to 40 percent range, which is huge, compared to a investment rate of 20 percent in the advanced countries on average. Okay? So, the fact that there is much more rapid investment and capital deepening is obviously a second important factor.

Now, one of the things that -- a big debate is, you know, how strong are diminishing returns to capital and I don't want to go into that, but it depends a lot on technology, so the third factor is that these countries are able to absorb a lot of existing technology very rapidly, and I do believe that the information revolution that occurred over the last three decades probably has allowed an importation and adaptation of capital at a much more rapid pace than was possible 30, 40 years ago, so in that sense, the catch up growth that is based on capital -- on technology adaptation and technology diffusion, thanks to the modern technology, is more rapid than it was decades ago.

So, I think if you take those three factors -- more investment, more rapid diffusion of technology, and a better demography, for most countries, again not all -- I think that explains a lot of what we're seeing and also suggests that it will go on for a while. You know, we're not yet at the stage where the demographic transition is completed except perhaps in China. We are not yet at a stage where investment rates are falling significantly. And there is still a lot of technology that can be imported and adapted. The analysis, for example, of the most efficient firms in countries like India and China compared to the least efficient firms, there are huge gaps, so if the average Indian firm or Chinese firm looks more like it's most efficient sister, right there you have a huge amount of potential for further growth. It won't last forever, obviously, but for the next two or three decades I think we can expect this convergence or this unification, the way François called it, to continue.

So, I think I just wanted to add these three basic points which I think are some of -- at least explains a good part of the phenomenon.

Now, François also very much focused on the inequality within countries and inequality can be measured in various ways, of course, the Gini coefficient is one way, the top 10 to bottom 10 ratio is another, the concentration at the top 1 percent is another, and I think when we talk about convergence and income distribution worldwide, as François did, and again, I fully agree with him, I think one has to bring in that dimension. Giving a lecture on convergence in the world economy and on per capita incomes without talking about income distribution within countries, I think, is very insufficient.

He did show us the differences between countries in terms of what's happening within, the fact, for example, that in France, inequality actually is not increasing significantly, at least so far, and he showed us the really staggering U.S. numbers, particularly if you measure inequality by the concentration at the very top. I mean, there the U.S. is, I think, beating all historical records in terms of how much income is concentrated at the top 1 percent or the top 0.1 percent.

I'm not a political scientist, there are political scientists in this room, I hope somebody can explain to me that given that fact, given the top 1 percent or the top 0.1 percent making gains that are unprecedented in history, why the political system is such that tax breaks for those people are considered okay. I mean, that is the topic of the town, I guess, these days, but, I mean, I just don't understand it. I simply cannot understand how politically, you know, this is working, but it is, somehow. It is. So, I mean, obviously there's something here I'm missing.

But the point I'd like to make here is that, you know, trying to explain the within-country inequality to me is more difficult than explaining what's happening across countries, because across countries, the factors I talked about, you know, the growth models, technology diffusion, demographics, savings rates, investment rates, I think explain quite a bit of the story. Why is it that I some country like the U.S., income inequality is rising, you know, at a rapid pace whereas in another country like France, it isn't? I mean, they're more or less -- they live in the same world economy, they -- many people say that it's technology that's driving income inequality, well, France and U.S. have access pretty much to the same technology. I mean, you know, there is FDI, there are U.S. firms in France, there's French investment in the U.S., so, I mean, technology cannot explain why, you know, France is so different from the U.S. Okay?

Globalization, trade, well, again, pretty much, if you look at the trade regime of the U.S. and France, it's not that different. Tariff rates, you know, protection vis-à-vis exports from China or from India or from Bangladesh or from Turkey, are not that different. So, there is something else that makes the U.S. and France very different where in the past it made Sweden and the U.S. very different. François showed us that Sweden has also become a lot more unequal but when you compare the actual levels of inequality in Sweden to those in the U.S. or in the UK, of course, Sweden remains a much, much more equal society.

So, there is something else here which, you know, which is driving within-country inequality which I think economists are having a big trouble explaining. And I'm going to stop there because I don't really have the explanation but I suspect it has a lot to do with governance, with politics, with bargaining power, with things that economists actually traditionally don't look at very seriously and which are not really part of their discipline but which I think in the case of income distribution, actually have a big impact.

But thank you again, François, for this wonderful lecture.

MS. HILL: We're just going to mic ourselves up here, but please prepare your questions.

And as François and Kemal are getting their microphones on, I'd just like to thank both of them again for what I think were very clear presentations. For the non-economists in the room I'm sure we're all extremely grateful. I mean, there are quite a few economists in here but I know there are quite a few others who are not, and I was struck really by the clarity as well as the candor of the remarks here.

As we do have a number of people in the audience, including Brookings colleagues who work on these issues, I'd like to turn right away to a few questions. Perhaps I can take three. So, this lady here and then I'll ask Kemal and François to offer some thoughts.

We have to finish promptly at 7:00. So, this gentleman here and this lady here and the gentleman at the back.

SPEAKER: Thank you very much. Thank you both for your presentations and response. The graphs -- way over my head. Take home message for me is that countries are beginning to divide within themselves poverty, wealth, and also competing with one another to become richer and richer. And I think the United States is the world's role model and has been and probably will continue to be. So, I don't want to be a cynic, but don't you see a trend -- a continuing trend of other nations of the world looking at U.S. as the model to create that 0.1 structure and marginalize more those people who are not able to contribute to that?

The second part of the question, you mentioned IMF. I was always praying for the Bretton Woods institutions to reform themselves in the face of the trends that are so clear in the world. Are they? Will there? Is there a role? I mean, where are the institutions that can make this happen? It seems they've all been pretty much suppressed. Thank you.

MS. HILL: Thank you, sir. Lady, just in the second row behind.

MS. GRIESGRABER: Yes, thank you. My name is Jo Marie Griesgraber. I'm with New Rules for Global Finance, and I guess I'm wondering about the governance, the global governance dimension. Maybe -- I came in a couple minutes late, maybe I missed it, but there's clearly a need for it, but I don't -- didn't hear any suggestions on what to do about it.

And also with regard to Sub-Saharan Africa, I'd like to maybe posit a third policy in addition to trade and foreign assistance, and that is keeping illicit money within the country whether it's flight capital or the money that's secreted out under the guise of transfer pricing and it goes through the tax havens and ends up in London and

New York or as carry trade or returns as foreign direct investment, but I think that needs -- that's very much a topic of interest for a lot of nongovernmental organizations and so on.

And finally a slight suggestion as to why the U.S. is the way it is and not like France or Sweden and that is definitely, I think, a political issue in that we rely very much on Locke and that everyone is an individual unto itself and more government is not necessarily good government. In fact, less is better has been our history or the ideology of the Founding Fathers, if you will, as it's been translated. It's not that I agree with it, but whereas in France it's much more a social concern, a common good, and I won't say it's the Catholic social tradition, but it's certainly not the Lockean sort of raw individualism that we see, and we also have a much larger country, but that may not be a factor.

MS. HILL: Thank you very much. And there's a gentleman here in the sweater. Thank you.

MR. MATIS: Thank you very much. Mathias Matis. I teach political economy in American University across the street at (inaudible).

I have a question about the G-20. The G-7 was very, sort of, ideologically homogenous with a clear leader, the United States, but now we have this grouping of 20 countries where there's no obvious leadership, and even though -- and that's the within the beltway disease -- and we always think that we have the best ideas here coming from Washington, but are these countries that are so different, and there are 20 of them, ever going to be able to agree on anything? Because it seems to me they don't just have disagreements within a same model or system, but have fundamentally different worldviews? Thank you.

MS. HILL: Thank you. Actually, there was another question here, the gentleman sitting beside you here.

SPEAKER: I would like to add the dimension of the location of inequality. Cities have been increasingly becoming the engines of growth and at the Bank these days there is quite a discussion about that, and urbanization process has been steady over the years. And Professor Bourguignon, you talked about inward oriented strategies that sooner or later will have to be implemented by emerging economies, and I'm wondering if you think that inward development policies will have to strengthen rural development or if you expect an increasing urbanization-led inequality reduction.

MS. HILL: Very good. Thank you. And the gentleman at the far end and we'll just turn back to the panel again. Thank you.

SPEAKER: My name is (inaudible). I'm from the Uganda-Africa Growth Institute Initiative. I come from a country that was declining in GDP growth in the '70s and early '80s and has now been growing consistently in the last 20 years or so at the rate of more than 6 percent, and I believe that the main difference between the previous 20 years and most recent 20 years is that Uganda has been politically stable. And my concern is that, yes, I agree that aid is important for Sub-Saharan Africa, but the right aid is critical because if Uganda continued to receive aid but was not stable, it probably wouldn't have made much difference. So, I see that governance and political stability in Africa today is probably the area where aid is most needed and not so much in other areas, because if stability can be increased, then probably growth is very likely to follow. I would like your comment on that. Thank you.

MS. HILL: Well, thank you. Those are great comments. I'll turn back to the panel and we'll take a couple more when you've got (inaudible) remarks.

François?

MR. BOURGUIGNON: Should I start? Okay, fine. Thank you very much for these comments and thanks to Kemal. I'm sorry that we agreed too much, but I should say that Kemal was in Paris School of Economics two weeks ago and we had more or less exactly the opposite kind of dialogue, so it was not exactly the same presentation. We didn't have the same slides.

Okay, a couple of reactions to Kemal's comments and some of the remarks which have been made.

First, in the explanation of growth in emerging countries, I believe -- I mean, I totally agree with the three factors that Kemal mentioned, but I would say that the globalization process itself helped a lot. I mean, the fact that suddenly you have markets in the world, which are big markets, where there is no limit to how much you can produce, has certainly been a big advantage for these countries. This is not the first time. I mean, you could say that the development of Taiwan, the development of Korea, at the beginning, was also very much helped by the fact that the American market was opened to them, but I would not discard this kind of explanation.

In this issue of the big inequality in the U.S., why it is not the case that we have the same thing in France, and what seems to be abnormal in the case of the U.S. I'm not convinced that everything is really country-specific. I would say that there is some elements of globalization behind that. It is very surprising that -- for example, when you look at low level wage workers, it might be the case that in European countries where you have a minimum wage, the competition coming from the rest of the world is being transformed into more unemployment, and because unemployment is rather generously insured, then the impact on the distribution is not that big whereas in the U.S., the impact is directly on the level of wages and this is the reason why we have such a low increase in low wages in the U.S. The cause may be the same, it may be foreign competition, but the effect is not the same because labor markets do not function in the same way.

This has been very much -- this fellow was saying -- this has been very much debated back at the end of the '90s and suddenly it disappeared from the radar screen, and lately there was a paper by Paul Krugman, who was the author of a paper in the '90s saying finally it is not really globalization and the trade with south countries that is causing this low increase in low wages in the U.S. It is more technical progress than trade, but this already was raising an issue. To what extent is technical progress the result of globalization and trade and the competition that comes with globalization?

So, I never believed completely this kind of argument, but what I find quite interesting is that in a recent paper, I think it is a 2008 paper, Krugman says, if I have to repeat the same exercise as I did in 1995, then I would find a much bigger impact of globalization on the distribution in the U.S.

Now, this is at the bottom of the distribution. At the top of the distribution there may be something that is idiosyncratic in the case of the U.S., but what I observe is the fact that globalization, again, is spreading in the world what is going on in the U.S. I mean, it is very difficult to imagine that a French executive, a French CEO, would be paid at a rate which would be much, much lower than U.S. CEOs simply because you have the same people sitting on the boards, they are exchanging views, all those -- many of those companies are multinationals and it is true the multinational that you have is being increased in the payment of the CEOs and then this is spreading in all the world. And this is exactly what we're observing today in France.

And this recent book by Atkinson and Alvarado and Piketty, which is called *Top Incomes*, is really about this and seems to suggest that this process is really a very common and almost universal process. So, we might try to think about why is it the case that suddenly those people are making so much more money in the case of the U.S., but one thing which I think cannot be doubted is the fact that this is spreading to the rest of the world. And from that point of view, again, globalization is part of the story.

On global governance, there were several questions about this, there is no global governance. I mean, this is what we have to recognize. I mean, there is no entity, there is no institution which we can call global governance. Very often when people start talking about global governance, in the end they are talking about the IMF and the World Bank and the Bretton Woods Institution but it is true that those institutions can do a couple of things in -- which have global implications, but their power is extraordinarily limited, so we completely agree -- and the G-20 is not a global governance entity. The G-7 was not a global governance entity, and it is only in the situations where you have very serious conditions in the world like an economic crisis back two years ago that you can see suddenly the G-20 or the G-7 people agreeing on something and think we will all do this and we will all do that.

Now, as soon as you get out of this kind of common crisis situation, which is the case now, you have the G-20 in Seoul and the previous one which was -- where was it -- Toronto, the one in Toronto, where basically nothing has been decided. Does that mean that we should simply dismiss the G-20? I don't completely agree with that. I mean, it seems to me that if there is a message that is loud and clear coming out from the G-20, it will be received by people and it will have -- at the end it will have some impact. It will be weak, it will be indirect, but this is the only thing that we have for the moment, so let's make sure that at least this entity is generating the right kind of message.

On Africa, about the issue about corruption is well taken and this is probably -- because this kind of corruption you are referring to is very much linked to extractive industry and because we know that this extractive industry initiative is not working very well and there is no reason for this initiative to work well, I mean, it's a good thing to have countries reporting how much they've gotten from oil companies and those companies reporting what they have given to -- what they have paid to a government. Now, there is no need for the two parts to report all the side payments which have been made.

So, we know this will not be working but at the same time we also know that one possibility or one way out of that is to make sure that those economies are diversifying and that it is possible to get some income from the rest of the world, but not only through the export of commodities. And this is certainly something very important.

This ties very much with the point made by our Ugandan colleague about the right aid and I think that we completely agree with you in the sense that aid may be effective when it is received by a country where there is a government that is more or less satisfactory. Where there is some transparency, when the people -- donors -- not only donors, but the people in the country can see the way in which the aid money is being used.

Now, when we refer to countries where we don't have this kind of governance, what is being called often fragile countries, then the situation is completely different and so we could say that we have an aid model that works more or less well for countries with reasonably good governance. We don't have any aid model that works well for the other countries. We are still looking for such a model.

Now, where you are absolutely right is that maybe in terms of needs, the real needs are in the second type of country with not that good governance institutions rather than in countries with good governance, as Uganda and Tanzania and Ghana today, are all growing faster than another.

So, you're right, I mean, there is an issue there. I'm not saying that we should increase aid and give aid everywhere and this will be doing good things. There is an issue about aid effectiveness, but we will not solve the issue of aid effectiveness by simply eliminating aid, which is what some people are more or less suggesting.

I guess I've covered, more or less, all the questions which have been asked.

MS. HILL: Yeah. Kemal, would you like to add something there?

MR. DERVIŞ: Well, very quickly, since it's already 7:00, but maybe there is the beginning of a slight disagreement which is a good thing, but, you know, on the -- first, I agree with the globalization -- I mean, the way that technology can spread thanks to globalization, thanks to the financial system, thanks to trade, foreign direct investment, I think that that's very important. But in terms of the analysis of inequality, I think when we look at the numbers, I mean, the differences are still too large to -- you know, the unexplained part remains important particularly at the top. And for example, the fact that the U.S., the political system manages to have a 15 percent income tax rate on hedge fund income, you know, I don't think has anything to do with globalization. I mean, I think -- so there are political factors at work that I think explain at least some of that.

Now, it may be spreading, and I think your point about competitiveness is very, very important here. I mean, there is the view that a strong social safety net is a factor that could undermine competitiveness, and of course there are very high -- you know, if tax rates reach 60, 70 percent, or whatever, that may be the case, but there is also a lot of evidence, at the end of the day, that countries with a very strong social safety net actually have been very competitive and have done very well. I mean, the Scandinavian countries obviously are one. Now, they're smaller and it's hard to compare. Germany has done very well with a strong social safety net, and despite the French complaining a lot, France actually hasn't done so badly. When one compares growth performance in the U.S. to Europe, and one does it in per capita terms -- one of Europe's problems, is of course, the demography, whereas the U.S. has a more dynamic demography which is a big advantage to the U.S., but when you actually adjust it in per capita terms, U.S. is doing a little bit better but not a lot better than Europe and in fact less well than some Northern European countries.

So, it's not necessarily true that you cannot be competitive and growing rapidly and at the same time have a strong social state. I think this has been propagandized by some people a little bit beyond the facts and Marie Jo's point about, you know, there was a time in the U.S. in '50s and the '60s and the '70s and in the '50s and '60s particularly, but also in the '30s and '40s, where the gains from productivity were shared very broadly and where in fact income distribution was improving rapidly and significantly. So, historically when we look at the last seven, eight decades in the U.S., it's really in the most recent two or three decades that, you know, show this divergence. It's not a characteristic of the U.S. that has always been there and so I think it's quite, you know, disconcerting because then what explains it, and there, unfortunately, my wisdom kind of ends. And I guess our time ends, too.

MS. HILL: Yes, well, Kemal, you've obviously set the scene for another panel. And in fact the Center on the U.S. and Europe does indeed plan, with the help of our colleague Justin Vaïsse, who is also, I'm pleased to say, helpfully sponsored by the Ministry of Foreign Affairs, we're planning some time in the next few months a discussion about some of these issues about governances and some of the divergent and also convergent trends in Europe and the United States and we hope that perhaps many of you here will be able to join us for that as well as François and Kemal, and we'll keep you all posted.

I'm sorry that I have to cut off the time. We have to be economical with something these days and we also, many of you here in the audience, have other things to do, and we also don't want to drain François of too much of his resources after he's done this grueling trip escaping from the winter snows of Paris.

I'd like to thank all of you for joining us tonight and Kemal and François for a great lecture.

(Applause)

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CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

/s/Carleton J. Anderson, III

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2012