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BOOK LAUNCH -- "THE GREAT SURGE: THE ASCENT OF THE DEVELOPING WORLD"

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P R O C E E D I N G S

MR. KHARAS: Good morning, everybody. Thank you all for coming. My name is Homi Kharas. I'm a senior fellow here at the Global Economy and Development Program at Brookings. But the real purpose of today's discussion is to introduce you to a really wonderful book and it's this. It's called *The Great Surge: The Ascent of the Developing World*. It's written by Professor Steve Radelet, who is here with us and I'm delighted to be able to moderate this event.

So, Steve, in addition to being the Donald McHenry Chair in Global Human Development, as the distinguished professor of the practice of development and director of the Global Human Development Program at Georgetown University's Edmund Walsh School of Foreign Service -- there'll be test on whether you know who he is at the end -- is a nonresident senior fellow at Brookings and that's why he's actually here. So we're really delighted that you could come, Steve.

So he's a professor at Georgetown, which is what you need to know. He was the chief economist for USAID. He has field experience in most prominently, I would say, Liberia as an advisor, which he continues to be to President Ellen Johnson Sirleaf. But he's also worked in many other developing countries around the world. He's got a Ph.D. in economics from Harvard.

Steve, it's a wonderful book. What we're going to do is we're going to start, Steve's going to do a presentation of the book. I've asked him to keep it short so that all of you will actually be intrigued enough to go and buy the book. Remember this is a book launch. The purpose and objective is buy the book, please. Let me show you the book again. (Laughter)

And then we're going to have a little panel discussion. I'll introduce the panelists at the time that they come up. And then, of course, we'll open it up to Q&A and you'll get a chance to interact with the panel.

So, Steve, the floor is yours.

MR. RADELET: Thank you to my sales managers, Homi. (Laughter) I appreciate that. We'll work on that royalty split. But thank you very much.

QUESTIONER: It's all going to Brookings.

MR. RADELET: That's right, it's all coming to Brookings. Thanks, everybody, for being

out here, coming out here this morning. I appreciate it very much.

I want to thank not just Homi, but Kemal Derviş and others at Brookings that have been so helpful in this process. Laurence Chandy, who I'm not sure if Laurence is here today, but he gave me some great comments and suggestions on the book. Neil O'Reilly and Madelyn have helped with this event, along with Christina and Aki and Yami and others here at Brookings, and I just want to thank all of them here. Plus the Hewlett Foundation that provided some support through Brookings and our friends Sarah Lucas and Ruth Levine at Hewlett. So thanks to all of you.

And a special thanks to Shanta and Antoinette for being here, two of my old and great friends -- young and great friends that have really honored me by being here today and providing some comments. So I'm looking forward to all of this.

What I want to do briefly is talk about some of the data in terms of trends in development, in developing countries around the world, talk about why I think things have changed so much, and then talk a little bit about the future. And hopefully, not give away too much as we go forward.

The starting point for this book is the fact, the set of facts, that we live at a time of the greatest progress amongst the global poor of any time in human history. There's never been a time like the last 25 years where more people in more poor countries have made more progress in more dimensions of development than ever before. And astonishingly, most people are unaware of it. This is in terms of poverty reduction, in terms of improvements in health, access to education, the spread of democracy, reductions in conflict, which is especially hard to believe these days. But there has been more change for more people in more countries than ever before. China is a big part of this, so is India, but it is a mistake to think that it is all about China and all about India.

So what I want to do is talk a little bit about that progress and then think about some of the prospects for the future. Let me just run through some of the data very quickly. Here is a blank screen. Uh-oh, here are more blank -- there we go.

Okay. So first, poverty. These are the new World Bank numbers as of just a few weeks ago with the new poverty line of \$1.90 a day in 2011 purchasing power parity terms. The red line at the top corresponds with the left axis. This is the number of people living under \$1.90 a day.

And here's the remarkable thing. In 1993, there were about 2 billion people around the world living under \$1.90 a day. First of all, pause and think about that. Just 20 years ago there were still 2 billion people around the world that lived under \$2 a day, which is pretty remarkable in and of itself. That number had been rising essentially since the beginning of human history along with global population.

We go back a couple of hundred years, almost everyone in the world was living on what we would now consider deep poverty, with poor housing, ill health, lots of death, almost no schooling, and very few personal freedoms. A couple of hundred years ago. And so the number of people living in poverty rose as world population rose. It began to level off in the '60s and '70s and '80s, and then, for the first time ever -- ever -- fell. And it fell by half in just 19 years, from 2 billion in 1993 to less than a billion in 2012, around 930 million today. That's the red line.

The blue line is the percentage of people living in poverty. That's the right axis. And it fell in 1981 from over 40 percent to just around 12 or 13 percent today. So we have literally hundreds of millions of people being lifted out of extreme poverty.

Now, you might think, actually, before I go on to health, you might think that most people are just going a little bit above the income level of \$1.90 a day or \$2 a day or \$3 a day. I show in the book that actually incomes are rising across the spectrum. More and more people have incomes above \$2 a day, above \$3 a day, above \$5 a day. And, in fact, I show in the book that for the first time in history there are more people today with incomes above \$5 a day than there are above \$2 a day. That's never been the case before in history and it is today that we're getting this crossing point. So incomes are growing fairly quickly.

Here's switching to health, just to give you a snapshot on the health side. This is the share of children in developing countries that die before their fifth birthday. And here the pattern starts earlier. It goes back actually into the '40s and '50s, but especially '60s and '70s it took off.

In 1960, 22 percent of children in developing countries died before their fifth birthday, if you can imagine what that means. To me, I've been looking at that number for a long time and it still actually blows my mind that 22 percent of children died before their fifth birthday. And that's an average,

meaning that in many countries it was 30 percent or 35 percent of children that died.

Today, we're down to under 5 percent of children dying. That means the drop from 22 percent to 5 percent means that 17 out of every 100 kids that would have died just a couple of decades ago now live. And again, nothing like this has ever happened before in human history. I actually think this is one of the greatest achievements in human history right there, and very few people are aware of it.

Just to give you a glimpse of how few people are aware of these changes, back on this poverty number a Swiss survey a couple of years ago asked Americans what had happened to the share of people living in extreme poverty. It was asked about \$1.25 a day, but the equivalent of this blue line. And there were three answers in this survey.

Answer A was that the share of people living in extreme had doubled in the last 20 years. Sixty-six percent of Americans thought that was the right answer, that this share had doubled since the 1990s.

Answer B was the share has remained the same. Twenty-nine percent of Americans picked that answer. We're up to 95 percent of Americans now.

Answer C was that the share had fallen in half, which is exactly right. Five percent of Americans knew this. So nobody really knows this is going on.

Again, on health, this is life expectancy. Life expectancy at birth has grown from 50 years in the 1960s to 65 years today. People are living almost one-third longer, and that's partly because of the infant mortality change, but it's more than that. The bars on the right are life expectancy contingent on reaching age 5, so once you reach age 5, and even here life expectancy has grown from 61 to 68 years. So it means both child death is falling, but also adult mortality is also falling because there's -- malaria deaths have been cut in half in the last 15 years. Cut in half. AIDS deaths are down by a third in the last decade. Tuberculosis deaths are down by a third. Of course, smallpox has been eradicated and polio almost. And so that's showing up in much longer life expectancies.

People have much more education. These are the average years of schooling amongst adults. The gold bars are for everyone. The blue bars are for men. The red bars are for women. This is adults, how many years of schooling did you have when you were a child?

In the 1970s, the average was 3.4 years of education. Today it's over 7. People have twice as much education, twice as many years of school as they did just a couple of decades ago. It's still not enough and there are big issues around the quality of education for sure. I think one of the big agendas in the next 20 years in developing countries is the quality of education. But adults have twice as much education today as they used to, and that's showing up, I think, in higher skill levels and other kinds of things that provide some promise for the future.

The biggest gains have been around women. Adult women had just 2.7 years of education on average a couple decades ago. Now they have more than 6. I don't show it here, but in the book I do in terms of primary school completion for girls. In 1980, only 50 percent of girls completed primary school. Fifty percent. Now it's 85 percent, which is still too low, but it's a whole lot better than 50 percent. And so girls in particular are finally beginning to get the opportunities and chances that they deserve.

So we've had poverty, health, education, now this is incomes. This is GDP per capita, just a simple average across all developing countries, indexed to equal 100 in 1960. And so the slope of this line is the average growth rate, if you will, across countries. This is at the level of GDP per capita. You can see between 1960 and the mid-'70s, incomes were growing. GDP per capita was growing. But then for 20 years, between the mid-'70s and the mid-'90s, there was no growth at all. GDP per capita in developing countries was the same 20 years later. This is the period from which everyone believes that development doesn't work, that countries fail, that there's no progress. It's because actually for those 20 years there wasn't a whole lot of progress, especially on the income side. So there was zero growth in GDP per capita.

This is unweighted average, by the way, on purpose. I count every country the same because I don't want to count China and India because it would only be a China and India story.

But in 1995, something happened. Something pretty dramatic changed right here and GDP per capita started to grow in dozens of countries around the world, not just a few, dozens of countries around the world. And incomes have about doubled -- have almost doubled in developing countries not counting China. Not counting China. Average incomes in real terms have doubled in

developing countries since the mid-1990s, and it includes many more countries. This is just a count.

This is just a screen that blinks on and off. This is part of my show, actually. I come in just a few minutes in to make sure you're still here. We're going to have the disco music in a second that goes with this. But in between the flashes -- wow, that's pretty good.

This is just a count of the number of -- look at me, not that -- the number of countries with growth rates over certain thresholds. Between 1975 and 1995, there were only 20 developing countries that exceeded even 2 percent per capita. Two percent per capita, only 20 countries. In the last 20 years, 70 countries, actually 71 countries have exceeded that mark. It's not super high, but that tells you going from 20 countries to 70 countries that this is a much more broad-based phenomena.

In the earlier period, if you could see it, there are 50 countries that actually had negative growth rates. Now we're down to 10. So something changed in the mid-1990s.

Now, less flashy, is democracy. It must have been that slide. The spread of democracy. There are lots of different definitions of democracy. I use two different indices and a country has to achieve a certain threshold on both Freedom House indices or on rights, political rights, and civil liberties, and the Polity IV index on elections and rule of law and other institutions. And countries have to actually achieve both because democracy is about much more than elections.

Anyway, in the mid-'80s there were about 17 countries, developing countries, that could be considered democracies. We're up to almost 60 today. There was a sweep around the world starting in the 1990s towards democracy in Latin America, in Sub-Saharan Africa, in Asia, and beyond, and obviously in Eastern Europe. Again, starting in the 1990s. It's leveled off in the last few years and we've had some democratic recession in Thailand, in Venezuela, in Russia obviously. But we've got Myanmar having elections just this month. We've got Tunisia consolidating elections last year. We have Nigeria with a peaceful transfer of power to an opposition party must a few months ago. We have Indonesia, where a furniture maker beat a former major general in an election last year.

Twenty years ago, people believed that most of the low-income countries could not be functional democracies. Modernization theories suggest that it's not possible for poor countries to be democracies. Once again, never before in history have so many low-income countries experimented with

this great idea of democracy. Lots of failures, lots of setbacks, lots of things that aren't going very well. There's corruptions, there's flawed elections. There's not always the rule of law and I'm not talking about Washington, D.C. I'm actually talking about developing countries. There's lot of flaws in this democracy, but something, again, changed.

And there's less conflict. This is the number of civil wars in developing countries. In the 1980s, at any given time, there were 12 or 13 civil wars going on at any given time in developing countries. Now we're at half that number. It's not that war has gone away and there's a little bit of an uptick here, not a little bit, but an important one with Syria. We have conflict in South Sudan and several other places. And I don't want to diminish those at all, but the 1980s was horrible. All of Central America was at war. Colombia was in the midst of a war around drug networks. All of Southern Africa was in flames around the end of apartheid. Southeast Asia was still reeling from the end of Vietnam and the killing fields. We had wars all over the place and much less conflict today.

But having said this, I want to underline with all this great progress many people and many countries are still left behind. In no way do I want to suggest that all is good. There are still a billion people living under \$1.90 a day or something like that. There are still too many children that die young. There are still too many girls that don't get the opportunities they deserve.

And just to illustrate that, this again is the GDP per capita numbers. The red in the middle is the average, which we saw before, with the leveling off of GDP and then the jump in the last 20 years. That's the average, same thing we saw before. The blue line is the 25 countries with the fastest growth rate since 1960. And we can see that those 25 countries, their incomes are more than 5 times higher than they were in 1960. That's what that blue line tells us. If you can imagine 25 countries in which the average income today is 5 times higher for the average citizen that it was for their grandparents. It's astonishing. But at the same time, the gold line are the 25 countries with the slowest growth rates. And those 25 countries GDP per capita is unchanged from 55 years ago.

So we live in a time when there is the most astonishing progress ever and in the same global context, the same technology, the same ideas, the same trading systems that bring about the most astonishing changes in global history, we have another 25 countries that are still stuck and are not

moving at all. This is one of the great mysteries and the great challenges of development.

So let me go from there now and talk about why I think this happened and talk a little bit about the future, and then I will answer your question, Staci, unless it's just a clarification.

MS. WARDEN: It's (inaudible).

MR. RADELET: Yes. Staci already wants to get into this.

MS. WARDEN: No, for the developing countries (inaudible).

MR. RADELET: Yes, so this is a consistent set of developing countries over time. And to show this accurately you have to have the same set of countries. And if I took out all the countries that had been successful, like South Korea, that would give a misleading impression of progress, and if I only focused on today's developing countries. So for all of these I have a consistent set of countries over time. It's 109 countries for which data were available. I exclude all the countries with less than a million people only because when I start counting countries I'd have a lot of small island countries that would actually make the numbers on democracy look better, would make the numbers on economic growth look better, but they're tiny countries, so I don't count them.

So what happened in the early '90s? Just very quickly because I want to talk about the future here. I think three big forces came together to create new opportunities and options for developing countries.

First, the global system changed. We went from hundreds of years of colonialism, which essentially foreclosed opportunities for people to have job opportunities, to go to school, to have health, and then we went into 25 or 30 years, 30 years, of the Cold War in which the United States and the Soviet Union were supporting some pretty nasty dictators that also foreclosed a lot of opportunities in many countries, and we supported them.

At the end of the Cold War the global situation changed in pretty dramatic ways. And I think really, for the first time, it opened the doors for many countries to begin to have the opportunities to move forward. And we all know what happened with the end of the Cold War. It led to much less violence because we were not supporting dictators and neither was the Soviet Union. That's one of the major reasons why violence fell.

We had more countries shifting towards democracy. The end of apartheid is completely linked to the end of the Cold War. The day after the Berlin Wall fell, the South African cabinet met and said what are we going to do about Mandela, and eight weeks later he was freed from jail. It began to unleash those kinds of changes around the world alongside obviously the changes in Eastern Europe. The end of the Cold War led to a change in ideas around market capitalism and market economics and around the idea of democracy.

So those big global changes, I think, were really important in removing many of the obstacles and opening up new opportunities.

Second was, around the same time, we had a great extension in terms of global integration, globalization, trade and financial flows, but also the exchange of ideas, the exchange of information and the exchange of products. One of the best examples of globalization that I know of is vaccines and immunizations for children. You cannot get a vaccine from a factory in Indiana to a village in Northern Mozambique without globalization, without the integration of private companies working with the United Nations organizations, working with aid donors, like USAID, working with local governments and NGOs to make that link to get vaccines to kids.

So globalization brought the introduction of many technologies, like vaccines, like cellphones, like new seed varieties that helped agricultural production, like shipping containers. Actually one of the most important technologies over the last three decades is actually shipping containers because more products can be shipped much more quickly, much more cheaply with much less breakage and damage. So technology as part of globalization was a big part of this and continues to be a big part of it.

The third big force was a major change in leadership in developing countries, that people like Nelson Mandela emerged and later Ellen Johnson Sirleaf, leaders at the political level, religious leaders, civil society leaders, business leaders, community leaders. Again, with the end of the Cold War and the end of colonialization earlier, finally we're able to take charge.

I think the fact that it was 30 years after the end of colonialization is a factor here, that a new generation of leaders came to the fore in politics, in business, in civil society that led countries

forward. And where you saw that leadership emerge, countries moved forward. Where you saw people like Robert Mugabe hang on, countries did not move forward. So I think those are the three big factors.

A fourth one, which I think we're going to talk about later, is foreign aid, which I think was a secondary positive force. Secondary, but positive in terms of big improvements in health, but also in terms of economic growth and democratic consolidation, but I don't want to paint the story that foreign aid was the main driver. It's not, but it was a secondary contributing factor and I think we're going to talk more about that.

So great, fine, 25 years of progress. Isn't that wonderful? A billion people have been lifted out of poverty and child health and down, if I've convinced you of that. But what about the future? Because 25 years is not very long in terms of development. It's not very long at all. So the big question, especially with all the challenges we face in the world, is can this continue?

So I decided not to predict the future in this book because I would have been wrong no matter what I said. That's for sure. So what I do is lay out three possible futures and talk about how we get to the best one rather than predicting that one of these is going to happen.

The first future is that this progress can continue along the same lines that it has over the last 25 years with a lot of progress in a lot of countries, not necessarily everywhere. Some countries go backwards. Not everybody is going to be reached. But we lift another 700 million out of poverty to the estimates that Laurence Chandy has come up with here and many others. We may not exactly eliminate or end global poverty, but we can come close. And Laurence and Homi have edited a book called *The Last Mile* that has just come out that talks a lot about those challenges.

We can continue to decrease child death. More girls can get into school. Incomes can double again. For incomes to double again over the next 25 years it will only take a growth rate of 3 percent per capita, actually less than that. It doesn't take 6 or 8 percent growth. It takes 3 percent per capita and you can double incomes again, which would mean incomes would be 4 times higher than they were in the 1990s.

I believe this can happen because these changes that I've outlined are not transitory commodity shocks. These are deep changes in leadership and institutions, in the way that governments

have moved forward, and because of new technologies that have come to the fore and will in the future. So I think that positive outcome is possible, but I think it's far from assured.

A second possibility is that we stall. Now, China's growth is slowing down, so is Brazil's, so is India's, although less so at the moment. The commodity super cycle is over. People like Larry Summers are arguing that the world's leading countries are entering a period of secular stagnation where the rich countries are not going to grow as fast. And if those big engines of growth slow down, then growth in developing countries will slow down. Maybe not crash, but slow down. And if it slows down enough, which is certainly possible, all of this progress is going to slow down, as well. So that's a second scenario.

The third is that it actually does crash and go backwards, which is also quite possible because of a series of forces around too many people on the planet, too much resource demand, and climate change, which I think more than anything else is what threatens the future progress of the world's poorest countries that did nothing really to contribute to climate change, but without any question bear the greatest risks of the effects of climate change from drought, from higher temperatures, from less water availability. So I think that's the biggest threat. And if some combination of rising populations, rising demand for resources, and climate change really do come into effect, then we're going to have a big increase in conflict. That decline in conflict could easily arise again over battles over water, over resources, and over land. So that is completely possible, as well.

And I really believe that any of these outcomes is possible. Which one will it be? I don't know. I have no idea because it's not fated. None of these are fated. It will be determined by the choices we make now and in the next few years, choices we make here, choices that are made in Washington, D.C., choices that are made in the capitals of developing countries. Any of these are possible. It's not a matter of fate. It's not a matter of we've got 20 years of progress, so, therefore, it's going to keep going. It's a matter of the choices that we make. And I think those key choices come in three areas, and then I'll stop.

One is a set of choices on global leadership. The United States has to get its act together and get its economic house in order and its political house in order. If you believe that behind a

lot of these changes are improvements in governance, as I do, and if you believe in the long term that having something like democracy is important to keep good governance, then developing countries are looking for models. And right now the United States is not inspiring people particularly well about the advantages of democracy. If we want other countries to follow that basic example, if we think that's a good path to follow, we have to be a much better example and get our own act together, and that's, frankly, up to all of us. If we don't, countries are going to be looking for other models, like China or others that are even worse, in terms of how they might succeed over the long run.

So we have to get our own act in order. We have to make big decisions on climate change and those kinds of issues, not just for ourselves, but for developing countries, as well. So there's a set of actions that the United States, European leaders, Japanese leaders are going to need to take to keep this progress going.

Amongst those is actually their leadership not just individually within their own countries, but in international organizations. We have a set of international organizations -- the World Bank, the IMF, the United Nations, the WTO -- which I believe has contributed to this progress, imperfectly, with lots of problems. But we had this audacious idea -- and it is an audacious idea -- that countries could come together in a forum and argue and debate and yell at each other and come up with some kind of solutions. It was completely inconceivable a century ago that something like that could exist. It does, imperfectly. And I think it has helped in terms of world peace and prosperity.

But those institutions are out of date. They were formed at a different time, with different issues and different power structures, and they need to be reformed to incorporate the leadership of emerging countries and today's agenda and problems. So that's one set of issues.

A second set of issues is around global integration and technology, and I'll just say a couple of words about technology. I don't think that technology's the end-all and the be-all, but I do think it's really important. And if this progress is going to continue we need to do two things on technology.

One is the technologies that already exist need to be more widely available, technologies like, for example, electricity and paved roads. These are technologies that have been around for a hundred years and hundreds of millions of people in the world don't have access to them at all. So when

we talk about technology, let's start with the basics.

But we are also going to need new technologies, higher yielding seeds that are drought-resistant and use less water and heat-resistant. We're going to need newer technologies in terms of health, better vaccines and better medicines. We're going to need new technologies in terms of information flows. We're going to have to get more people connected to the Internet.

So there's a story in the future about making those investments in technology. If we make the investments, progress is going to continue. If we don't, we won't. There's a story on the news this morning about potential spread of antimicrobial resistance because bacterial antibiotics are beginning to lose their kick. And if we can't solve that problem, that great progress in health is going to start going backwards.

The third set of things, and the last, is on leadership in developing countries. As I said, one of the big factors for this surge of progress is new leadership and stronger and more effective leadership in developing countries. That's going to have to deepen, spread, and widen. It's great that there are new leaders that come to the fore, but those leaders have to begin to institutionalize the norms and values around the institutions of good governance and economic progress, around property rights, around something resembling democracy, around something in which you can choose your leaders and hold them accountable, something around the rule of law. And its trick of going from individual leaders to institutionalizing and building the institutions in which this progress can continue. That's what's happened in the countries around the world that have sustained progress. That's one of the great challenges going forward. So the third big factor is going to be leadership in developing countries that begins to evolve into creating institutions where progress can be sustained.

This is a big agenda, but it's not nearly as big as the agenda that the world faced at the end of World War II and the Great Depression. Not nearly as big an agenda. I am absolutely convinced that we have the brains, the skills, the resources, and the knowledge to do everything that I just said and continue this progress for decades to come and lift hundreds of millions more people out of poverty. I have no doubt that we have everything we need.

Where I am not sure at all is whether we're going to make the decisions we need to make

that happen, whether we will make the sacrifices, the investments, the choices, the ability to compromise, the ability to work with people, the ability to take our sworn enemies and bring them into international organizations. Exactly what we did after World War II when we invited Germany and Japan, who we had been at war with, into these international organizations. We invited our enemies in. It was one of the smartest things we have ever done. We can do it again.

Whether we will make those kinds of choices, that kind of compromise, the investments we need into alternative fuels and into new agricultural varieties and to health vaccines, I'm not sure we will. We can, but it's going to be up to all of us and people around the world to make those choices.

Thank you very much. (Applause)

MR. KHARAS: So let me now first thank Steve. Steve, really inspiring presentation and right on time.

MR. RADELET: Good.

MR. KHARAS: I wanted to thank you for that and introduce our panelists. So we are extremely privileged to have Antoinette Sayeh here from the IMF. She's the director of the African Department, but she's also had a long and distinguished career. She was a minister in Liberia. She took the country through the resolving its multilateral debt arrears, what's call the HIPC, the Heavy Indebted Poor Countries Program to reduce debt, Paris Club to reduce the commercial debts, et cetera, and basically to get it back into a financial situation from which it could be a solid base for recovery. And before that, Antoinette was many years at the World Bank, 17 years. She has a Ph.D. from Tufts.

To her right, another regular friend at Brookings, Shanta Devarajan. Shanta is the chief economist of the Middle East and North Africa Region at the World Bank. Prior to that, he's been the chief economist at the African Region, of the South Asia Region in the Research Department. He was the author of an extremely influential World Bank World Development Report called "Making Services Work for Poor People," which really went into the details of the institutional structures of how and why services were delivered, and how and why services were often not delivered to poor people. He has a Ph.D. from Berkeley.

Shanta, one thing, is partly responsible for this volume. Shanta actually --

MR. RADELET: It depends on whether you like it or not. (Laughter)

MR. KHARAS: Well, he signed the piece of paper that permitted Steve to actually say that he has a Ph.D. Shanta was Steve's Ph.D. thesis advisor before.

MR. DEVARAJAN: I read it, too.

MR. RADELET: He read it. (Laughter)

MR. KHARAS: You didn't have to pay for it. Thank you, also, much for being with us on our panel.

And, Antoinette, I wanted to start a little bit with you because, you know, Steve's given us a presentation. It's very uplifting. He's presented these visions of the world in the future. And, you know, at least some of these visions are that progress will continue, that we've got a history. Yes, there are things we need to do.

I was suggesting to Steve that he was in the optimistic camp of the future. He corrected me and said that he's a realist, not an optimist.

MR. RADELET: Everybody else is a pessimist.

MR. KHARAS: But, Antoinette, I mean, you've just come from the IMF/World Bank meetings in Lima. And my understanding at those meetings is that the outlook for growth in both developed and developing countries was yet again revised downwards and we've now had several successive periods where the IMF has been actually gradually revising downwards its outlook and prospects for developing countries, so that gives us a much less sanguine view, I would say, of this kind of progress. What do you think? Is Steve really -- is he a realist or should we bill him as an optimist in this camp?

MS. SAYEH: Well, you know, first to say just how uplifting, frankly, that presentation was and the book is, and I'm sure everybody here will agree once you've read it, and especially at a time like this where we see developing countries. And in my case, I'll speak specifically about Sub-Saharan Africa, which is what I work on.

In a difficult patch, after all these years of robust growth we've seen in the region, of course, we and the rest of the IMF, but we, also, wished was not usually the case. Sub-Saharan Africa

was the region growing still robustly even while our World Economic Outlook was bringing the world down, of course, but this part of the world was doing quite well. This is the lowest growth we're projecting for Sub-Saharan Africa since 2009, this year, where we think it'll be about 3-3/4 percent, so a significant change.

MR. KHARAS: And that's not per capita, right?

MS. SAYEH: And that's not per capita. That's an average growth rate for the 45 countries we have in Sub-Saharan Africa. Of course, there are very different experiences and different things going on. And it's good to step back and ask what has changed that makes this change to projections that we're now looking at. And, you know, what hasn't changed is some of what Steve talked about, and that's sort of the leadership that has put in place much better macroeconomic policies and an enabling environment for growth in Sub-Saharan Africa. And we don't think that has changed fundamentally.

What has changed is commodity prices, of course, and also the financial environment that allowed quite a few, and especially frontier economies in Sub-Saharan Africa, to tap into -- to issue sovereign bonds, helping with infrastructure and other needs that they had. Of course, the financial markets are different, more strained there as a result of all this anticipation of exit from UMP, unconventional monetary policies. And we're seeing that in the more difficult financing for a number of countries.

So those two things have changed, but countries by and large are still very much convinced that macro stability is a good thing for growth and that it's delivered growth for them and they very much want to see that. The trick is how Sub-Saharan Africa gets through this patch. Oil exporters, of course, are getting really hit very hard. But low-income countries by and large, as a group in Sub-Saharan Africa, not doing much -- doing pretty well still. Still, infrastructure investments, consumption growth there are helping to hold the growth up.

But the middle-income countries and lower middle-income countries -- South Africa, of course Ghana, Zambia, those countries -- are very challenged at this point in time. Low growth in South Africa for a number of reasons, commodities, sure, but many domestic problems, as well.

So getting through this patch is the critical thing. And putting those policies in place in a timely fashion that allows them to get through this and to realize what we think is still very good prospects for medium-term growth in Sub-Saharan Africa for some of the reasons Steve mentioned, I mean, all of the political and other changes that have facilitated different leadership, of course, that's there and the macro conviction that we see countries still have. So that's a challenge.

And we think, in fact, in a way, you can say we're already at the second scenario that Steve mentioned, where growth in the advanced countries is certainly less than it would be ideal to uphold growth. Growth in China in particular is affecting African countries through the commodity channel, in particular. And so that's that scenario already that we're now having to deal with. And can countries get out of this scenario? We think very much that they can. And optimism or realism, I think it's more that they've done it before. And certainly, Sub-Saharan Africa has a group got beyond the 2008/2009 crisis much quicker than anybody expected and that a number of other parts of the world did. And we think some of those ingredients are very much still there to get the same outcome.

MR. KHARAS: Thanks. Shanta, I want to really pose the same questions to you and not just to restrict your answer to your current region of focus, which is the Middle East and North Africa, but more broadly, but also to ask you to reflect a little bit on some of the charts that Steve put up on democracy, on conflict, et cetera. In the big sweep of things, they look great, democracy rising. But there was a sort of tail right at the end, which is, you know, most recent developments starting to come down, conflict came down, but the tail starting to go up. I mean, are we in a turning point situation in your view in these kinds of trends? Is this just a little cyclical blip that cause these things and never come down in a very smooth fashion? A few general reactions of where you would stand on these forces.

MR. DEVARAJAN: Okay, thanks. And it's a real pleasure, especially as Steve's thesis advisor, to see these kinds of books come out. And I should really say this is a remarkable read. Not only is it rigorous and inspiring, but it's written in such an easy way that you really don't realize how much you've learned until you finish reading it. So I really encourage you to buy it.

You know, I would say that the commodity price blip that we're going through now is literally a blip in the sense that I don't think that's what's going to derail the progress that Steve was

talking about, partly for the reason that we've been there before. We've had commodity price dips even in the last 20 years and, most importantly, around the time of the global financial crisis. And I think there it's the way in which low-income countries responded to the global financial crisis and a few other times when there have been downturns, and strengthens the point that Steve was making, because the quality of macroeconomic policies continue to improve just at the time when everybody else was actually making a mess of macroeconomic policies.

I remember, when I was chief economist of Africa at that time and I panicked because I thought all of this progress that we'd made in cutting fiscal deficits and bringing inflation down was about to go out the window. But the African policymakers said, no, we've tried that before, it didn't work. We're going to continue with prudent macroeconomic policies. And I think that's where the key lies to the fact that we can be optimistic that Steve's first scenario will be there.

Now, that said, I think there are some deep problems, and I particularly face that in my region, in the Middle East and North Africa, but I think it's around the rest of Africa. And that is really a problem of governance that is plaguing all of us. I mean, you know, despite all of these tremendous figures on growth and poverty reduction, we also have to remember that Africa has not undergone a structural transformation. In fact, the book substantiates that in many ways.

And the question is why? We don't have manufacturing growth. We don't have employment growth that is needed to absorb the millions of young people entering the labor market. And a lot of that, if you tear apart the layers, a lot of that is weak governance.

You know, Steve was talking about roads, paved roads. Ask the question why is that we still have a problem with roads in Africa? Right. It's not that they don't know how to build roads. And, frankly, it's not that there isn't enough money to build roads. The road sector, the transport sector in many African countries is dominated by trucking monopolies. And those are the main reason why transport prices are so high and why Africa has trouble competing in global markets with its exports. And we know in several countries, the president's brother-in-law owns the trucking company, so it's very hard to have deregulation of the trucking companies.

This is the challenge, that despite democracy -- including, by the way, some of these

trucking monopolies are owned by the brother-in-law of a democratically president, I should add, some of whom have spoken here at Brookings. (Laughter) So this is --

MR. KHARAS: Not the brothers-in-law. (Laughter)

MR. DEVARAJAN: This is the challenge we're facing. But the point I would want to emphasize, and this comes back to the situation in the Middle East and North Africa, as well, is when we're talking about the future, we have to be very careful in using the information we have here as the prologue to the future. Because you take the countries in the Middle East and North Africa, they have surpassed many of these indicators that Steve was talking about. Poverty is 2.4 percent. The distribution of income in almost all the countries is lower than the average for middle-income countries and was declining, inequality was declining during the period up to 2010. Child mortality rates are miniscule. Education, fastest accomplishments in education of any region in the world.

At the same time, we had revolutions. There were five uprisings -- well, five-plus uprisings, five where the leadership had to change. And the region has gone into conflict and turmoil since then, as Homi was alluding to. And this has brought down growth. It's had an increase in poverty and the underlying causes of unemployment are still there, if not worse. So we have a serious problem that what you would have normally predicted was a region on the road to growth and accomplishment is slowing down and, indeed, in some cases, reversing.

Now, what's going on here? And I want to submit that -- and, you know, as an economist and as Steve's advisor, I'm embarrassed to have to say this, but I think some of these indicators can be misleading. If you look at these countries, the GDP per capita, Gini coefficient, all of these indicators looked good. But there was one indicator that was a really good predictor and that was the outcome of these happiness surveys, the kind of thing that Carol Graham here has been talking about for a long time. In these same countries where all these other indicators were rising, the happiness indicators, the life satisfaction indicators, the Gallup Poll indicators were plummeting and they were falling faster in the Arab Spring countries.

We as economists have to take a step back and say are we missing something? Are we missing something? And I think we are because I think what happens is that when people get richer, I

mean, what you had was a middle class that had just emerged from poverty, the people that Steve was talking about, what they value has changed. They valued accountability of the public. Corruption bothered them more. And unemployment really was not just the fact that you didn't have job, but it actually changed your expectations of the future. What you anticipated you would have as a middle-class person or what you would have if you went to school and studied hard and got a degree was no longer available. And that is something we have to be looking out for. And we're struggling with it in the Middle East, but I would say that Africa has to pay special attention to this, too, low-income Africa, because this is going to be the challenge facing us in the coming period.

MR. KHARAS: Steve, I wonder if you want to pick up a little bit on this because I think that this argument is that, yes, we know something about how to try to get progress in low-income countries through some of these very basic technologies that you talked about: paved roads and electricity, et cetera. But when they become a little bit larger and more sophisticated middle-income countries, there are other things that have to be managed, expectations become more important, demand management becomes more important, and they run into problems. So, you know, might we have a middle-income growth problem here?

MR. RADELET: What some might call a middle-income trap?

MR. KHARAS: They might indeed. (Laughter)

MR. RADELET: A phrase that Homi has put into the lexicon. Let me answer that in two ways.

First of all, let me step back and say that we absolutely face some big challenges right now. And I don't want to minimize those at all, but I am struck looking back over the last 25 years at how many other junctures we've faced big challenges and despite where everyone thought that things were going to stall and they didn't. At the end of the Cold War the most widespread prediction was that developing countries were actually going to go the wrong way, that because there wasn't this global framework of some kind of peace and security, even though it was uneasy, was going to disappear and that there would be chaos and anarchy. Robert Kaplan wrote a famous book about *The Coming Anarchy*. But that didn't happen.

In the last 1990s, when the Asian financial crisis struck, everybody said it's over. And I was actually -- Jeff Sachs and I were ridiculed on National Public Radio by Daniel Schorr, these guys who think Asia's going to keep growing forever, they're just fools. Didn't they see this crisis coming?

Well, you know, that was a big problem, a very big problem. But five or six years later, those countries were back on their feet because they had institutionalized better leadership and change.

After 9-11, everybody said it's over. After the global food crisis in 2007, 100 million people were supposed to have fallen into poverty. Didn't happen. After the 2008 financial crisis Shanta was worried and everybody and I was, too, that all of this progress was going to go backwards. But at each juncture, we've continued to make progress, which, as Shanta underlined, I think is a good indication that we've got better capacity and capability to go forward. So that's one thing.

The second point I want to make on these concerns, they are absolutely valid, but in the concerns that we hear about, therein lies the seed of actually making the changes that are necessary. I would be much more worried if everyone was saying there's nothing to worry about, oddly. It is correct that as countries' prosperity begins to grow, their aspirations change and their desires change, and that is a good thing because that is what forces the changes in governance, that's what forces more accountability, that's what forces people to bring on the skills that are necessary.

So there is the potential for a middle-income trap or that countries begin to slow down a little bit because they don't diversify as much as they should into manufacturing and services, but those are challenges that have been met before. I believe that the vast majority of developing countries have much greater skills to meet those. They're going to have to make the choices and decisions to do so.

And in the next five or six years, we could see a bit of a growth slowdown because of some of the things that are happening. But if -- I'm guessing where we're going to be 20 years from now, not 5 years from now, but 20 years from now, if we take steps on climate change, which I really do think is the big one, and if we can figure out stronger international institutions, I think we are going to be close to that good scenario even if the next few years we get that growth slowdown. The trick is to take those pressures and the demands from developing countries and the concerns about lack of jobs and the concerns about accountability and therein become the forces for change that countries continue to

progress.

MR. KHARAS: Let me follow up with you on this because you are saying that many countries have already made progress and have institutionalized some of the policy-making responses that's going to allow them to deal with these challenges that we now face. But there's also a whole group of countries that haven't made progress, don't have institutions, the 25 that you had at the bottom of your graph where nothing really good has been happening. Do you have any thoughts on what scenarios are likely for them and can foreign aid play any -- either foreign aid or other kinds of external cooperation, I mean, what impact can that have in changing those trajectories?

MR. RADELET: Yes. So this is really hard. You know, when people talk about projections for poverty, for example, eliminating or eradicating poverty in the next 25 years, to me you have to unpack that and talk about two different trends. And I'll just use poverty as an example to get to this issue.

One is the countries that are actually already making some progress in poverty reduction: India and Indonesia and lots in Mongolia and Mozambique. In 20 years, are they going to continue to make progress in poverty? Yes, I think, more or less. But the real challenge in eradicating or eliminating poverty is Sudan and the Central African Republic and Nigeria and lots of other big countries that are not making -- Zimbabwe -- that are not making any progress at all. And, you know, I wish that I could give you some secret message here of how to turn those around. I don't know exactly what it is, it's country by country.

What I do think is that we can do -- the power of change from the outside is limited. I think that power for change happened in a big way at the end of the Cold War, but that's a major global turning event. Our power from the outside is limited, but having said that, I think by providing examples to the citizens of the country about the values of openness and accountability and market opportunities for people is one thing we can do. I do think we can nudge and push.

Ultimately, the forces for change, as we have seen in Myanmar most recently, are not outsiders. It's change coming from within. Sometimes that takes decades -- decades and decades -- and it's really hard to predict those changes. In Zimbabwe, change may be coming because Robert Mugabe,

he's trying to live forever, but I don't think he can. That change could be worse for a while. I fear that Zimbabwe actually could explode into violence and actually face years of things actually getting worse than they are under Mugabe before, if things go well, maybe someone can emerge. And we saw that that's what happened in Liberia, someone worse emerged after Samuel Doe in the guise of Charles Taylor. And so some of these places can get worse before they get better, and I wish I knew what the answer is.

On foreign aid what we can do, I think, is help support the delivery of basic services in those countries, to help support healthcare, which in every country in the world is really not objectionable. And even on education, although in some countries they do object to education because they worry about that, but to provide services for people in preparation for the day that there might be the chance for greater progress.

So I think it's likely that most of the progress in the next 20 years is going to come in the countries in that have already turned the corner alongside a few others, like Myanmar and I think maybe Nigeria and a few others that will turn the corner. But it's hard to predict.

I'll say one more thing on health and then I'll stop since we're talking about fragile and non-fragile states. The one place where there has been progress everywhere is in health, well governed, poorly governed, dictatorships, nasty countries. I'll give you one statistic.

I showed the child mortality rates, the death rates for children. Since 1980, the rate of child death has improved in every single country in the world in which data are available. There are no exceptions. None. Rich countries, poor countries, dictatorships, authoritarian governments, democracies, every single country in the world. North Korea, pick them, the infant mortality -- the child mortality rate has fallen since 1980. So even in the worse-governed countries you can make some progress in certain areas. I think we have a role to play there. But otherwise, I think it's a supportive role and then looking for the opportunities when you can have larger political change that can lead those countries to turn the corner.

MR. KHARAS: Antoinette, a lot of the countries that we call fragile and all the ones that Steve mentioned fall under you. (Laughter) So, you know, do you see signs, positive signs, that there

are things that can be done to turn the corner?

MS. SAYEH: You know, I think it's certainly the case that there's huge challenges in this set of countries, fragile states as we call them. But they're equally significant challenges in countries that seem to have turned the corner and have grown robustly, where they're at risk of them going back because the quality of growth has not been as good as they should in the way of producing jobs. And we need to worry about those countries, as well. And even Mozambique and countries like that, certainly poverty overall in Sub-Saharan Africa has certainly fallen by some 14 percentage points since 1990, you know, 43 percent or so below the poverty line. Important progress, but not enough. The numbers of the poor still not coming down very quickly. The poverty rate has declined considerably, but not the numbers.

And inequality is very high. It's only second to Latin America, frankly. Sub-Saharan Africa not doing very well there at all. Income equality, gender equality, as well, huge issues that need to be addressed. And those can eat at the sustainability of growth and will certainly do that if they're not addressed. So even in those well-performing growth countries a lot more needs to be done in focusing on those issues.

And fragile countries, certainly a lot that needs to be done internally, as Steve says. I think it's the case that a lot of change has to come from inside and that countries will possibly go through periods that are significantly worse than we see them not, to be able to get to that stage.

We certainly see a very important role, however, that the international community can play. And I think part of the challenge with assistance to fragile states is the unwillingness sometimes of the international community to take risk, to take enough risk with them, risk that helps them build institutions because that's really what they need to do, to build institutions; to go beyond individual leaders, as you said; and to start that process of actually having capacity to think through their own problems, to reach out to parties in their countries that are not necessarily the same views, and to chart a way forward.

And I think in our own work in the IMF, of course, we try to help in the way of building institutions that are important for macroeconomic management, but that's a very limited part of the institution-building challenge that the international community needs to help with.

And certainly these countries are in need of financing at that very difficult state of emerging from war sometimes. It's certainly the case that aid can help. Aid can also hurt in those circumstances, though, when aid is brought by many different institutions undermining the very limited capacity that there is there. So I think in the context of fragile states, a lot of thought about how you channel aid is necessary.

Of course, the international community take a risk by not going through a country's budgets, but they undermine those budgets developing robustly by not doing so. So those are some of the challenges I think we need to deal with in our work on fragile states.

MR. KHARAS: Especially right now when prospects for aid seem to be so poor. I mean, not only do we not have aggregate volumes going up, but now lots of aid is getting diverted to refugee costs in donor countries themselves. Do you worry that at exactly the time when commodity prices are falling and other sources of revenue for these countries is falling, that aid is also becoming constrained? Does it worry you that that could be a real bottleneck to growth during this I think you called it "a patch?"

MR. RADELET: A rough patch.

MR. KHARAS: A rough patch. You can get stuck in some rough patches. (Laughter)

MS. SAYEH: You can, you can. It is indeed of concern to see the constraints on donor countries' budgets. Of course that will mean they can do less in the way of aid or they're going to do less in the way of aid. And there's a lot of talk about channeling aid more, focusing more on fragile states, the more needy countries. And certainly, I think in light of the constraints, that's what needs to be done.

MR. KHARAS: But for all that talk, the actual practice --

MS. SAYEH: For all that talk, it's still very --

MR. KHARAS: -- is the reverse.

MS. SAYEH: It's still very --

MR. KHARAS: It's coming down, aid to --

MS. SAYEH: Yes, yes. No, that's right. That's still very little. And if you look back at all the discussion that went on in Addis in July, in the context of the financing for development, and a lot of it was on developing countries, of course, needing to strengthen domestic resource mobilization in

recognition of the limits on aid that there will be and the need to do better at domestic resource mobilization.

There are a number of countries that have, in Sub-Saharan Africa a more generally, countries have done quite a bit in increasing their revenue-GDP ratio over the last 20 years or so. Relative to low-income countries, Sub-Saharan Africa has actually done quite well, but there's still quite a bit that they can do. They're low-hanging fruit sometimes, low-hanging fruits that may sometimes (inaudible) politically difficult because of vested interests, but a lot of room for strengthening domestic resource mobilization, which is really the only sustainable way they have of making the fiscal space to do the things that they need to do. And so that has to be pushed, as well. But that requires leadership and institution-building to be able to do that effectively, and those are the things I think we need to support more.

MR. KHARAS: Great. So Shanta, very quickly, and then I'm going to open up to the floor for questions, so please ready yourselves, but I thought Steve said something quite intriguing, which is that even in fragile states you can have specific places where you can make progress. And he gave the example of health and, you know, service delivery is a place where you've done a lot of work and put a lot of attention. Do you actually think that in a sustainable way one can have real progress in these, let's say, limited areas? And if so, how do we know which areas once should pursue? Or do you think that the larger institutional environment is so important that one can have, you know, temporary progress, but then ultimately it's difficult to sustain sort of islands of excellence, if you will?

MR. DEVARAJAN: Yes. No, the experience where there has been progress on health and, frankly, in education in fragile countries. It's usually when the delivery mechanism is outside of the state, outside of the central state. Sometimes it's a local government, sometimes it's an NGO-based mechanism. And just to give you one factoid that struck me when I was working on Africa, it continues to strike me, compare DR Congo with Senegal. I mean, Senegal has been an uninterrupted democracy since independence. DR Congo has basically been a fragile state since its independence.

MR. RADELET: Uninterrupted.

MR. DEVARAJAN: The primary completion rate, the education in the two countries, is

the same, which is really, on the one hand, distressing or, on the other hand, a lesson. But you look at it, basically in DR Congo the education system is delivered outside of the state sector. And, you know, a lot of faith-based groups who work really hard, go out into remote areas and actually make the schools work.

Now, I think, Homi, you asked the right question. Is that sustainable? Well, you know, how long has DR Congo been independent, 50 years maybe? So it's somewhat sustainable. But I think you always have to have in mind, and this gets back to I think what Antoinette was saying earlier, too, that eventually you need to be able to bring this back into country systems. It can't go on forever, but, in the meantime, if you can actually build human capital, that'll actually make it easier to bring it back into country systems.

Can I make one other point about fragile states? Because this affects my region quite a bit. I think we have to change the narrative about fragile states and aid to recognize that peace and stability in these fragile countries is a global public good.

MS. SAYEH: Exactly.

MR. DEVARAJAN: And we're facing it right now with the refugee crisis. But, you know, I think we've been saying it for a long time, but somehow it's now coming to roost, which means that we have to think about foreign aid as not just helping an individual country do better, but actually fulfilling what is a global obligation.

MR. KHARAS: Thank you. Okay, so lots of questions. There's a microphone that's there. What I suggest is we'll take a few. If you introduce yourselves. Let's start at the back, the gentleman right here. Yeah.

QUESTIONER: Still not working.

MR. KHARAS: Can you just stand and project?

QUESTIONER: My name is (inaudible).

MR. KHARAS: One is enough. Thanks.

MR. RADELET: That's good discipline. (Laughter)

QUESTIONER: Hi, I'm (inaudible). And how have you seen that (inaudible) regions?

And (inaudible) have a very strong relation, also, to this happiness index, the World Bank studies on the

(inaudible) that that affects people's sense of aspiration (inaudible; audio drop). Why isn't that a higher priority (inaudible)?

MR. KHARAS: Everybody at the back able to hear the question? There's a question about local governance is important, local governance is the source of happiness, how do we get those two to come?

And then one more. We now do have a working microphone. And then I'll come back in another round.

QUESTIONER: Hi, thanks. My name is Liz. I'm with CorpsAfrica. I just wanted to echo your sentiments about the power for change having to come from within. I can't believe you said that because I think about that all the time. I go to conferences in Africa, talking about these issues, and the sentiment from the Africans is that thank you for all you've done, we're ready to do this ourselves.

And we have -- what we're creating, the best -- and what you said, also, about being a model is the best thing we could do. The best thing the American government has ever done in my opinion is the Peace Corps. And we are creating an opportunity for Africans to be Peace Corps volunteers. And what you said about looking for signs of hope, I wish you could read the essays of our applicants from Malawi. They're incredible. We ask them why do you want to be a CorpsAfrica volunteer? And they talk about, you know, that they want to be part of the change, that they're tired of complaining. And there's so much hope and so much desire and so much skills and expertise, so thank you.

MR. KHARAS: Great, thank you. Why don't we quickly take those questions and then, Steve, with you.

MR. RADELET: Well, the best thing we've ever done is Peace Corps. Well, those of you who know me, but my wife, who happens to be the director of the Peace Corps, I'm going to underline that comment and bring it home to her. So thank you for that. I couldn't agree more, and for underlining the fact of change within.

But I do think that one of the best things we can do is have face-to-face interactions with people through scholarships, frankly, through opening up our doors for more immigration, where all of the

evidence is actually quite positive, and where we send our people abroad. And those kinds of interactions is where you begin to replace fear with mutual respect and understanding and shared values. And so I couldn't agree with that more.

On the first question with Professor Deaton and Dambisa Moyo, I couldn't disagree more with them. Professor Deaton deserves the Nobel Prize for his work on poverty reduction, for his work on household surveys, and for his attention to detail and his demands for evidence-based work. He's actually done no research that I'm aware of on foreign aid itself. And he strayed and he has been asked about this and he says this is his opinion rather than based on his research work.

In both cases, with Deaton and Moyo and Bill Easterly, as well, they are welcome to their opinions. Their opinions differ quite widely from what most research suggests in terms of the impact on foreign aid. Let me just talk very quickly three types of aid and then I'll be quiet or three impacts on aid, quickly.

On health, aid has saved millions of lives. And on all of the critics, once they're pushed on that they relent and agree. It has saved millions of lives.

Second, most of the evidence -- most, not all -- in recent years suggest that aid has had a positive, modest effect on economic growth. When Dambisa Moyo says, and she has said this, all of the literature says aid has had a negative impact on growth, she's welcome to her opinion, but that is factually false. Most of the research evidence points to a positive impact. And I do wish that they would be more honest in at least explaining that the research is out there.

And then finally, again mixed, but the more recent evidence is that since the end of the Cold War, more often than not, aid has been associated with democratic consolidation rather than supporting dictatorships. So they're welcome to their views, but I wish they would at least recognize that most of the literature is against those views.

MR. KHARAS: Shanta, you want to take the comment especially on local governments?

MR. DEVARAJAN: Local governance, sure. Thanks. You're absolutely right that local governance has several advantages, one of which is that you're closer to the provider and you can monitor the provider better. When the community is there, they know whether the teacher is absent from

the classroom and so on, but that's precisely why it's so difficult, as well. Because if you strengthen local governance, you take away the rents that people are earning by having the monitoring done from the central government.

So we would like to work harder and improve on local governments, but there's a lot of resistance. And, frankly, some countries, they decide to decentralize for other reasons, not necessarily just to improve service delivery, sometimes, actually, coming out of conflict and things like that. That, again, can make it much more complicated.

And just one final point is what we've observed is that in some cases when you decentralize in highly corrupt countries, you also decentralize the corruption.

MS. SAYEH: That's right, yes.

MR. KHARAS: Antoinette, anything to add?

MS. SAYEH: No, I won't add on. I agree very much with what Shanta has said. It's a powerful, of course, instrument potentially, but also one that can be captured. And, I mean, not to call names of countries so much, but if you look at Nigeria, where you do have a degree of decentralization, that experience has not been very encouraging in terms of the use of resources that those more decentralized levels of governments have done. So it's in the design, also, of all of that that one has to really be careful.

MR. KHARAS: Great, thank you. There's the mic, the gentleman back there. And let me just say on volunteerism, it's something that's spreading not just in Africa, but also in Asia. And I encourage you to go and look at the work of a couple of Brookings' fellows, Lex Rieffel and David Caprara, who've been leading drives to try to generate more volunteerism in this space, so.

MR. FARMER: Thank you. Nick Farmer. You talk about a growing population in the developing world and to move out of poverty requiring roads based on concrete, electricity. Obviously people are going to want motorcycles and cars and trucks to drive on the roads. Heating, cooling, and appliances to use the electricity. If you take the energy need to supply that, and I might also add meat in their diets, which people tend to want, how do you see any affordable non-carbon-based energy available in scale over the next 30 to 40 years to support that?

MR. KHARAS: Thank you.

MR. RADELET: These easy questions. (Laughter)

MR. KHARAS: There's a lady right here, I think, with the glasses. Did you have your hand up, ma'am?

QUESTIONER: Me?

MR. KHARAS: Yes.

QUESTIONER: It was the same question.

MR. KHARAS: Oh, okay. Yes, the lady down there.

MS. WARDEN: Hi. Staci Warden. I run the Center for Financial Markets at the Milken Institute.

MR. RADELET: Sorry, that's Staci. This is Ruth. That's Staci. Go ahead, we were just - - sorry, go ahead, Staci.

MS. WARDEN: Okay, sorry. Just as an aside on the roads, trucking, pardon the pun, but I don't think trucking monopolies are really driving the lack of road infrastructure on the continent. I think it's more the political difficulties of imposing tariff regimes and the inability to hedge FX risk on both tariffs and construction costs. And in particular, to Antoinette's point about first world risk, it's banking regulations and, in particular, Basel III liquidity ratios that are stopping bank finance of the continent.

But I guess I've got a question that I was surprised that you haven't said more about demography and how demography will affect your three scenarios. I mean, to me it seems just like it's math that developing Asia's going to grow faster than Switzerland in Europe.

And second, to follow on on the very good point that the gentleman in the front made, and I'll just pose the same question a little bit more obnoxiously maybe. (Laughter) Can the world afford a growing middle class?

MR. KHARAS: And the gentleman now right behind.

QUESTIONER: Yeah. In looking at globalization as a driver of development, technology's often the focus and I agree, but what about the labor component, the globalization of labor and the trade agreements that support that? And looking to the work of Stiglitz and Piketty, as the West

and the developed countries experienced a hollowed out middle class and there may be more protectionism, there may be more of a tendency to maintain manufacturing, so those kinds -- how does the labor market play in?

And I'm with the Center for Capital and Social Equity.

MR. KHARAS: So we are almost out of time. I'm going to ask the panelists to take one minute for one question. Steve, if you can take the question on climate change and demography.

MR. RADELET: Yes. Well, it's the two together.

MR. KHARAS: Yes, exactly.

MR. RADELET: It's sort of a pressure on the planet.

MR. KHARAS: One minute.

MR. RADELET: We have growing population and growing incomes, and this is going to put a lot of demand -- and I go through this in some detail in the book, including the future of energy demand and what we might do on this. This is, I think, the biggest challenge that we face.

Now, we all know that this has been a challenge that we faced for 200 years, since Malthus and Paul Ehrlich and others. Our challenge is to go from 7 billion people today to 9 and then 10. Most projections are that at that point the population is going to level off, which is a problem, but it is not a problem that we need to sustain 12, 15, 20 billion people. It is a problem of getting to 7 to 10 and then sustaining it, which is a little bit more doable. But we need to do that in a context with higher incomes.

So there is no way we can achieve this without new sources of green energy and new agricultural technologies that are going to be higher yielding and drought-resistant, frankly, something like GMOs, which are perfectly safe, and those kinds of things. Exactly what those non-carbon-based energies are, you know, I don't know, but I suspect it has a lot to do with a combination of wind and solar and some of the things we have.

Now, I'm not enough of an engineer to know exactly what those are. What I do know is that 20 years ago we couldn't have imagined where we are now. And every time there has been these constraints we have responded with the kind of innovation that can drive this forward. But it's not going to happen automatically. It's going to take a lot of investment and research and a lot of trial and error, and

finding things that don't work in order to find things that do work.

So I don't pretend to know what the solution is from an engineering point of view. I do believe deeply that if we are going to solve those problems it's going to take commitment and dollars research and cooperation working across borders to find out exactly what those are.

MR. KHARAS: Thanks. Antoinette, Basel regulations?

MS. SAYEH: Well, what specifically about Basel regulations?

MR. DEVARAJAN: That was a comment.

MS. SAYEH: Yes, yes. No, I wanted to say a word about the demographic dividend, actually, which is one of the things that on the positive side of demography, of course, we think -- this is one of the reasons we think we tend to be optimistic about the long-term growth prospects for Sub-Saharan Africa. Of course, 30 years down the road, 20 years down the road, the region is going to be the only one really with the largest number of working-age populations. And that has a potential for really helping Sub-Saharan Africa generate more savings and certainly to fuel investment. And from that perspective, to benefit as -- regions like East Asia and Latin America, when they have gone through a demographic transition. But, of course, to be able to do that there's a lot in the way of investment in job creation and in skills and all of the things that the region has to do. But we've actually looked at that issue in some detail in our Regional Economic Outlook about a year ago. And we think it's a potentially very powerful thing for Sub-Saharan Africa.

MR. KHARAS: Great. Shanta, inequality?

MR. DEVARAJAN: Yes, I wanted to follow up on that, but an answer to the other question about globalization of labor.

MR. KHARAS: Good.

MR. DEVARAJAN: Because, first of all, there's no question that a lot of that poverty reduction that we saw was because of the globalization of labor. Wages in China and other places grew as a result of opening up trade, so there's no question that that is behind what we're observing.

Now, you are right that Stiglitz and Piketty and people are concerned about increasing inequality in developed countries, and that might lead to protectionist pressures. But let's not forget, as

Antoinette and Steve just mentioned, the majority of young people are in these developing countries. So no matter how much you protect, you're going to need these people to produce those goods. And you can't protect your way out of that dilemma. The developed world is getting older, as we can probably see.

Right here. There's no alternative there. And no matter how much the political pressure's going to be, you're going to need those young people to actually work and produce the things that we need to consume.

MR. KHARAS: Well, please join me in thanking our panel and thank you, Steve, in particular, for a wonderful book. (Applause)

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