THE BROOKINGS INSTITUTION

RISING INEQUALITY IN AMERICA AND AROUND THE WORLD

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PARTICIPANTS:

Moderator:

KEMAL DERVIS
Vice President and Director, Global Economy and Development
The Brookings Institution

Panelists:

URI DADUSH
Director, International Economics Program
Carnegie Endowment for International Peace

BRANKO MILANOVIC
Lead Economist, Research Department
World Bank

CHRYSTIA FREELAND
Editor
Thomson Reuters Digital

RAY OFFENHEISER
President
Oxfam America

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P R O C E E D I N G S

MR. DERVIS: Okay. We'll start and Chrystia will join us hopefully in a few minutes.

Thanks a lot for coming. It's an exciting topic. It's a topic that I think is very much in the news but it's also a topic with many dimensions and many different kind of angles to it, and I hope we can as a panel, the panel today can try to clarify and also that we can debate this all together once the panelists have had their own kind of presentation and conversation.

We've got really a great group of friends here today, both in the audience and on the panel. Chrystia is not here but she has written the book, *The Plutocrats*, which is quite a bestseller already where she does focus on the top one percent. She's the editor of *Thomas Reuters Digital*, and before that she was the managing editor of *The Financial Times* in the U.S. When she worked for *The Financial Times* she was Moscow bureau chief and so on for quite a while.

Branko Milanovic, I mean, to me he is the person in the world who knows the most about income distribution related to economic policy and to development. His latest book, *The Haves and the Have Nots*, is also out there. Branko, how many languages is it now translated to?

MR. MILANOVIC: Now it is seven.

MR. DERVIS: That's pretty good.

MR. MILANOVIC: But I want more.

MR. DERVIS: All right. (Laughter) And he's the lead economist in the Research Department at the World Bank. He's also a visiting professor at SAIS.

Uri Dadush is senior associate and director of Carnegie International Economic Policy. He's a very old friend and somebody who I think very intensively all his life has --

And here she is. Bravo. You made it. Right on time.

MS. FREELAND: Not quite.

MR. DERVIS: I just introduced you.

MS. FREELAND: Okay.

MR. DERVIS: Uri, before Carnegie, was at the World Bank. He was head of the Economic Policy Department for a while and of the Trade Department. He also has led the work of the World Bank on global projections for many, many years, and before that, among other things, he was the CEO of the Economists Intelligence Unit. So I think there are few people who follow the pulse of the world economy as closely as Uri does.

And Ray Offenheiser is president of Oxfam America as you probably all know, and of course, the bios are in the papers -- the longer bios. But Ray has kind of multiplied by five the size of Oxfam and the influence of Oxfam maybe by more than five in the U.S. Oxfam is, as you know, one of the two or three leading organizations in the fight against global poverty and also is doing a lot of analytical and research-type work. Before that he was also in the field in South America and with the Ford Foundation in Asia and so on, and he's very close to the developing world.

So that's the panel. The topic is, you know, the rising -- what we call the rising inequality, but I think when we say that it's always good to immediately ask ourselves what do we really mean by inequality? I mean, those of you who are economists, the Gini coefficient is a kind of summary measure of the overall -- the income distribution in a country. When it's zero there is (inaudible); when it's one, you know, it's the most unequal you can get. One person gets the whole of the income basically and in-between you have the ranges. But it's an overall measure. It's useful but there are many other measures. The ratio of the top 10 percent to the bottom 10 percent, for example, is one interesting thing to look at. The top one percent, which Chrystia has written about, or maybe the plutocrats are really the top 0.1 percent. But one interesting statistic at least in some of the studies -- the top one percent have this huge fraction of income but half of it belongs to the top 0.1 percent in the U.S. So there's quite a difference between the top one and the 0.1.

And so there are national measures. But then there is also the whole issue of, well, are we focusing on inequality and distribution within nations, within the national populations? Or are we talking about the distribution worldwide? And how do we decompose the overall issue into -- within nation distributional issues and across nation distributional issues? And how is the world faring rather than individual nations in the world? I think that decomposition is quite interesting. And until very recently, I mean, Branko will say more details on that, but a large part of the overall, you know, if we consider the human family as one population, a very large part of the inequality in that family was actually due to differences between countries, although that element is now becoming not quite so overwhelming as it was before.

And then there is, you know, what is driving it? What are really the causes? I mean, are we dealing with some kind of, you know, phenomenon that is entirely driven by technology or are we -- is economic policy making a big difference? How come a country like France that is technologically, education-wise, roughly in terms of level of income is close to the U.S. and to the U.K., is so much more equal than the U.K.? So there must be something more than just technology because after all they use more or less the same technology. I think it has a lot to do with this whole debate on tax reform in the U.S., reform of the welfare state in Europe. It's a very timely topic because the distribution angle is very important to the kind of policy discussions that are taking place right here in Washington but also very much across the world.

And in all of this, of course, there is still the fact that in this world of huge resources and fantastic technology there is still very, very extreme poverty. It's declining but it still is there. And so I think one wants to keep a focus also on that. It's particularly a moral and ethical imperative also to keep a focus not just on the distribution per se but really also what happens to poverty.

And final point, and then I'll turn it over to the panel, there is now a school of thought that always existed but is coming out more strongly that says never mind -- irrespective of your value judgments on distribution per se, inequality has something to do with the effectiveness of macroeconomic policy. And to make that point, I mean, think of a society just as an extreme, just to make the point, where one person has 90 percent of the income, okay, and everybody else has 10 percent. In a country of, like, let's say, 300 million people. There's no such country but just to make the theoretical point. Well, what would it mean to have macroeconomic policy in such a country? I mean, what would, you know, what would fiscal policy mean? Monetary policy mean?

Now, we're nowhere near that extreme case but we are getting to a degree of concentration that is quite different from what it was before, and I think there are some economists therefore who are saying, well, this actually has an impact on macroeconomic policy and on the effectiveness of monetary and fiscal policy.

So with that, let me start with Branko, hoping that he will give us the big picture, particularly the whole within country, across country. He has a wonderful graph. I vote for this to be the most informative graph that I've seen in a decade on one page. Kind of giving you the story of the world income distribution, so to speak, at a point in time. And Branko, please get us into the topic.

MR. MILANOVIC: Well, thank you very much, Kemal. Thank you everybody for coming. It is really, of course, a pleasure for me to be here.

I would, please, you know, Kemal, let me know when I'm at seven minutes because I really don't want to go over time and I think we'll have lots of time to discussing during the Q&A.

So let me go over some numbers because I think it's important, as Kemal said, it's important just to set the framework. And I think that many of you have already received these five or six slides that I have -- that were printed out.

So what is the bottom-line first? I mean, I will not go through each of them but very briefly, first I want to mention that broadly speaking, if you compare the last 20 years -- and I have here the date which actually covers this 20 years for more than 100 countries -- you have had a general increase within national inequalities. You can see that in the table that is there and you can see that also if you look at the Gini in 1988 and 2008, and if you look at this line which is a 45 degree line, obviously this is not 100 percent of the countries. But about two-thirds of the countries are above the line.

So we have had an increase in inequality. And it's a no-brainer because we have seen it in China, obviously very dramatically in Russia, but also very dramatically in the U.S., in the U.K., in countries like even Sweden, the Netherlands, and really in many other countries. So of course there are some exceptions. The most interesting ones -- I will not speak about that -- is the very fact that the countries which are very, very unequal, like Brazil or Mexico or Argentina have had the last 10 years a persistent decline in equality. Actually, Brazil is the most interesting case in that respect.

Now, I want also to mention one effect, as Kemal mentioned, is the issue of inequality of economic instability. I will not talk about that but I just want to sort of emphasize that it may be one of the sort of -- if not the cause, one of the causes behind the financial crisis.

Now, on the data points also I want to mention that some people don't like only to use service that I use; they actually use fiscal data. Obviously, the most famous (inaudible) in size work on the U.S. inequality. Fiscal data focused on the top one percent. They are very good data but, of course, they don't give you the whole distribution by definition because as we know from Mitt Romney, 46 or 48 percent of Americans don't even file tax returns. So they cannot be in that database.

But there are, of course, arguments that (inaudible) tend to miss more and more rich people. So rich people either hide their assets or don't participate. So really what we have here is really an overall underestimation of the increase in inequality.

Final point about that is is there an increase in perception of greater inequality which is not necessarily underwritten by the measured inequality? That's also a possibility. It's kind of hard to figure this out. There is some service, Gallup, for example, has this world value survey. There may be an increase in perception. A good example of that is if you take Egypt or Tunisia where in measured inequality we really cannot say anything over the last 10 years, but where people argue it's either on fairness or actually mismeasurement at the top. So I think in that sense the numbers that I show you here really are sort of a lower bound of what happened to national inequalities.

So when we come to national inequalities, we're basically -- we're living in national countries as it were. We actually have sort of a shape which is one of these slides which says average real growth in PPP at cross country deciles. And you see that there is a kind of regularity that the richer you were, the more you gained. And it's kind of very well documented in the case of the United States. Very strongly documented. But as I said, it's the case for other countries.

Now, how does it look at the level of the world? And that's really this contrast. We have now really to shift gears because when you look at the level of the world, the slide that Kemal liked is titled "Real Income Growth at Various Percentiles of Global Income Distribution." And look at this shape. It's not at all like the U.S. shape which is upward sloping throughout, which means that the gains were larger for richer people. This shape is entirely different. It's some kind of an S where the largest gains are realized throughout the median of the income distribution and then at the top one percentile. And these are like very large groups of people, about 40 percent of people there around the median which I called for the simplicity China's middle class. There are many other people there. There are Indians. There are many other people. But let's for simplicity call it China's middle class. And then let's for simplicity call those people which are around the 80th and 90th percentile of the world income distribution where the gains were the least. You look at this graph. It's actually close to zero over 20 years. There are actually many of them from Latin America and Eastern Europe. But let's call it U.S. middle class because it's actually lower class. They are really some people from the U.S., very few from Western Europe and the U.S., but let's just call it like that. The reason is that that actual graph then I think illustrates the big question which that of course I think everybody will discuss today and the questions will be asked, is there some relationship between the growth in China and stagnation of real incomes in the West? Because that's a big question which is, of course, highlighted in the journal articles, in the newspapers, and in a graph like this.

And I would finish simply by going one step further. Now, what happened to global inequality over this time? As you can see, this graph shows you -- the one that I just talked about -- shows you large increases around the median, really about 80 percent increases. That has, of course, driven global poverty down, but I think actually we have now probably more or less a common view on that, that it has actually reduced global inequality as well by several Gini points. So we do have -- we see in the data Chinese and Indian and, you know, Brazilian and South African growth really making a dent both in global poverty and global inequality which, of course, then also raises the question that was sort of mentioned in Chrystia's book where we talk about stagnation in the West among some income groups. And then growth of similar income groups in the emerging world. And then we ask a question, actually one of the plutocrats in your book said, well, if you get four people from India and China to become richer and one person in the United States to become poor, it seems like a good deal from the global point of view, but it may not be a good deal in the U.S.

And my last point, which actually I want to open -- I'm actually past the time, now -- is what are the political implications of a graph like this? And even a global middle class in which actually Uri and Kemal and I have written because, of course, we know of middle classes within nation states and we believe that they are a stabilizing influence. But what does a global middle class mean when there are is global state? So I think that's an important political question.

So I will stop here and I'm sure there will be, you know, Q&A after our talks.

MR. DERVIS: Thank you very much, Branko. And I think really that graph tells such a coherent, comprehensive story. I mean, again, the top -- if you take the whole world as one population, the very top gains, the bottom -- the very, very bottom, the very, very poor don't gain, but it's kind of almost marginal. Everybody then gains up to the 75th percentile. And then between the 75th and the 90th percentile you have basically stagnation. Not really lost but stagnation. And those people, yeah, some of them are Eastern Europeans because of the transition there, but a lot of them are actually -- well, let me put it this way. If you -- my prediction is when Branko revises his graph to take account of the development in the last four years with the European crisis and the slowdown in the U.S., I think that will become even more clear the kind of lower middle income groups in the advanced countries are having problems having their real incomes grow. And that is, you know, a very important event. And the question Branko also asked is does it have anything to do -- is it partly caused by what's happening elsewhere or is it an inherent phenomenon or whatever? I think particularly I'm going to ask Uri to discuss that a little bit more.

But now I'm going to turn to Chrystia. Thank you very much for being here with us. I did read your book this weekend and I really enjoyed it. Please tell us about those top one percent and top 0.1. Also, put it in the global context as you do in your book and your policy conclusion, maybe you can just touch on that. It would be also interesting.

MS. FREELAND: Okay. Well, I will try.

MR. DERVIS: We'll have another round, so don't feel that that's the only chance you've got.

MS. FREELAND: Okay, thank you. And thank you very much, Kemal, for inviting me to be here. Real pleasure and honor. Especially delightful to be with Branko on the same panel. He's a very important source for my book, so I'm going to start by reading you one of my favorite quotes from Branko. And in my book talks I've been reading this and people really love it.

MR. MILANOVIC: It depends what you're reading. (Laughter)

MR. DERVIS: There's one thing you have to leave out, but otherwise, okay.

MS. FREELAND: So, and it actually points to how great it is that Kemal has organized this discussion today. And it's really talking about inequality and talking about what parts of inequality have we been willing to focus on and really talk about. And what Branko said, and he actually writes this in his wonderful book, “I was once told by the head of a prestigious think tank in Washington that the think tank’s board was very unlikely to fund any work that has income or wealth inequality in its title. Yes, they would finance anything to do with poverty alleviation, but inequality was an all-together different matter. Why? Because my concern with the poverty of some people actually projects me in a very nice, warm glow. I am ready to use my money to help them. Charity is a good thing. A lot of egos are boosted by it and many ethical points earned even when only tiny amounts are given to the poor. But inequality is different. Every mention of it raises, in fact, the issue of the appropriateness or legitimacy of my income.”

So well done, Kemal, for having us all here.

MR. DERVIS: Independence. Brookings is independent. (Laughter)

MS. FREELAND: But I think that Branko’s point is really important. And we’ve seen how sensitive this issue is in the election campaign where, you know, what I think a lot of people would judge to be relatively mild comments by the president about income inequality, about millionaires and billionaires, sparked this intense and actually absolutely sincere sense of hurt and outrage among the plutocrats and sort of immediate calls of class war. And I think that’s because really, you know, especially for these guys at the very top that we see appearing in Branko’s graph, it’s very threatening to actually say, wait a minute. Is this distribution working for everybody? So I hope that’s an issue that we’ll have a chance to discuss.

What I think I can maybe add as a starting point for the conversation is a little bit, you know, what I learned in my reporting those guys at the very top are thinking, how they’re feeling about the rest of us. And I found a couple of things. Some of them surprising; some of them not so much. The not surprising thing but I think very significant is increasing. And Branko talked about we have a global middle class but we don't have a global politics. We also now have a global plutocracy. And this is a group of people who increasingly -- and I think this is different from a lot of other historical periods -- increasingly have more in common with each other in terms of their cultural life, in terms of the communities where they live, in terms of the capital flows that they collective follow, than they do with their middle classes back home.

As one of them put to me -- this is how he described it -- this is a guy probably known to some of you. He may well be a Brookings funder. Glenn Hutchins, who is the cofounder --

MR. DERVIS: He is.

MS. FREELAND: Yeah, there you go. See?

Glenn Hutchins, who is the cofounder of Silver Lake -- it's a private equity firm, specializes in technology -- "a person in Africa who runs a big African bank and went to Harvard Business School has more in common with me than he does with his neighbors, and I have more in common with him than I do with my neighbors. The circles he moved in, Hutchins told me, are defined by interests rather than geography. Beijing can look a lot like New York. You see the same people. Isn't that amazing? You see the same people in Beijing as you do in New York. You eat in the same restaurants. You stay in the same hotels. We are much less place-based than we used to be."

So there is this global element. The other thing that I think is really crucial and we'll probably talk about what are the sources, you know, what are the economic drivers of income inequality, but Emmanuel Sais, who Branko cited, talks about today's sort of super elite as the working rich, certainly compared to previous elites. And he says that -- well, he has found that a lot of their wealth is actually income. This is more than in the past. A lot of first generation, not wealth, but first generation super fortunes. So if you want to be a billionaire, it's helpful to be born into an affluent, comfortable family, but these are by and large guys who made their own money. And, you know, think of Mitt Romney. Certainly born in very comfortable circumstances, but he didn't inherit Bain Capital. And one of the interesting things, really surprising for me things that I write about in my book, is the way in which that combination of being part of this sort of transglobal community quite distant from our own national middle class. Also having a sense of "I built it myself" -- remember that from the campaign -- has created a very ambivalent attitude towards your own middle class back home.

And I'll just quickly divide that into two parts. The first is -- and I did find this really striking -- an incredibly powerful sense of victimization. I think you saw that especially in the U.S. during this presidential campaign, and it really was sort of remarkable. So give you a few quick examples. There was one hedge fund manager. This was a guy who supported Obama in 2008, who in 2010 sent an e-mail to his friends. The subject heading was "Battered Wives." It's written in the first person in the voice of a battered wife, a battered woman, and the person being battered is the hedge fund guy. And the abusive husband is President Obama. And it's quite graphic. It's, you know, things like, you know, he doesn't hit me where it shows most of the time; he only hits me when I deserve it, et cetera.

Of course, it went viral and all journalists got it and stuff. But think about that for a minute. These are among the most powerful people in the world. Right? To be a multimillionaire hedge fund guy on Wall Street -- that's a pretty powerful position -- actually comparing themselves in their conversations with one another to among the most powerless, battered wives.

Another example, a guy -- just so you don't think this is purely a Wall Street phenomenon -- a Silicon Valley guy said to me that to be rich in America today is to be oppressed in the same way that ethnic minorities have been in the past. (Laughter) And wait. And that the president should be particularly ashamed of himself for doing this because he knows what it's like.

And then, you know, the Hitler comparisons that you hear are actually routine. I mean, you hear them from -- it's quite normal to compare the president to Hitler, you know, the famous Steve Schwartzman that the effort to roll back the special tax treatment of carried interest is akin to Hitler's invasion of Poland. (Laughter)

Really. Yeah. Yeah. And other guys say it, too. I mean, it's quite a common theme.

Equally a sort of sense -- and this feeds into the 47 percent comment that Kemal referred to of, you know, almost an Ayn Rand, John Galt-esque sense of we are the makers and there are all these takers taking from us. And just sort of in conclusion because my seven minutes are now coming to an end, I want to read you one of the most vivid comments about this. And this was from admittedly a very conservative person. A guy called Foster Friess. He was the big backer of the Super PAC that propelled Rick Santorum's candidacy in the Republican primaries. And I was talking to him about the deficit and the U.S. fiscal position and said, well, you know, maybe taxes on the rich should rise. And here is his response.

"People don't realize how wealthy people self tax. You know, there's a fellow who was the CEO of Target. In Phoenix he has created a museum of music. He put in around 200 million of his own money. I have another friend who gave 400 million to a health facility in Nebraska or South Dakota or someplace like that. You look at Bill Gates. Just gave 750 million, I think, to fight AIDS. I think we should get rid of taxes as much as we can because you get to decide how you spend your money rather than the government. I mean, if you have a certain cause -- an art museum or a symphony -- and you want to support it, it would be nice if you had the choice to support it. Where we're headed you'll be taxed, your money taken away, and the government will support it."

And then he starts really talking about actually who ought to pay taxes and who ought not to. "If you look at what Steve Jobs has done for us, what Bill Gates has done for society, the government ought to pay them. Why do they collect money from Gates and Jobs for what they've contributed? It's ridiculous. I'm just so amazed at this concept that President Obama says, 'I'm not going to let the half of the American people that pay no taxes' -- see 47 percent -- 'bear the unfair burden of the other half who are not paying their fair share.'"

It's pretty comical when you think about it. About 46 percent of the American public pay no income taxes. So this was well before the Romney comments, but clearly Romney was not some outlier. "It's that top one percent that probably contributes more to making the world a better place than the 99 percent. I've never seen any poor people do what Bill Gates has done." (Laughter) "I've never seen poor people hire many people. So we ought to honor and uplift the one percent, the ones who have created value."

Branko talked about, you know, how do you operate when you have a global middle class but you don't have global politics? And I think that is a central core question. I think allied to that is this question of what happens when you have a global super elite, winner take all forces operating in the world economy, and a global super elite which feels itself increasingly disconnected from that global middle class and perhaps is legally increasingly difficult to sort of capture in any particular nation state.

MR. DERVIS: Thank you, Chrystia. That was very -- both very, you know, well said and some real key information and also very -- said in a way that engaged the whole audience. So pick up her book. You'll have a lot of fun.

Uri. Now, what is driving all this? Why is this happening?

MR. DADUSH: Okay. That's easy, Kemal. (Laughter)

First of all, a word of warning. I'm going to talk about the United States, but I'm a French economist. Nobody is perfect. (Laughter) But I'm not a communist. Or at least I wasn't a communist until I actually started studying the trends of inequality in the United States.

So what are the drivers of inequality before I say a word about the United States? This is all fairly standard but I'll repeat it. There are three main drivers of inequality within countries. The most important, skill-biased technological change which reduces the need for unskilled workers and increases that for skilled workers. Globalization is the second force because it makes it possible for capital to seek out the cheapest workers to do the job. Workers are much less mobile than capital. And third force is government, which on average reduces inequality but whose role varies greatly over time and across countries at any point in time.

Skill-biased technological change, which I refer to as SBTC, unless it is offset by increased supply of highly educated workers, is almost certainly the single most important cause of rising inequality and would play a big role even if the economy was completely closed to (inaudible) investment. However, SBTC, and technological change more generally, also interact powerfully with globalization since falling costs of communication and transportation facilitate trade, investment, and the slicing up of the global value chain in search of the cheapest workers.

Moreover, competition with low wage economies stimulates SBTC as firms struggle to survive. Globalization also has affected inequality because of the large increase in the number of unskilled workers in the world with the entry of China and India many years ago into the global marketplace.

Now, government's role is not only to redistribute income, government's role in equality, but just as important, to affect long-term market outcomes by investing in education, health care, and infrastructure. Wealthier people can afford private education, clinics, and can drive to work. The less wealthy have to rely more on public services and education is the vehicle for them to deal with SBTC. So these are the facts in a nutshell, or what we think are the facts.

And now a word about the U.S. So this is the country that is seeing the sharpest rise in inequality and now has the highest income inequality across advanced countries. And it actually resembles a developing country in terms of its inequality. And moreover, today, one in five U.S. children is in poverty, and very few of them will get a good education. So it is not at all surprising that big inequality of outcomes is now reflected in big inequality of opportunity as you know.

The U.S., as Branko has mentioned, is, of course, not alone. The forces driving inequality higher are a global phenomenon present in both advanced and developing countries. However, the U.S. is special in some respects. A little bit special in one respect and very special in two other respects. The way it's a little bit special is that this is a particularly open economy. It has large amounts of FDI in and out. It is at the origin of the IT revolution and so on and so forth. Workers in the U.S. used to be the highest paid in the world and have been especially badly hit, so it's not surprising that if you look at market indicators of inequality, in the U.S. they're higher than in other countries and rising faster. But as Kemal said, the U.S. is different but it's not all that different. A lot of other countries have these same characteristics.

Where the U.S. is really special is in two respects. One is that in advanced countries -- in other advanced countries, government taxes and transfers reduced the Gini coefficient, the broadest measure of inequality, by about 25 percent compared to market outcomes. The equalizing effect of government in the U.S. is about half as large, much smaller than the OECD average. And furthermore, has been declining over the last 30 years as income taxes have been made less progressive, exemptions are proliferated, taxes on capital gains and dividends have been cut, and transfers from the young to the old so pay-as-you-go Social Security and Medicare have increased sharply, the old better off than the young in the United States. That's part of what's going on.

The second aspect where the U.S. is very special is in the cost of its health care, which now takes up 18 percent of GDP and is rising rapidly. A rate of spending which is twice that of other advanced countries while its overall health outcomes are much worse. How is big health care costs equalizing? Well, essentially, because health care is like food, at least basic health care is a commodity that everyone needs. And almost everyone pays for health care, either directly or indirectly because of lower wages. The poorest today are protected through Medicaid and the old through Medicare, but many in the middle class escape the safety net. Or in any event, are paying this high cost indirectly.

In other advanced countries, health care costs much less, it's more efficient, and basic coverage is typically accessible to everyone. The fact that now life expectancy among white high school dropouts is falling rapidly in the United States -- it's three to five years lower than it was 20 years ago -- is one symptom, a very important one, of how inadequate health care is both a manifestation and cause of inequality.

And finally, my last point, Kemal, is that it's important to note that the U.S. has kind of worked itself into a trap now that prevents it from dealing both with its fiscal deficit and high inequality. Big tax cuts and surging health care costs have caused huge budget deficits aggravated by wars and recession. But the fact that living standards of the typical family have been declining and the fact that the inequality is so high makes it impossible to make across-the-board cuts in benefits or enact broad-based taxes which you would need to close the deficit without causing unacceptable social dislocation. And in turn, the larger deficit make it impossible to increase spending on education, infrastructure, and social programs to mitigate inequality.

Anticipating the discussion we will have on policy, let me say that the U.S. can break out of the trap only if it attacks it at multiple points. Tax increases proportionally greater on the wealthy, rationalization of social spending so it is targeted on the less well off, and containment of health care spending. Actually, if you do the simulation, the economics of fixing these problems is perfectly doable. In the U.S. context the numbers are not that large to be dealt with. The politics is something else.

MR. DERVIS: All right. Before I turn to Ray, I think Uri made one point in connection to health and I think it's an important issue. You know, the size -- the way the size of government is defined by the OECD, by IMF tables, always presents you with the share of government expenditures in GDP, and then you compare various countries. And Denmark is the highest I think in the OECD, 57 percent. France comes right after with 56 percent. The U.S., I think, is 37 percent or something like that, at least for a particular year.

But you know, when you compare things that way, one has to keep in mind Uri's point. I mean, if you're sick, you know, your expenditure on health is not discretionary. I mean, some of it may be but a lot of it you just have to spend it. So if you add to the U.S. government expenditure what U.S. citizens pay for health out of their own pocket, that portion at least which they have to pay -- not cosmetic surgery and stuff like that but really what they have to pay -- that's another six, seven percent of GDP which you add to the government expenditure. Otherwise, you compare apples and oranges, not apples and apples. And I think some of the education thing is the same. Education, you know, is perhaps not quite as dramatic as health but I mean, a large chunk of education given the skill requirements of today's economies, you have to have it. If you don't have it, you just can't function.

Now, if you have to pay that privately, you know, you still have to pay for it. So I'm sure that, you know, I haven't done the numbers but you should probably add three or four percentage points of GDP also to the U.S. size of government -- to the size of government either subtracted from the Europeans or added to the U.S. And then you still get a difference, but the difference is much, much smaller. And this is not to say that there's no waste in European government expenditures in many countries, but I think there's not this huge gap in essence that some of these statistics make you think that, you know, if you just look at them you say, wow, 20 percentage points of GDP difference. It's not really quite that.

Ray.

MR. OFFENHEISER: Great.

MR. DERVIS: Anything you want to say, but particularly on poverty since this is one of Oxfam's, you know, greatest areas of focus. We've talked about the super rich, you know, their problems there, but at the end of today, if there was no poverty at all in the world and if macroeconomic policy was functioning well and if everything else was kind of okay, leaving aside the political outside influence, purely economic, one could say, well, so what. You know, if the world economy comes with that we'll just have to live with it. But there is still a lot of poverty in both relative and absolute terms, so maybe you can say a few words about that and also link it to the overall discussion.

MR. OFFENHEISER: Great. Thanks, Kemal. I'd just like to congratulate Kemal and Brookings for opening up this conversation. I think it's one that many of us have wanted to have for a long time and there hasn't been a space for it for a variety of reasons. I think Chrystia pointed out one of them. But anyway --

MS. FREELAND: Quoting Branko.

MR. OFFENHEISER: Right, exactly. Quoting Branko. So hopefully this is the beginning of --

MR. DERVIS: If I'm on the job market next month, you know why.

MR. OFFENHEISER: We're going to hope this is a sustained conversation.

So I'm going to come at this from a development practitioner point of view, focus on sort of poverty issues and what I'd like to do is maybe sort of share with you maybe a perspective that Oxfam has developed on these issues over the last several years. And also maybe try to share with you some broader issues that are emerging out of discussions that are going on within international civil society right now about this question because it is alive and numbers of groups that are having strategic planning discussions around the world, and inequality in all of those discussions is coming out at sort of the top of the list of really important issues that many of us have not had to grapple with or we haven't had to grapple with in direct sort of a macroeconomic sense. We sort of live with them every day in our particular context.

So what I'd like to do is maybe just give a little bit of context in some of the trends that are worrisome to us and maybe sort of make five points about things that we think maybe we ought to be linking to the discussion about inequality.

First of all, one of the interesting things that have been striking to us is that globalization has changed sort of the geography of poverty, if you will, and it's moved the discussion about poverty to high income countries and middle income countries. So actually, when we sort of look at the world today and we ask, well, where are the poor people? They're in India and China. They're in Africa, but the great numbers are in the middle income countries. And then look at our own country in light of what Uri just told us.

What this has sort of led us to think about is in those countries poverty is being driven by inequality largely. And circumstances that are different maybe than you might find in African societies where you have other kinds of resource constraints. What this has led us to think about is do we need sort of new ways of thinking about change? New approaches to the kind of development work we do. And while (inaudible) captures nothing new in the sort of work and the phenomena that we watch and we observe in the developing world, what's new is maybe the pernicious effects of inequality as it grows and as it's becoming more prevalent.

What it's meant for Oxfam is an organization that's tended to focus on poverty issues as a human rights issue. In other words, we define ourselves as a human rights development organization and define poverty as social exclusion. This has meant less work on projects, discreet projects in particular locations, and more concern about systems, read the rules, policies and practices. In other words, thinking about sort of the big picture issues that are sort of driving poverty and inequality.

And in that respect, we've actually worked on things like trade rules during the WTO trade round. We worked on educational investments and dialogue with folks inside the World Bank and the IMF, and we've challenged over the years structural adjustment programs of the IFIs as part of our work on sort of the inequality questions from a policy standpoint.

What's concerning us today? What are some of the big trends though? We see this trend of inequality accelerating at a time and in a world in which climate change is a very real issue for us and for many of the people we work with at the bottom quintile of the Gini curve. Market volatility is a really critical issue, and we see market volatility in the food, fuel, and financial markets. And this is really having a dramatic effect in various parts of the world where we're working. And we ask ourselves is volatility the new normal? And what would this mean for billions of poor people around the world if this is a sustained trend?

We're concerned about the increasing inequality and accelerating inequality in the largest economies in the world. We talked about the United States, but also in China we're seeing dramatic increases in inequality. What does that mean in terms of the kind of narrative on development that might emerge out of that? Meanwhile, as Chrystia said, we see a political process which is tiptoeing around the issue while at the same time sort of facilitating the acceleration of inequality. During the presidential debates we hardly saw a discussion of poverty. The discussion about the middle class is a surrogate discussion for the discussion of inequality, but it's very hard to get those -- even our presidential candidates to sort of speak about this issue upfront.

We're concerned about the effects on growth, which I think all of our colleagues here share. And as a poverty organization, Oxfam believes growth is important, but we also believe in inclusive growth that includes the bottom quintiles of the global population.

Let me just turn now to the sort of five points. And I want to run through them somewhat quickly so I can stay within my seven-minute limit here. The first thing I think concerns us is the relationship between inequality and social mobility. And one of the things I think for those of us who are Americans that I think is quite striking -- I kind of ran across this statistic somewhat accidentally, but the United States has fallen to 19th place among the OECD nations in terms of how social mobility is measured. This is the great American secret.

Hedrick Smith, formerly of *The New York Times*, has written a book about *Who Killed the American Dream?* And it's really about this whole issue of the death of social mobility or the sort of decline of social mobility in the United States. We used to be two; now we're 19. What does that mean? And what does it say about inequality and how inequality is affecting social mobility in this country?

And what does it mean when you insert that into sort of the broader work on development globally in terms of how substantial inequality and wealth concentration affects social mobility around the world in many of these new countries? And are we really, you know, is the development process really bringing people minimally out of subsistence while at the same time we're kicking away a ladder and really leaving them with an inability to sort of rise beyond sort of mere subsistence? Is that what the development game is about now or is it something different? And can we, you know, can we change that outcome?

Other big question within the civil society community is this question about the relationship between inequality and volatility and should we be taking a deeper look at that? Volatility is really not good for anyone, rich or poor, but volatility creates chaos. And chaos can be viewed as a challenge or also an opportunity. And I think if we've learned anything of what we've seen in the world is those people who have the means and who can bend chaos to their advantage actually do quite well in chaotic situations. And one wonders whether "boom and bust" economics and volatility is the new normal is something that, you know, we may be living with for longer than five years or a decade. And it would be interesting to know maybe from Chrystia's work what some of the plutocrats think about sort of volatility.

One of the things we've seen that troubles us deeply is with all of this money sloshing around we've seen it sort of drifting and moving into places we've never seen it before. For example, we're seeing speculative investments in commodity markets driving up food prices. In other words, the money is leaving the equity markets because they're not making good return there so they're going in and they're chasing sort of futures markets on grains. The effect of that is to drive the food prices up. Well, who can't pay for the food prices? People in developing countries, you know, where they're seeing 100, 200, 300 percent price increases. We're seeing land grabs in developing countries now. Investments coming out of pension funds going into land investments overseas, as well as in sort of claims on water supply.

So I think we have to ask ourselves who's really winning in this battle in the midst of these sort of highly volatile markets? In that spirit, Oxfam has been actually urging BRIC SAMs and the G20 to focus on food price volatility and actually to think about whether as a global response to all of this there should be a financial transfer tax that actually would generate revenue that could be poured back into development and maybe address some of these inequality questions.

Third point, inequality and sustainability. Economic growth in a resource-constrained world I guess from our point of view is the big challenge for our generation moving forward. And what do the plutocrats -- if I can use that term -- embrace? How do they think about this notion of sustainability? Is it something that, you know, is an important value for them? Or are they really more committed to unrestrained growth and sustainability is not really something that figures in their calculus?

Inequality and the institutional order. I think if we've learned anything from the financial collapse of 2008, we've seen the impacts of concentrated wealth on institutional integrity. We've seen the corrupting of our global accounting firms, rating agencies, banking oversight bodies, the SEC, the insurance industry, and our stock exchange. A wholesale exercise in institutional cooptation. Well, a paradox I think for those of us who work outside the United States is if this can happen in the United States where we have institutionalized rule of law and we've had it for several hundred years, what does that mean for developing countries or countries where there is weak rule of law? And what does it mean for their institutions? For those of us at Oxfam, we are very concerned about a human rights approach to development which presumes that the state is a duty bearer in delivering rights or security and public goods for its citizenry. What does this mean? What does inequality do to institutions that have to provide those guarantees for their citizens if they're increasingly corrupted by gross inequality in those societies? So the compromising of institutions and institutional integrity is something of considerable interest to us.

And one of the things I think we're seeing around the world is we're seeing a growing movement for transparency and accountability and good governance. At the same time we're also seeing many governments moving to close civil society space and the space for political action and public voice on these kinds of issues. There's one report that's out that indicates over the last seven years some 90 governments have actually put forward some law or other that actually addresses civil and political rights and reduces them in some way or other.

And finally, my final point is just the question of what does inequality mean for the development narrative going forward? In other words, with concentrated wealth and concentrated wealth in some of the biggest economies in the world, we might want to ask, you know, how is that concentration of wealth going to shape the development narrative that will be coming forward and maybe defining what we could call Globalization 2.0. Is it going to be one that actually is concerned about the poor and concerned about equity questions? Or is going to be one that's really about serving the interests purely of private sector, aligning foreign aid with global corporate interests exclusive and not really unnecessarily addressing some of these critical questions at the national level?

We see some of this happening in the foreign aid field already. The Canadian government, for example, recently has instituted policies where they are putting a lot of money into the whole area of mining and they're basically aligning a big chunk of their financial aid for development with the interests of their global mining expansion. So this sort of alignment of these interests very tightly is something I think we could see more of in a more significant way.

So let me stop there.

MR. DERVIS: Okay, thanks a lot. I tried to move it quite fast for audience participation. (Inaudible), you know, might give us some Scandinavian perspective that would be useful because Scandinavia is often still quote as an example of a very well performing market economy but with quite an equitable social balance in the society. And I'm going to pick on my friend, Suman Bery to see whether from an Indian emerging market perspective how does this whole discussion look? Is it very -- kind of an American discussion or advanced country discussion? Or are these things really quite important also from an emerging market?

But before that let me ask one question to Branko because, you know, and also to anybody on the panel. Uri says skills and the other factors. But if I asked you kind of point blank, and I was just in Paris at a seminar, how come France has remained so much more equal, both in terms of market income but even more so, of course, in terms o disposable income after taxes and transfer, let's say, than the U.K. or the U.S.? What would be your reaction?

MR. OFFENHEISER: Very briefly, like in one minute, really I'm fairly agnostic. I work with numbers and data, so it is -- I think it's very difficult to actually apportion percentages or blame or whatever you call it for increasing inequality. And we know we have actually -- Uri mentioned three candidates. We basically -- it varies all sorts. There is Peter Tatum recently wrote about the changing norms. You know, I think we have got about five of them, you know, with the globalization, skill-biased technological progress, changing norms, and what was the fifth one? Government intervention. Of course, huge. Huge. And of course, ideologically governments accepted the Washington consensus and all the other policies and so on, but I think it's difficult to actually -- to apportion these things.

It's true, as you said, actually, Uri also said that the transfers in Europe are larger. So when you start with marketing over the last (inaudible), market income is Sweden, which means before government intervention of any kind is about unequally distributed as in the U.S. But then, of course, the government intervention both on the tax side and expenditure side drives the Gini from 15 to 28 or 30. In the U.S. it drives from 15 to 45, so that's a big difference.

MR. DERVIS: Okay. Any comment? Quick comment, Chrystia, on this issue? How these differences can be explained?

MS. FREELAND: How you explain the French versus the French exception?

MR. DERVIS: French. I mean, I'm using it symbolically.

MS. FREELAND: I agree with Branko. The only thing I would say is, you know, some of the latest research about France is showing that the trend is the same. So France is still much different from the U.S., but it also is seeing growing income and equality. So I think that, you know, what is so striking to me is the underlying economic drivers that Branko was talking about are so colorful that is very politically aligned around modifying the market incomes is finding it's really hard to lean so strongly against those underlying forces.

MR. DERVIS: Roy, how does Sweden do it?

MS. FREELAND: And while you're taking the mic I have to say one of my plutocrats sent me an e-mail after reading the book. I was really scared to open it up because I thought he would yell at me. And actually, he said he quite liked it. He's someone I quote in the book. He works for Goldman Sachs, and his concluding remark was, "Your book makes me want to want to move to Sweden." (Laughter)

MR. DERVIS: Thank you.

MR. OFFENHEISER: Thank you. Of course, I think that it has been a tremendously good things in Sweden that income inequality has increased a bit because if you look up on the situation as it was in the 1980s, the actual highest margin income tax for the billionaires was 160 percent of the income which is slightly on the high side. And therefore, quite quickly because of that scandal it was brought down to about 60 percent from 1990 and it has stopped there. I think that's 10 percent too high but it's much better.

And in effect, wealth was something that you could only inherit. There were a few new entrepreneurs who fled the country and this was not a sustainable situation. Now it has totally changed. I think that Sweden is a good example of in the 1980s how it must not be done while it has landed quite sensibly.

And then the third thing is investment in human capital. It made no sense in the 1980s, and what you see now is tens of thousands of young Swedes have gone abroad to get the best education they can get. Also in this country it hardly happened in the 1970s and 1980s. It was pretty much a closed society.

And then a fourth feature that we are seeing is that Europe, unlike the

United States, has a massive tax competition. In particular, we see it on the corporate profit tax, but we're also seeing it on the personal income taxes. So the standard we are seeing popping up in Eastern Europe -- that is that you have three taxes that are around 20 percent -- personal income tax, corporate profit tax, of course, also capital gains tax, and value-added tax. So I think that we are reaching a normal state of taxation that in a globalized world we cannot avoid. And of course, I totally agree with what Uri said about the United States. The United States is simply a totally different world. Thank you.

MR. DERVIS: Thank you.

Suman, can I ask you how it looks from an Indian emerging market perspective?

MR. BERY: Well, Kemal, I wouldn't speak for all emerging markets but just the debate in India, I would say that because we still are enjoying, you know, reasonably fast growth, I think there is still a little bit of the Horatio Alger inspirational kind of dimension to it. So my hypothesis would be that a lot of the concern in the advanced countries is because of income stagnation. We're not there yet. Our politicians are trying very hard to make sure we get there, but in the meantime.

The second point is that, you know, it's very difficult to poll public opinion because I certainly read basically the *English Language Press*, which all politicians ignore because, you know, it is the vernacular press as we call it that is really what matters for them.

So I think the important normative issue in a sense in India, which is expressed by the chatterati, is similar to the points that Joe has been making about the United States, which is, you know, what does the concentration of economic power do to the working of democracy as it were? So there's a concern for crony capitalism. There's concern for rent allocation. I think there's also the additional issue that what would the fixes be? Do you have enough faith in the power of the state to make sure that the fixes won't be worse?

So I would conclude by saying that in the presence of fast growth, I think the concern should be more for poverty reduction. I think that because intellectual currents are globalized very fast amongst the English-speaking kind of intellectual elite, it is beginning to kind of feature in the public debate. But I think the real issue has to do with the nature of the state and whether you can really expect a state which is proving to be predatory in certain circumstances to be benign in others, and I think the jury is out on that one.

MR. DERVIS: Thanks a lot.

Yes. We'll open it -- yes, first you and then we'll take two or three questions or comments. Brief, please. And please identify yourself.

MS. LEE: Paulette Lee. I'm an international development communications consultant. I am not an economist, so some of this -- some of the language that's used I'm not familiar with, and I'm not clear on what the problem really is. Is it that -- and I don't mean to be naïve, but is it that income inequality reduces the amount of influence that there is? Does it devalue work? Does it not cure poverty? Does it not reduce poverty? What is the problem with income inequality? Thank you.

MR. DERVIS: Thank you. Yes.

MR. REEVES: Hi. My name is Richard Reeves. I'm an evacuee from the British Government. I've been an advisor there.

It relates to that question really, which is a kind of question of what are we talking about here? A great discussion. Amartya Sen was famous for saying "We all agree about equality; it's just the quality of what that we disagree about." And the same with inequality. Maybe between whom and then why I would worry a bit more than wealth than income in most developed countries. Between whom, I would generally worry more about the gap between the bottom and the middle and the middle and the top than between the 99 percent and the one percent because I think the labor market is partly there to redistribute. So in the U.K., the 1050, 1090 gaps are narrowing. But then why do we care about the one percent? We come to the plutocrats. We have to be really clear about why it matters; otherwise, we're just left with almost an aesthetic distaste for it. It doesn't feel right. That's not good enough politically. I think we might care for three reasons.

This is the question to the panel. One, is it means you're so rich you don't pay tax, so it has fiscal implications. Secondly, if it means that you're so rich you can guarantee success for your children at the expense of others. In other words, social mobility and closure. And thirdly, if you can buy political power using your money. But in the thought experiment, if we could make sure that the plutocrats, to use your term, couldn't avoid tax, couldn't hold opportunity on behalf of their case, and couldn't buy political power, on the face of it I wouldn't care how much money they had. Is that true?

MR. DERVIS: Okay. Yes. Behind there. And then I'll come to you afterwards. Yes. Or maybe let's give the microphone here because the microphone is closer and then I'll come to you next.

MS. HULL: Thank you. Jeanine Hull with Strategic Energy. I'm a sustainable energy developer.

My question is who benefits? This has all been -- this is not something that's happened really in the last year. This has been developing over a number of years as we've seen our corporations get more concentrated, the media is more concentrated, research is funded by corporations, education has -- we know what has happened to the United States in education. So my question really is why is it a benefit to the society to eliminate or reduce the middle class? I don't understand the point why this is happening.

MR. DERVIS: All right. The gentleman down there.

MR. CHECCO: Larry Checco, Checco Communications.

I read a very distributing article in *The Post* just within the week about a woman who started the Capital Food Bank about 40 years ago and is now retiring. And the one thing that struck me in the article that was so disappointing was her one regret was that after 40 years she's leaving the situation 10 times worse than how she found it. And this is in Washington, D.C. We're not talking about Bangladesh. This is the wealthiest city in the country in the world.

And I turned to my wife and I said, "We have to double -- we have to triple our donation." You know, this year. Something has got to happen here. And then it struck me. This isn't a problem we can donate ourselves out of. This is a systemic problem and this falls right at the feet of government. And government has filed us through lots of reasons. Through our tax code. We look t government, the SEC for example, was gloating that it fined Goldman Sachs $550 million, the biggest fine, while Goldman Sachs made $10 billion or more in profits. If I was Goldman Sachs, that's the cost of doing business. It's a grid RIO. So I really put this at the feet of government, and to -- anyway, I think that we really need to hold our government accountable, and we didn't hear enough about it in the last election.

Thank you very much.

MR. DERVIS: All right. I think -- well, let's have a round of comments and then one more round. I think we have one more round later on. And I'll ask the panelists to react a little bit.

I mean, I'll start by asking Chrystia since you focused so much on the one percent. How would you answer the gentleman's question there, and also I think the question here. I mean, what is it that from a welfare point of view, from a point of view of social well being in a society that is the most negative part of that.

MS. FREELAND: So I would sort of answer in two parts. The first is sort of even absent this sort of rise of that global sort of 0.1 percent or 0.01 percent. The really big problem is median wage stagnation and is what's happening in the middle class as we saw from Branko's numbers. And that, you know, I think it's going to get worse, and I think that it's going to climb up higher up the skill level. You know, just in my own job, in my day job I'm building our website -- a new website for our consumer digital platforms. Most of our developers are in Ukraine, (inaudible) send China. And they're every bit as good as the Americans and they earn 10 percent of what the Americans do. And these are guys with Ph.D.s in Math. So, you know, it's longer just the low-skilled workers. So it's that median wage and stagnation. And even, you know, downward pressure. And that I think is hard for any society to cope with.

Why is this connected with the rise of the plutocrats? I think for a couple of reasons. One is these are two sides of the same economic coin. That is, what I think makes it so difficult intellectually to grapple with is the same economic forces. And personally I think they're good. I'm a fan of globalization. I'm a fan of the technology revolution. How could you not be? But the reality is these economic forces are simultaneously putting downward pressure on the wages of the middle classes and middle and increasingly high income countries even as the people at the very, very top are benefitting. And I think we find it quite hard to talk about it that way. We lack a language that talks about an economic force that can have a differential impact on people who are in different places in society. So that's why they're connected.

Why should we be thoughtful about or even think about people at the very, very top and the gap between them and everybody else growing? I would say let's set aside aesthetic reasons. Let's even set aside reasons of justice and fairness and all that. And I think the reasons are the ones you outlined.

They are -- first of all, I think we need to worry a lot about how this first generation of the working rich quickly becomes, solidifies into an anti-social mobility society and you can see how that happens. I mean, in my book I quote Larry Summers, one of my favorite lines. He talks about when he was president of Harvard, sitting in on the deliberations of the Admissions Committee. And there was one kid. He says he would clearly do well at Harvard. Great grades, great SAT scores, but not exceptional in any way except for one thing. He spoke perfect Chinese and had learned it not in school but because his parents had hired a Mandarin tutor to come four days a week to teach the kid Chinese. And Larry says, "What do you do about that?" You know, clearly it shows the kid is a great kid because he's in high school and he's studying Chinese as extra, but you have to be really rich to afford a mandarin tutor to come four days a week. And how -- even in a pure meritocracy, how do you avoid when you have these huge gaps the next generation benefitting?

But even more important that I think is this issue of avoidance of taxation, and in a global economy I think that became very hard. And I think it is about political capture. And most important to all, the thing I worry about is cognitive capture. I think William Boyd, who interesting -- he was an economist and now he's the chief economist of CitiGroup. So talk about cognitive capture. Bu the wrote a great paper about the -- right? I mean, he wrote a great paper about the 2008 financial crisis. And his argument was it wasn't about actual corruption. It wasn't about people being bought off, but it was about an entire intellectual elite -- regulators, economists, think tank people, journalists -- everybody coming to see the world form the point of view of the banks and not anybody else. And if you want an example of this, for me the best example is this paper that McKenzie did commissioned by Mike Bloomberg and Chuck Schumer. So, you know, hardly hard right crazy people. Published in 2007, and the thesis of the paper is it's about how New York is losing ground to London as a financial center. And the two key problems, the key problems -- this is January 2007 -- think how close we were to the financial crisis. One, too much regulation of credit derivatives. (Laughter) It's in the paper. Read it. It's like enough credit derivatives trading in York. Not enough financial innovation in this key sector. This is a pressing danger for the U.S. economy. The second big danger that this paper identifies two onerous capital requirements on U.S. banks. Okay?

So cognitive capture. Elliot Spitzer said this was a great paper. He supported it, too. We all thought it was okay and it's not because we were corrupt, but that to me is why the income inequality has these very difficult effects on how our whole society runs.

MR. DERVIS: Any quick comments before we go again to the audience? Or do you want to wait for the last round.

MR. OFFENHEISER: Let me just give me just an anecdote on the gentleman who is coming about systemic problem. And maybe just an illustration from some of the world that Oxfam does. You know, we work with farm workers in the United States, and one of the things we've seen in that world is, you know, if you want to talk about downward pressure on wages in the middle class, downward pressure on wages among farm workers is absolutely at a level that's obscene. They haven't increased in over 15 years. And we are currently in a situation -- so what you see actually is all this downward shareholder pressure for more profits coming out of sort of food production manufacturing companies transferred then down to the growers and then transferred down to the farm workers. So their wages are beyond stagnating but they're just, you know, they're very, very minimal.

And so you've got farm worker sort of upheaval all over the United States, but more importantly, just to be aware of, we have six or seven cases in federal courts now of slavery charges in our farm work communities around the United States, something we haven't seen in decades, largely because of this kind of downward pressure on wages.

MR. DERVIS: Okay. A few more questions and then we'll give Branko and Uri a chance to -- yeah.

We're running out of time so let's try to be very fast.

MR. TRINKLE: Thank you. Garth Trinkle, Department of Commerce.

Quick comment for Chrystia. And as you know, the son of the president of the Ukraine became an oligarch in three years.

But moving on to economics, there was the comment at the beginning that we would go back to the chart of great promise and talk about western stagnation. And I also very much liked Table 13 in your report, sir. So I wanted to ask both of you, do you have any comment on the work of Dale Jorgensen and his students at Harvard now on looking at the total factor productivity and economic growth, could you make some wrap-up comments about economic growth versus the fiscal issue of Denmark and Finland using fiscal transfers to go from 50 percent to the high 20s on a Gini basis. Thank you.

MR. DERVIS: Okay. Anybody else? Yes, Paul. I can see you from there. And then one more after that and then we're --

SPEAKER: Thanks very much. It's a really interesting discussion.

Would the panel agree that in the future it would be good to disaggregate a bit more within the top one percent or even the top .01 percent based on whether, in fact, that wealth is coming from technologic improvements in technology, things that might actually be creating jobs or improving health or whatever, and wealth that comes from being bailed out -- being a speculator in derivatives that seems to be worsening things. And clearly there are some similarities. Once you get the money you can try and buy government, but I was surprised not to hear more and shouldn't there be more discussion of that?

MR. DERVIS: All right. One last question. Well, I mean, there are two hands there. All the way to the back I'll go. I'll go all the way to the back. I can't see the person but I see the hand. I think it's -- yeah. Then we have to --

SPEAKER: I work for a labor union and I run an Africa website.

In the last few months there have been several reports about an Africa rising. There was a cover on *The Economist* maybe six months ago about how there's a new rising lion. And if you look at all of the countries that are rising -- Angola, Nigeria -- you see that income inequality is astronomical. So how do these developing countries, as they're trying to grow, also combat income inequality?

MR. DERVIS: Thank you. Okay. We'll have a last round now. Maybe we'll start with Ray first. Just, you know, one or two points you want to pick up.

MR. OFFENHEISER: Maybe just pick up on that one. I mean, I think maybe some countries that are worth maybe taking a look at are Mexico and Brazil where there's been a real effort in some sense, in countries that started with tremendous inequality and actually have tried to address that through investment in human capital, skill, and trying to close the sort of skills gap in some sense in the labor market, as well as investing in various kinds of transfer programs in the health and food security sectors, for example, to kind of reach their more marginalized populations. They still have a long way to go, but nonetheless, it's a country where you've had sort of the kind of political will and the political intent and enough political critical mass actually to sort of counterbalance the fact that it's a country that's growing dynamically but it's also staying focused on these inequality questions and it's trying to develop programs to address them.

MR. DERVIS: Uri. Any last words of wisdom?

MR. DADUSH: Yeah, just quick on growth. Obviously, growth is a good thing, and it increases the available resources. The issue in the U.S. is that the country has had growth which is higher than the average of the other advanced countries and yet median wages have been declining for some 30 years, certainly for male workers. And the 90 percent bottom of the population has seen no increase in average incomes.

So the issue is not that there isn't growth but where those gains are -- who is gaining? And when you say, you know, what about the fiscal aspect, the challenge is how do you keep the growth going in the U.S.? And I believe that the United States actually continues to have very high growth potential compared to other advanced countries. How do you keep the growth going, but engineers, some redistribution of investment in education and infrastructure and so on and so forth so that the gains are more widely spread? And in a sense, and there is a lot of analysis of where the one percent is getting their money and who they are, et cetera. That's all widely available.

I'm frankly a little bit less interested in expressing a judgment of whether it's right to get it through finance or get it through being a very good doctor, et cetera, et cetera. That's very tough to do anyway. I'm more interested in the dispersion that is happening. And I'm also very interested, especially when you're talking about the very, very top of the distribution, the plutocrats, of how they're spending their money. And, you know, in my view -- this is a personal view -- there is an enormous view of societal waste when you see how the money is being spent. And you don't have to have that kind of expenditure and extravagance in order to get a lot of pleasure and incentives out of producing stuff in life.

MR. DERVIS: Branko.

MR. MILANOVIC: Yes, very briefly, actually.

First, this is a topic that clearly exercises people a lot. I would actually like to set aside one misapprehension that maybe some people entertain through the questions, and I'm very glad that Andres actually made this point. I'm actually pro growth and I'm pro inequality. As Andres said for Sweden in the '90s, I come from former Yugoslavia where actually there was a sociologist actually in Czechoslovakia who wrote the paper showing that incomes are totally related to the demographic composition of households. Well, obviously, in that case you have no incentive, and we are not talking that the Gini should be zero or 10. But we are talking here that the Gini in the U.S. has actually gone into the sphere of sort of developing countries; that there is really a very strong capture of the political process as actually Chrystia shows by (inaudible). So we are really talking over a situation which has gone quite far even by the U.S. standards from the '70s. It is really the pendulum has swung back. So I just would like to sort of clear the air because nobody is actually saying here we want the Gini to go to 25, you know.

And actually, to go back to the first question or the second question -- I think the second question basically is an answer to the first question that the lady here asked, is that yes, of course, we would not care about autocrats if -- the gentleman said if they were to pay taxes, if there was no inheritance and impediments to social mobility, if they were not to capture the political process. Yes, if this was all true it would be excellent, but neither of the three things is true and it's sufficient that one of them be not true that we should care. So that was actually, you know, my point on this. (Laughter)

MR. DERVIS: Chrystia, last word.

MS. FREELAND: Well, it's hard really to follow Branko but, I mean, I think the questions are actually how you got your money and who's the good plutocrat and who's the bad one. I think this is actually a really important and interesting question which exercises the plutocrats themselves hugely.

The one thing that I would say to you which I found is every single one thinks he's good. Okay? So like the Silicon Valley guys, they love to talk about, "Oh, those Wall Street guys, they're so bad." And you talk to the Wall Street guys. They say, "The hedge fund guys like me, they're very good." It's just, you know, the institutional bankers who got the tarp, they're the bad guys. It's quite hard to parse. That would be my only point.

I think the question of development Ray has talked about a lot so I won't touch on it. And my only concluding point that I wanted to make really following up on what Uri and Ray have said, you know, I think you both highlighted a really important issue that will need you, Kemal, to organize another panel on which is the role of the state in all of this. And that to me is maybe the central issue in how you mediate it. And what I found the most troubling really and the surprising thing in actually talking to the plutocrats was this sense which I don't feel they had sort of fully processed or intellectualized but a feeling of floating away from the state, of sort of slipping the traces of particular nation states. There are even some guys, Peter Teal, the PayPal guy is partly financing something, a project which you couldn't make it up, is being run by the grandson of Milton Friedman, to create these seasteads. These would be islands built in international waters free from any control of government where you could -- right. I mean, really, like you couldn't invent it. They're actually doing it.

So, you know, this slipping of the traces and this, you know, increasing disconnect with the rest of society. And I think that really comes out in this 47 percent idea and the feeling of the makers versus the takers. And that's where the idea of the good versus bad plutocrats and the meritocracy sort of bizarrely and surprisingly complicates the whole discourse because actually in some ways the more merit-based the acquisition of your fortune is, the easier it is to feel disconnected from all of those grubby takers down there who want you to pay for their health care and their birth control pills.

MR. DERVIS: Well, let me make a few comments using the privilege of the chair but just a very few. I mean, I think we've had a great discussion. We could go on, of course, but we're all very busy. But let me just maybe stress this whole issue of the state which Suman also emphasized.

You know, when I was a student at the London School of Economics -- I won't say how many years ago, a long time ago -- you know, it was the '60s actually. The late '60s, early '70s. And, you know, the story was all about market failure. And the thing that I, as a student, compared market failure to was this mythical state that was benevolent in doing the right thing. And, you know, I was very much politically on the left and, you know, I compared this mythical state, the good hearted planner to the many market failures. And it was a no-brainer that you had to get rid of a good chunk of the market.

I think what happened with the Reagan-Thatcher years, you know, and when I sense that even at the World Bank which became much more ideological than it was after that, almost the opposite has happened in large parts of public opinion that somehow the market can deal with everything and the state is by definition inefficient bureaucratic, you know, lazy, useless, and all that. And it became like a dominant thought in many circles.

So I think obviously, I personally believe, you know, one has to be in the middle of these two things, but it's quite clear that if one wants to be interventionist and wants to deal with income distribution or with environment issues or with, you know, health issues and use a more public policy tool for that, you do have to have an effective state. Now, of course, it's a vicious circle. If you cut the state -- lower salaries, make sure that, you know, skilled people don't go into public service, you know, you will get a bad state at the end of the day. So to get a good state you have to be willing to pay a certain price for that. Otherwise, you won't get it. That's my first point.

The second point which Chrystia alluded to in the very beginning but she also has it in her book, you know, the whole social liberal synthesis which I think in the end triumphed over the soviet system, you know, it wasn't obvious at all. I remember reading a textbook, Samuelson, you know, as an undergrad saying, well, in the end the Soviet Union will overtake us because they are investing more. You know, and we can't invest as much as they do. They force people and there's nothing we can do about it. We can try to defend democracy as good -- as much as we can but, you know, let's face it. People as smart as Samuelson were -- the system was very competitive. And the reason that didn't happen, I think, was the social liberal synthesis that was created, liberal in the market sense, you know, in the West, particularly in Europe but also by Roosevelt and then by the whole '50s and '60s in the U.S. managed to balance the market power and the disruptive forces of markets and the inequalities that existed in the beginning of the century by a state intervention that, you know, provided much more free education, more and more health services, social security, you know, and all kinds of things, and had a fairly progressive tax system. And so the main rug was kind of pulled out of the communist system in a way because the West performed better, not only in terms of growth but even it had a very decent income distribution and social system.

However, the state I think is being disempowered to a fairly large degree

-- that state that I was talking of, the social liberal state -- by globalization. By the fact that, you know, if you don't like it here you go somewhere else if you're a capitalist or if you're a highly skilled person.

You remember the story of Jeff Emeld. He spoke at our Brookings trustees' dinner. I mean, President Obama made him his advisor on private policy and business and all that and a few weeks later it turned out that General Electric paid zero taxes to the U.S. Not totally legally, nothing illegal about it, but just making sure, you know, to take advantage of all the tax arbitration we can do.

I read another article the other day in the FT that Google Europe basically makes all its profits in Ireland because it has the lowest tax rate and it pays and it pays literally no taxes anywhere else. And so there's a lot of that kind of arbitration going on and I think, you know, there's this whole issue. Is there some way of putting a more global framework around this whole debate? It will probably take decades but I'm not very optimistic about nation states alone acting on their own, being powerful enough to kind of counterbalance some of these things.

And then finally, it's late in the day. Let me make a more philosophical point. But I think Warren Buffet so I can't claim too much originality for it. But anyway, I really do believe that luck plays a big role in life. You know, just luck. You hear about all these great successful guys and then you don't hear about those who never made it. Okay. Now, if you say, okay, well, they took risks, yes, there's a lot of merit in taking risk. But frankly, a lot of our success in life also comes from luck. Or health even. You know, how we're born, whether we're actually, you know, in good health or not. Excellent people. I had a wonderful French friend, 42 years old, you know, great reformer, great worker, died of a heart attack in June. I mean, luck is a big part of it. And I think to some degree how we relate to this whole issue, you know, has a little bit of something to do with how we relate to luck. If we just believe that lucky people are just lucky and that's great and that they deserve everything they get, you get one kind of ethical position. If you believe that human beings are, you know, of equal worth but some of them are a lot more lucky than others and the more unlucky ones deserve more support and the lucky ones should share a little bit more, I think you get a different ethical position. These are ethical judgments. You know, you can have your own. I don't think that one can legislate on that.

But anyway, thanks a lot for being here and we'll continue.

(Applause)

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