THE BROOKINGS INSTITUTION

THE INTERNATIONAL LABOR ORGANIZATION

THE CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

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

PANEL 1: GLOBALIZATION, POVERTY, INEQUALITY & EMPLOYMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In South Africa, about 15 times higher. The absolute gains will be very much larger for rich people than poor people from exactly the same evidence.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Applause.)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

While we know that global inequality is extremely high, we don't know for sure if it is increasing or not. Now the next graph is a small attempt to look at all people in the world together. There I take as the poverty line, the poverty line which exists in advanced Western countries, which is about $10 per day (it is also more or less the U.S. poverty line too). We see that 78 percent of the world population lives below that poverty line. And then we have about 11 percent of the people who are what I define as the world middle class, and finally 11 percent who are rich. Thus essentially three quarters of the world is poor by Western standards.

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

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

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

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

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

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

(Applause)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Applause)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Applause)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LAEL BRAINARD: Gary.

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

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

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

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

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

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

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

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

LAEL BRAINARRD: Second question in the back.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

China, of course, during the period when it was experiencing great reductions in poverty, is hardly an example of a very open country. In terms of capital, it was very open for capital coming in, but it was not open for capital going out. In terms of trade, it was very open for exports but it was not very open for imports. India has not been particularly open even with the reforms of the '90s.

I understand that neither of you was presenting your reasearch in terms of openness here, you were talking about the facts. That's really the contribution that you're making. But I wonder if you would care to comment on this disconnect between the countries that actually reduced poverty during the period of globalization and the fact that they were not globalizers in any full sense. They were, at best, pick and choose globalizers; that is my first question. Number two, do you have any, sort of, back of the envelope sense of what policies or factors were the biggest contributors to the poverty reduction that was achieved in those countries? Thank you.

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

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

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

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

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

The story about China is hugely important. In China, poverty reduction occurred when? Well, the vast bulk of it occurred in the first half of the 1980s and a spurt in the mid-1990s. The first half of the 1980s was in a five-year period. I can't believe there's any time in human history when we had that kind of poverty reduction. That was incredible. I mean, poverty rates in China going from 30 percent to -- it halved in a five-year period. Where did all that come from? Liberalizing agriculture, the household responsibility system, getting all those Chinese farmers to work and facing disincentives for doing productive work. That was a huge factor. I don't think -- there was other things happening in trade reform in the 1980s. I don't deny that. I mean, a lot of the --

there were trade reforms in the 1980s but nobody could possibly say that China was a great globalizer in the '80s. So I agree.

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

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

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

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

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

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

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

(Applause and end of panel.)