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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Applause)

SEBASTIAN MALLABY: Thanks.

Okay, Ken Rogoff.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Tape change)

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

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

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

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

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

(Applause)

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

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

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

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

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

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

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

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

SEBASTIAN MALLABY: Ken, would you like to comment?

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

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

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

ARNA HARTMANN: My name is Arna Hartmann and --

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SEBASTIAN MALLABY: Could you identify yourself?

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

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

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

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

SEBASTIAN MALLABY: Who wants to take that?

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

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

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

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

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

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

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

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

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

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

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

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

SEBASTIAN MALLABY: Do you want to add to that?

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

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

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

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

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

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

And they said, "No, no, no, we got it off the Internet." I said, "You got it off the Internet for free?" And they said, "Yup, we got it off the Internet." They had got it off the

Internet and they had started to implement it. Of course, there were a lot of people there with an education to be able to take advantage of that kind of information.

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

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

MR. : Yeah, I think the lady --

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

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

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

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

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

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

SEBASTIAN MALLABY: Could you identify yourself.

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

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

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

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

(Applause)

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

(Applause)

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

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

(Applause)

(End)