PRESS CONFERENCE FOR

WASHINGTON CONTENTIOUS:
ECONOMIC POLICIES FOR SOCIAL EQUITY IN LATIN AMERICA

PARTICIPANTS:

PETER HAKIM, PRESIDENT OF THE INTER-AMERICAN DIALOGUE
NANCY BIRDSALL, SENIOR ASSOCIATE, CARNEGIE ENDOWMENT

Carnegie Endowment for International Peace
Washington, D.C.
Tuesday, March 13, 2001
8:30 AM

Transcript by:
Federal News Service
Washington, D.C.
MS. MATHEWS: Good morning, everybody. My name is Jessica Mathews, I'm president of the Carnegie Endowment. It's a great pleasure to welcome you here this morning for the release of what I think is a very important new study, and a new addition that will make a sizeable change in the dialogue in Washington about the set of issues we're going to be talking about this morning.

Let me just say a word about the genesis of this report. Two years ago the Inter-American Dialogue and the Carnegie Endowment got together to address what we felt was a major unanswered set of questions, which was, why had the macroeconomic package of policies that make up the so-called Washington consensus, which had been adopted in varying degrees of enthusiasm and intensity really across Latin America produced some real gains, but also left behind almost untouched serious issues of poverty and of social inequity across the continent. And what, if anything, could we suggest either that was wrong with that set of policies, or a set of policies that needed to be added to it to begin to address those two sets of issues, in part because of our conviction that both inequity and poverty contribute to slower economic growth as well as their own social and ethical dimensions.

And so we put together a blue ribbon commission whose members are listed on page 83 of this report, headed by Nancy Birdsall who is with us this morning, a senior associate at the Carnegie Endowment, and director of our International Economics Program, and, as I think all of you know, the former executive vice president of the Inter-American Development Bank, and Augusto HAKIM, the former head of Ecuador's Central Bank and himself a major expert on these subjects.

And Nancy and Augusto with Peter Hakim's considerable help and guidance, and the members of this commission, wrestled with this set of issues over a period of some time, and have produced the report that is before you. That takes as its starting point, as I said, the Washington consensus package that we're all familiar with, lowering trade barriers, privatizing, imposing fiscal and monetary discipline, and then asks what else needs to be done.

We felt we had a comparative advantage in doing this, our two institutions, for the reason that the independence of private non-partisan think tanks gives us the ability to address no politically correct issues, and highly contentious, delicate heraldic issues both. And both of those came up, and both I think Nancy will talk about in her summary of the results.
So, let me finish where I began in saying that I believe that Washington Contentious is going to change the discussion and understandings both, we hope, in Washington but equally important in capitals across Latin America about what needs to be done to produce both more healthy and more economically vibrant societies.

MS. BIRDSALL: Thank you very much, Jessica.

Thank you all for coming. It's very important to us that a lot of you are here, because we do want to make sure in any way we can that the ideas in this document reach as many people as possible. I want to just mention, again, my co-author Augusto HAKIM, and all the members of the commission, and many others in Washington and in Latin America who advised us on sometimes the specific wording of some of these 10 plus ideas for social justice.

I'm not going to try to summarize, because I think it would be difficult, but I want to mention four things that are different about this document, different in particular from the way we think of the now well-known Washington Consensus. Let me say quickly you'll notice, if you haven't already, that we are trying to do a kind of take off on the Washington Consensus, in which John Williamson summarized 10 ideas which he felt were in the air in about 1989 or '90 in Washington and in Latin America about economic policy.

So what we have done is, we've also put together 10 ideas. These are ideas for the people, how to make life better for the people, as opposed to ideas of how to make life better for the markets. That's one way to think of it. Our emphasis with these 10 ideas is on social justice. What governments can do to make life better for their people.

I have three other things that are a little different about Washington Contentious compared to Washington Consensus. One is that the ideas here represent a kind of potential criteria by which people in the region and the press can hold governments accountable, or can measure in some form or another how governments are doing. So, we hope that they will become benchmarks. Each or many of these 10 issues or 10 ideas, they're not easy to do politically. We're not trying to put together a formula or a recipe, but to suggest criteria by which governments, in a sense, in a world that is emphasizing transparency and accountability, in the way governments can be judged. In that sense I think that they may speak a little bit 10 years after the Washington Consensus, the fact that we are putting more emphasis on democracy, on accountability, on transparency.

Another difference, I would say, which is related to that, is that our audience is not primarily, or certainly not only policy makers in the region or in Washington. Our audience really is the public and the press. And for that reason, we've tried to make this set of ideas as accessible as we could, not every idea is necessarily translatable instantly out of our economies, but we hope that many people in the region and in Washington will look at these ideas and contemplate them seriously. And, in that sense, those of you who are here from the press, I hope you'll help us.

Finally, another difference from the Washington Consensus is that we see this set of ideas as a bridge, a kind of potential marriage between the people who are at Seattle and at Puerto
Allegre, for those of you who know about the social summit in Latin America recently, and the participants in fora like the World Economic Forum at Davos, these ideas represent, we hope, the potential to put together those who want to see economic efficiency, and those who are concerned with social justice. And we believe that the 10 items here which are aimed at governments in Latin America through the people can help make that bridge.

We also finally have one item which we think is more important than its singularity among 11 ideas is, which is aimed at the advanced economies, and that item, as you'll see in the press release, is that the rich countries reduce the protection of their markets, particularly in agriculture, textiles, and footwear, which are not only bad for economic growth in developing country and in Latin America, but are particularly burdensome on the poor and the potential working and growing middle class in Latin America, because these are the very sectors which can generate many good jobs. Now, that is another difference from the Washington Consensus, which was aimed, or which codified policies for national governments. We wanted to add in this day of much international rhetoric about poverty, about reducing poverty and increasing equity, we wanted to emphasize that there is a task also for governments in developing countries.

Let me just call your attention quickly in the press release to the list of 10 items, and mention one or two which might be of interest, particular interest today. One is taxing the rich. I mention that in part because I think there is an important discussion going on in the U.S. right now about reducing taxes, and I hope it will interest you to see the approach that we're taking in this document on tax systems in much of the region. We note that the effective average tax rate on the richest households in Latin America is only about 8 percent once you take into account evasion, various exceptions and loopholes. So it's a very different environment from the one in the U.S., but there is the same discussion about who should bear the burden of taxation and, of course, on the expenditure side how resources should be used.

We also have an item on protecting workers' rights, which we think frames a new approach to the problem of labor rights, and minimal labor standards in Latin America. We emphasize that there's a dual problem which hasn't been seen in quite this way before, namely that workers really have too little protection from the vagaries of international markets and domestic shocks. And the issue is much more than creating flexibility in labor markets, it's flexibility plus finding ways to secure more protection.

Finally, I'd just like to call your attention to the item of dealing openly with discrimination, where we try to suggest that a first step in much of the region is for countries to recognize that there are social barriers to progress associated with race and ethnicity.

MR. HAKIM: Could I just say two things very quickly. One, I couldn't help but enjoin and want to thank Jessica for her wonderful introduction. She gave this very formal, the genesis of the idea that it was the Inter-American Dialogue and Carnegie Endowment that sort of came together because we were concerned about this. And I just wanted to be very precise, because I always find the genesis of ideas very interesting. It happened in this room when we were hosting a senior Brazilian official, who will go nameless here, and Nancy and I were at the table, and the senior Brazilian official was there responding to questions or talking, and we began exchanging
notes on this idea.

And it seemed promising enough that we continued to then exchange ideas by email, and it emerged that first the commission and then the actual book. But it's always interesting to me how ideas sort of do generate just from very small.

Secondly, I think that what is very crucial is not to think of these, Nancy mentioned this, as a recipe, as a formula, as a list of things to be done. Rather they're a measuring rod, they're a set of criteria by which to measure the performance of countries. Everywhere now, countries, international institutions are claiming that their policies are designed to improve the situation of poor and to reduce poverty, and to increase equity. How do you know whether people are giving you a line, or they really are committed to that end? Here are a set of 10 criteria by which you can measure a country’s real commitment to that. And what will most help is for people to tell us what's left out. In other words, what are other criteria that should be added to the list, and what criteria, in fact, are not so helpful.

Let me, before opening up for a full discussion, I do want to introduce Nora Lustick, who probably would be up here if she had been on the panel with our senior Brazilian official that day, which she probably should have been but was not with us then.

Anyway, Nora is the head of the poverty reduction unit at the Inter-American Development Bank, was the editor of this year’s World Development Report, the annual report of the World Bank, which this year focused on poverty and poverty reduction. And we asked her if she might just say a few words about the report, how she sees it, and what she sees is wrong with it, and what, more important, she sees is right with it.

MS. LUSTIG: Thank you, Peter.

Well, I can't say that many things are wrong with the report, I'm a member of the commission, so it would be shooting myself in the foot. But I think it's a report that brings together very much of the thinking on the issues that were probably not addressed in the early era of the policy formation in Latin America, and I think it's an important contribution to put it all together and in very, very clear terms.

But, you know, you said, Peter, if we wanted to add something to the list, I wanted to a 10 plus 2 here, and it's something directed to also the advanced countries and the multilateral institutions that I think was not emphasized in the current report, and it's very timely because of the way it's probably going to be debated in the coming years in the United States in particular.

The report has one item which is called smoothing booms and busts, but it puts almost entirely the responsibility to the countries themselves to be able to do the smoothing. And Latin America has a problem, the fact that it had bad policies for many years eroded the credibility of the governments, and, therefore, their ability to smooth booms and busts as it should be done according to economic theory, and as the U.S. is trying to do now, the introduction if cut in taxes, and the reduction of interest rates, is what usually you do when you want to have a smoothing of
the booms and the busts, in this case you want to smooth the bust. Latin America cannot do that. If they've tried to do it this way, it would probably generate an uproar in the capital markets because they would fear either the monetary policy would become too loose, whether fiscal policy would become too loose, so Latin America is in a way in what someone called a credibility trap.

It also suffers from contagion from situations that are not endogenous and determined in terms of what happens to its financial stability. So, one thing that will still be very necessary from the international community and from advanced countries, is the support for the countries when they face a situation of a bust in the form of financial rescue packages. We know that the U.S. administration has been saying that it doesn't support them because of what they call moral hazard. They want the private sector to absorb it. There is a danger of moral hazard, but it is a greater danger of the countries doing much worse as a result of the financial rescue packages not existing. And one thing, as the report mentions, one thing that happens during a crisis is, you see the largest increases in poverty in Latin America. You can have countries seeing their poverty rates increasing by 25, 30, 40 percent just in one year because of a crisis. So whatever you do to smooth a situation of a bust in Latin America is tremendously important for the issues at hand, which is to protect the poor, to promote social equity.

Hence, I think that this should be part of also the messages that we should send out that the international community, the advanced countries still have to share in the responsibility for helping countries cope with crisis situations with the bust, and until Latin America is able to build its credibility sufficiently strongly, this will be an essential ingredient if you want to, like I said, promote social equity. But also if you want to ensure that the process of economic modernization proceeds, because it's when these crises occurs, and when people suffer loss, when all the doubts actually increase tremendously, and that's why it's so important to send this message also to the advanced countries.

I am concerned by what I read in the papers that the U.S. is taking a very strong stance against those things. And I think that we should be very vocal about saying why it's very important, how they should be implemented, how should you minimize the promise of moral hazard with the capital markets, but these rescue packages still have to be part of the policy response of the international community for Latin American countries, and others that face similar problems in the developing world.

So this is my plus two recommendations to this report. Thank you.

MR. HAKIM: Go ahead, you get the first question.

QUESTION: Jim Cason from La Jornada. I guess I wonder if these people in Washington don't all face a credibility gap when I read that 10 years ago people weren't talking about poverty and inequality, I think back and I think, well, gee I was there ten years ago, and people were suggesting that the Washington Consensus was the way to reduce poverty and inequality. Maybe it wasn't the primary one, and Williamson knocks it out, but in terms of projection to the countries and the people who you said were your audience in Latin America, that sold as a package to reduce poverty and inequality. And I wonder -- then I put that together
with the Dialogue coming out several years ago saying, oh, my goodness, our economic policies are losing support in Latin America because they're not delivering to the people.

How do you counteract the idea that this is maybe just another Band-Aid by people here who are trying to shore up the financial systems, particularly because, and here is my specific question, you mentioned the World Development Report, that held up the possibility of capital controls as being important, and also as some kind of tariffs as being important to maintain in place in the Third World until there was, I believe the phrase was, and Ms. Lustick could correct me, adequate framework. And you all don't raise either of those two as possibilities, or maybe you do and I missed it somewhere.

MR. HAKIM: I think that question is for you.

MS. BIRDSALL: I think the first thing I would say about the package that was sold 10 years ago, there's a box in the report, it's the first box, and it talks about the Washington Consensus, the content on equity in the original Washington Consensus. The difference is the following, that in the original Washington Consensus any benefits for the poor were seen as a byproduct. The focus was on efficiency and growth.

Among these 10 plus, the idea is aimed directly at poverty, at reducing poverty, and enhancing social justice. And we explain why we think that is absolutely critical because it may well be, there is growing evidence that it is poverty and inequality, ironically, that are constraining growth itself in Latin America. That until policies focus directly on reducing poverty, and directly on delivering social justice for all, including, by the way, the middle class, and the sort of beleaguered middle class, the beleaguered working classes, until that happens, there cannot be growth itself, we tried to explain that.

Now, with respect to specific issues like capital controls, you will find in the -- I think it's probably smoothing booms and busts, a kind of neutrality about that. It depends. That is, you know, an issue which each country, depending on its situation, should address carefully. We refer to the Chilean style what I would call a tax on capital inflows favorably. There may be other ways to restrict capital inflows in a manner that minimizes the disruptions to the economy that are associated with high inflows. So we refer to that, but we don't take a strong position pro or con.

I think one of the issues that Latin American countries face on these technical questions like capital controls, is to have in democracies more understanding of how it works, and how it will affect equity, and there is evidence that booms are great for the rich and busts are really bad for the poor. So any measure that a government takes that has the potential to smooth those booms and busts is going to be better for most people, and that's part of the message. And this, of course, is related to Nora's comment as well.

QUESTION: Mark Schneider, senior vice president for the International Crisis Group, former director of the Peace Corps and former Associate Administrator for AID for Latin America. Some of these issues I have been concerned about as well for some time. And I'm pleased to see many of them covered. I have one question and one comment. I would like to
attack the press release and commend the book so far as I've scanned it.

MR. HAKIM: Those press people.

QUESTION: And for good reason, because when you look at giving small businesses a chance, there's no mention of micro-enterprises, just folks and small businesses. And I was curious whether there was any reason for that? But when you look at the chapter, it's clearly there.

And the two things that are here, and again in the document in different place, are finding access to the poor, particularly micro-enterprises, to information technology on the one hand, as part of the overall infrastructure, and that's clearly there in the consumer driven services section I found. And I think that there needs to be more of a focus on what has been the barriers that have been there in the past, denied micro-entrepreneurs and the poor, access to the things that normal businesses take for granted, and I'm very pleased to see that.

The question that I have is really with respect to governance. When you look through this, there are many things here that you want, you want to remedy weak judicial systems, weak financial systems. You want to ensure a more effective delivery of public services. You want to ensure that the social safety nets are in place. You don't talk, though, about specifically governance as a separate issue, the weakness of governmental institutions generally in the region.

MS. BIRDSALL: Let me make two comments, I'm not sure that I'll answer your question exactly. First, on small business versus micro, I think that's the way the question was set up. And really the approach we want to take is there is no versus. The problems that small businesses face are not that different from the problems that the very poorest micro-entrepreneurs face. Of course, we talk about both, but part of the message here is about small business itself, not just the very poor, but the lost opportunities for entrepreneurs, small, talented businessmen and women in the region to get ahead.

That is an example of where, you know, if we only focus on pro poor, we miss one of the great problems that the region faces, which is dealing with those who could get ahead if you just released some of the barriers to their success. So I really am glad you asked the question because, in a way, I would like to see this document as be speaking a little bit more beyond not excluding pro poor, because that's important, but a little bit beyond pro poor policy, to the larger concept of social justice in the region for all.

On governance, we had a long debate. Peter talked a little bit about how this process, how this report came about. One of the functions of our commission, initially, was to help us decide what's the message, and what should we look at. And there certainly were members of the commission who justifiably wanted much more emphasis on governance. In the end, we decided that we couldn't do everything, and we wanted to focus on economic policies, and make those economic policies a little bit more accessible and, of course, focused on social justice. So you'll see in the report that we refer -- we apologized, in a sense, for the relative neglect of these many other issues, civil society, corruption, governance, reform of judicial systems, institutional
development, right now there is the controversy in Bolivia about what will be the fate of an 
independent agency which is charged with looking into corruption. Many of these issues we 
could not cover completely, although we do certainly try to give some sense, particularly with 
respect to corruption, that corruption among other problems is really bad news for the poor, that 
corruption is sort of a principal instigator of the sustaining of policies that harm the poor.

MR. HAKIM: Mark, I mean, obviously, you know, you're right, and it's an omission. It 
probably is worth a separate volume, but, you know, everything -- things like decline of political 
parties as well as inefficient health systems, as well as poor local governments, all contribute to 
this, and things are not going to get a lot better unless these also get better. This does focus on 
economic policies, it's not the comprehensive -- your comment was very similar to the comment 
that Jim Wolfensohn of the World Bank when we talked with him about this report suggested that 
it's not comprehensive enough, that it doesn't make all the connections. And that's right, and they 
need to be made. There's no question about it.

QUESTION: Eric Olson from WOLA. One of the reasons there's some skepticism on 
the left with the IMF talks about poverty reduction is that there's this broad sense, rightly or 
wrongly, but there's a broad sense that the IMF and to some extent the World Bank and the IDB 
talk about poverty reduction in a way that allows them to have their cake and eat it too. In other 
words, talk poverty, do something nice on poverty without giving up their sort of core 
fundamental assumptions about macroeconomic stability and all that.

Again, like Mark, I haven't read your report in detail, but in a quick scan it occurs to me 
that it would be very possible for the most orthodox of economists at the IMF to endorse much of 
this in a general sense. So I'm wondering is this really just a change in the emphasis and tone or 
where are the sharpest disagreements in your agenda and sort of the standard mind now at the 
IMF and the World Bank on poverty? Is there really any contradiction here, or is it just a slight 
shift in tone and emphasis?

MS. BIRDSALL: Well, it's both. I think you're question reminds me of the need for the 
bridge that I referred to, or the marriage that I referred to. Unfortunately, the fact is that fiscal 
indiscipline ends up hurting the poor. So on that IMF is right. And we have to recognize that if 
we're concerned about the poor then we're on the side of the IMF with respect to this singular 
point that you cannot have government spending that for years, and years, and years exceeds 
government revenues. On the other hand, I think the point I mentioned about taxing the rich is 
different from the normal IMF approach.

Tax reform in Latin America has meant reducing marginal tax rates, reducing corporate 
and personal income taxes, and relying on the VAT, the value added tax, which is a relatively 
regressive, can be a regressive consumption tax. And it worked for ten years in the sense that it 
did increase revenues, and there was some merit in the notion that it was better to have some 
revenue than no revenue at all. But ten years has gone by, and we're saying here it's time to move 
on and consider again the potential for a more progressive tax system that does rely somewhat 
more, as in Europe for example, on non-VAT taxes, on non-consumption taxes, because the VAT 
and other indirect taxes, sales taxes and so on are relatively regressive. That's one example.
Another is, I think this issue of protecting worker's rights, it's not as though the IDB, the IMF, the World Bank have been against protecting worker's rights. But, it has not been the focus of their concerns. The focus of their concerns has been on making labor markets more flexible. This doesn't say flexibility is bad, on the contrary, labor markets do need to be more flexible. But, if you're concerned with in the long run developing a social contract, which will rely in part on unions, it will rely in part on ensuring collective bargaining rights, then it's important to balance your advice, your encouragement about making labor markets more flexible with substantial support and lots of advice, lots of policy discussion about ensuring that there are collective bargaining rights, ensuring that workers are protected in flexible ways during downturns, that there's unemployment insurance and other mechanisms that give workers the mobility and the independent that they should have.

So, yes, it's subtle in a sense, it's not a diatribe against the old policies. It's a call for rethinking some of those policies, and shaping them in a way that is much more focused on the poor and on the emerging middle class.

MR. HAKIM: Eric, let me just also say that I can't -- I think to look at this as a them-us is just a mistake. Sort of the sense of your question, they're are the bad guys, we're the good guys. The fact is that in the them and us it's not poverty reduction on one hand, you choose between that and economic discipline on the other. What Laura was saying about the plus two, the boom and bust, that booms and busts are probably the worst thing that happens to the poor. In Latin America the boom and bust cycle largely related to fiscal, monetary, economic indiscipline. And if you avoided those booms and busts the poor would be a lot better off today. The inverse, what the report says is also that unless you do poverty reduction, unless you do direct improvement of economic equality you don't get growth either. So in other words they both feed, and it should not be thought of as a them and us kind of debate. It ought to be sort of where is the best of both.

QUESTION: Frank Holder from the Canadian Broadcasting Corporation. Given that the leaders of the Americas are meeting in just a month in Quebec City, and granted the ten of your ten plus one or more domestic issues, what are your expectations or hopes that the kinds of rethinking you have in here might make an appearance on the table in Quebec City?

MR. HAKIM: Well, we gave the report to a senior -- I gave the report to a senior Canadian official yesterday who said that this should be on the agenda of the summit. But, you know, the summit is really still in definition in many respects right now. The fact of a new U.S. President coming on, with a team not organized yet, it's hard to -- the summit is not the most solicitously timed, in some sense. And I think, frankly, that the main attention is going to be on two issues, and one is where is the trade arrangements in the hemisphere going, is there going to be free trade, how is the United States going to present its views at the summit, how are the Brazilians going to present their views. And the second is, what to do with the resurgent problems of democracy, or whether it's formally on the agenda or not Columbia is going to be a big item for discussion among the heads of state.
What worries me about the summit, it's worried me about it in the past, it's sort of easy to come up with a package of rhetoric about poverty, and we saw it in the first summit, we saw it in the second summit, and not very much gets done on it. I think that we're hoping that this can be used in some sense, again, as a way to measure the seriousness with which governments deal with those issues, will they use this as a measuring stick, as a report card. But, I think that -- I'm not terribly hopeful that this summit is going to break new ground on this issue.

MS. BIRDSALL: The only thing I'd add to that is that progress on the FTAA, to the extent that it is associated with reducing protectionism in the U.S. market will be a good thing. Let's see.

QUESTION: Carter Dougherty of the Washington Times, when I read the report this is logical enough, really that's long-time orthodoxy, get the rich countries to drop these sort of trade barriers. But I was curious as to what you were asking for in the sense of are you -- because the logical sort of way out of this in a traditional trade organization is that Latin American countries open their markets on services, better protections for intellectual property, the whole routine to enable some of those trade offs for lower barriers to these lower value added goods in the United States. Is that what you're asking or here, or are you asking for a little bit of altruism, a little bit of unilateral efforts to improve access to the U.S. market?

MS. BIRDSALL: Well, we're asking for the latter, but I wouldn't call it altruism. I mean, the irony about what we're asking for is that it would be good for U.S. consumers, too. So it's a kind of old mercantilism approach to say that there's some sort of trade between -- interchange or exchange in which the U.S. --

QUESTION: I only ask that, because trade liberalization on those terms has never happened, except in extremely narrow circumstances like the CBI or the Africa Bill.

MS. BIRDSALL: The point is that the more people, including those organizations, some of you are in the room now, of civil society who are concerned with issues of poverty and inequality, the more civil society groups, particularly in rich countries, can come out in favor of reducing these market barriers, rather than seeming to be against trade in some generalized fashion, the more these groups who are champions of social justice could shift their rhetoric to the need for rich countries to reduce that protectionism the better world we will have. I think that's the message in this report.

QUESTION: Nancy, I'm going to pick up on the thing you were just on, as well as perhaps a segue back from Eric's concern. I'd like to ask you more about making this accessible, as he said, to the public. And I have been in government for quite a few years, but I'm going to put my hat back on as public, in this case not back -- years ago, I was involved in setting up [inaudible]. But now I'm looking at it as I did last semester when I was scrambling to get material for an undergraduate course in international development that I was teaching. And I heard about this report of yours coming out, and I made myself a big of a nuisance I was so eager to get it. And I intend to use it with any future course.
MR. HAKIM: So it's met your expectations?

QUESTION: Yes, my concern is that I believe that using this report and in the dialogue in what Carnegie does further with it you could give a little bit more help to all of us -- reaching students, I hope to WOLA, and the civil society organizations that you were referring to, in dealing with point 1, your plus one point. It is easy to see how agricultural liberalization would benefit the rural poor, and you make a cogent, clear, accessible argument about how, the mechanisms. But I don't believe there's any -- I don't believe there's a box or something that would help in the press, in civil society organizations, and in our universities to simply more clearly delineate that with some more reliable, sound -- if we had figures, if we had perhaps even a box or some illustrations coming from you in this kind of report it would be more usable than some alternative materials you might have, and it would be very solid I think, and it would be useful to use. So I would just say in using this, some illustrations both of the damage, and of the linkages both in Europe and in the United States that we could use in advocacy and in educational work with the public, I hope others in the room would agree would be useful. I know I would find them useful.

MS. BIRDSALL: Well, I'm glad that you raised this point. I hope this report gets a lot of people to be elaborating and making more concrete some of the issues. There is a number, I'm not sure that we still have the footnote, associated -- it's the cost to poor countries associated with agricultural subsidies in the U.S.

QUESTION: I was thinking more of illustrations.

MS. BIRDSALL: What was the number, did you find it?

QUESTION: Yes, $360 billion.

MS. BIRDSALL: Yes, $360 billion, it's a big number is the point. I hope that you and Carnegie, and the inter-American dialogue, and others will take up the challenge you've just set out.

QUESTION: Lincoln Gordon from Brookings. I have, in think in thinking about this report and its future, that you may want somehow or other to focus attention on a smaller number. In a way my concern was that 11 was too many, and now it's 12 more or less treated equally. It seems to me that the central issue is participation in the higher productivity parts of the economies. It's the way people get out of poverty by participating. Now, the two of the 11 items which focus on that are education on the one hand, the most important certainly, and micro-enterprises, availability of capital, the other things that related to those.

[END, SIDE ONE.]

QUESTION: In East Asia, people talk about 7 or 8 percent a year growth as a perfectly normal expectation. In Latin America, if you get four, that's considered a tremendous accomplishment. Why this capacity of East Asia for higher growth rates sustained over a period
of time? I think it's basically, myself, because of education. A work force -- there are some other obstacles, the trade union business, I think of the Argentine trade unions blocks over years and years and years to economic progress, aristocratic trade unions not giving a farthing or a centavo for their poorer cousins who are not in the aristocratic trade unions. The centrality, in my view at least, or participation in the more modern aspects of the economy ought, in the follow up at least, to be given greater emphasis.

MS. BIRDSALL: Thank you, Lincoln. Let me just say in East Asia versus Latin America the difference I see, and that is reflected in this report between East Asia and Latin America is the following simple one. When East Asia began in the late '50s or even early '50s its long years of very high growth it began by accident with a very equal distribution of both land and education. And that meant that most people who were relatively poor had the tools, they had assets, they had ways to invest. And one of the great problems of Latin America is that even today 40 sometimes 50 percent of the population doesn't have those assets which can give it the tools to become productive. So that's an example of if you start with high inequality it's tougher to grow, and why it's useful to concentrate on reducing that inequality and ensuring people have assets, in the broad sense of assets, including human capital, education, as well as land, as well as access to credit so that they can borrow and grow, and see their small businesses grow.

On the trade unions in Argentina, one of the points we make is that it's not just to support unions. It's to ensure that unions are democratic. Now, I'm not suggesting anything. I don't know enough about the trade unions in Argentina to suggest anything specific. But, in general we can say that many of the trade unions, particularly in the public sector in Latin America are not necessarily representing always the economic interests of their members, they're representing the political interests of their leaders. And that's the outcome of years and years of a certain political process, and of the accretion of power thought the union movements. So one of the things that you need in a democracy is for the unions to be representative, to be accountable, to be transparent, and to be democratic. And that requires a regulatory approach on the part of government that is working. So that's one of the great challenges in Latin America, but notice that we frame the challenge not as destroy the unions to achieve flexibility. We frame the challenge as find a way to build unions that are democratic and representative, and participate in the economic and political system representing their workers.

MR. HAKIM: Let me just say that when we were working on our report on education, Jeff Perrier who managed that is here. One of the recommendations that -- we didn't really bandy it about, but proposed at one time that we recommend eliminating ministries of education and education labor unions. That without those two education reform would have been a lot easier, a lot faster, and probably education would be a lot better in Latin America. This gets back to the institutional question. I say that a little bit tongue in cheek, but those are the two big institutions that manage education probably in most countries, not necessarily all, are more an obstacle than they are a help.

QUESTION: -- This is a concept aimed at a very specific number of countries when they talk about poverty reductions in that context. It's not -- for instance, in Latin America, it's not all Latin America. Sometimes it is the poorest countries. And actually, other Latin American
countries, such as Mexico, Brazil and Argentina actually play the role of rich countries in that context, because it's up to them to forgive some debt. Brazil has already canceled about a billion dollars of credits to those nations.

And so just because this thing comes -- there is always a confusion that when the IMF, the IDB and the World Bank are talking about poverty reduction, they're talking about the region as a whole and they're not talking about Bolivia, Nicaragua, Haiti and some specific countries, because there is a confusion there.

On the labor rights that you mentioned, do you think that the way -- I understand what you were talking about, the idea of guaranteeing democracy in the union movement. That's a very good thing and guaranteeing the respect to basic labor rights. What the countries, especially in this region, and most developing countries are taking about is how to go about doing those things, not mixing those things with trade agreements. Are those things -- do you accept that proposition or not? Do you prefer that there should be a link between, for instance, trade agreements? Because the argument in developing countries is precisely if you do that linkage, you run the risk of creating more protectionism, not less. So I'd like to see where --

MS. BIRDSALL: Nora will say something about poverty reduction as seen from the IDB and the World Bank.

MS. LUSTIG: No, let's distinguish two things. One is the poverty reduction strategies that are being implemented under the umbrella of the HPIC initiative. And in that sense, you're right. So that's primarily now in countries that are classified, qualified to be under the HPIC initiative. But the mandate and the activities of the institutions go well beyond that. In fact, the IDB is supporting these integrated poverty reduction strategies in non-HPIC countries as well, and so is the World Bank. So it's not focused just on the HPIC countries. The HPIC countries get the most attention because they're the ones who have to comply with a number of steps in order to be eligible for the debt reduction. But the approach affects both the poorest and the middle income countries in Latin America. The approach is quite different because the approach that you can live in countries maybe like Guatemala, Honduras, Nicaragua or Bolivia are different than if you go to your own country. [Inaudible.] And so the approach is different. But the mandate and the activities are for all of them. And the financial support, relatively speaking, probably goes much more to those countries that are in the middle range.

MS. BIRDSALL: Let me say something bout this which is not specifically related to the report, but I think Paolo you have a point underlying your question, and it is the following. That the poverty reduction strategies of the multi-laterals are really part of, as Nora said, the HPIC program. And I believe that as a region Latin America is being -- there are problems associated with the HPIC program, because the program is so clearly directed to the 39 or so countries in sub-Saharan Africa that have a debt reduction -- that have the need for debt reduction. And the outcome of that is that some of the countries in Latin America have been among the early qualifiers, Honduras, I think, and Bolivia of course, Bolivia earliest, and then Honduras, and Nicaragua, and maybe Guyana will come along. But the mechanism for forgiving their debts is a lot less clear, because a lot of their debt is owed through the Central American Development
Bank, and through the Inter-American Development Bank. And the same effort on the part of donors to ensure that there are resources to cover those debts has not been made in the case of Latin America. So I think there is some justifiable concern about how this HPIC program is being implemented financially with respect to Latin America.

Now, let me say something on labor rights and trade. Absolutely, although it's not specifically discussed here, my own view, and I know my co-author's view, and I believe my cosponsor's view, is that there should be no link, that labor standard issues should not be linked via trade sanctions. Personally, my own view is that probably it was an error to do an intellectual property rights link to trade sanctions, to have a set up in which those kinds of rights, if violated, can bring sanctions against countries. I think it would be better to focus on labor issues in the ILO, and other fora, to strengthen country's ability to meet their own standards, which is something we do emphasize here. And we may look back eventually and say perhaps it would have been better to treat intellectual property also as separate.

MR. HAKIM: Let me just -- there's two separate questions. What would one like to see in an ideal world, and what would one want to see in a world that is influenced by political decision making. It seems to me that there may be some tradeoff between the two recommendations, one that developed countries open up their trade regimes, and labor not be incorporated into trade agreements. And it seems to me that there are ways to do the latter, which might be acceptable in order to get the more opening of trade. And I think that has to be judged in some sense on a political dimension. My own guess is, for example, it will be very hard to get what they now call trade promotion authority, it used to be called fast track authority, in this country without some indication that labor will be incorporated.

Now, as you well know it's a little bit tricky, because some people who want to incorporate labor want to do it out of good will, they think this is the way to improve labor standards. Others want to do it because they think it's the poisoned pill that will make it almost impossible to get trade agreements. And in any event, I think this is very difficult, because I think that we're now paying the price for not having given sufficient attention to the labor issue before, and letting institutions like the ILO go into semi-decline and not be very effective. And now people say, well why should we turn to this ineffective institution when really trade is the name of the game. So I think politically people who do want to keep it separate, and I think on the whole it does make sense, really don't have the institutions to deal with the problem.

Let me just take one more question, then I want to ask Carol Graham who was a member of the commission, and has been patient and quiet back there, if she would like to say a couple of words.

QUESTION: David Lavere (ph) from the State Department. Looking around, I think I'm the only U.S. government representative here. My question is precisely: you mentioned you had given the report to a senior Canadian official. Ms. Lustick made a point about her concerns regarding the direction of the administration's policy towards bailouts. And I think engagement is something that would be extremely useful, and I'm curious as to what efforts you have made to discuss or being the issues in the report to the attention of high administration officials. I don't
think anything is set in stone at this point, I'm obviously not speaking on behalf of anybody in particular. But Treasury and USTR all have their stake in these types of things, and the U.S. is the largest stakeholder in the multi-laterals. And this is an important question.

MS. BIRDSALL: Well, I want to start by thanking you for making the point. We will make an effort, a serious effort to disseminate this report in the U.S., including to all these public agencies. I'm not sure if it's a pro or a con that we got an endorsement on the back cover from Larry Summers, former U.S. Treasury Secretary. Perhaps we can use that to encourage others, those in the new Bush administration to look carefully at this report.

MR. HAKIM: Let me say that -- I don't know if you know, the dialogue has 100 members throughout the hemisphere. And two of them are in the new administration one precisely is the USTR, Robert Zoellick, and the other is the Secretary of HHS, Tommy Thompson, so both of those will be very well informed about this, as well as will tell anybody who will listen, and even those that don't.

QUESTION: It seems to me that there are two things coming up. One is the IDB board meeting.

MS. BIRDSALL: Yes, we will be there on Friday morning with an event comparable to this.

QUESTION: And the other is that the prep con for the summit is coming up. It seems to me that not only the U.S. government, but negotiators for the other countries in the hemisphere perhaps should have this. And the second is that when you think about what Mick was talking about, about how you sort of translate what's here in a way that perhaps you then to measure accomplishments. For example, if you talk about having access for small businesses or micro-enterprises to information technology, or to infrastructure, what is it you want the banks to do over the next five years in terms of financing that investment? For example, there are 50 million micro-entrepreneurs, you want them to have access to information technology in the next 5 years, the next 10 years, who is going to finance that and make that part of the kind of translation from these excellent policies into something you can measure, and then try and get somebody to monitor it?

MS. BIRDSALL: I guess that will be the next round that Peter will no doubt want us to do, making measurable criteria.

MR. HAKIM: I'm sorry, Betty, if you don't mind, unless you have something very quick. A comment, not a question, I'm not going to answer it.

QUESTION: It's a comment. You will be very pleased to know that USTR is using points four, five, six, seven, and eight when it comes to GSP, still, and for the Caribbean basin, as well.

MS. GRAHAM: Well, I guess as a member of the commission I shouldn't say that I this
it's a great report. And Nancy and Augusta are to be commended, and Peter I guess, for all the work they put into it. There's one issue that -- I came in late so I don't know if Nancy emphasized it, but it's in the report but maybe it's not explicit, so I'll just raise it as an issue that I think is something to think about in terms of making this whole set of policies sustainable. And that is, it's hinted at in the section on taxation where you talk about having to get civil society -- basically educating civil society about taxation. It could apply to a number of policies, policies in terms of capital flight and everything else.

And it strikes me that that is moving beyond pro-poor in the sense that pro-poor policies and focusing on the poor is important in terms of how one thinks about allocating public expenditures, but that it's time to also worry about people in the middle. And it's something Nancy and I have written about elsewhere, and thought about. And it's not clear how you get there, but a public expenditure policy and rhetoric that focuses only on the very poor leaves out an important segment of society, the middle class, or lower middle class, that one is very vulnerable to falling into poverty at particular times, but two in most countries is really essential to a sustainable social contract, things like getting better public schools. So how one gets there is I think a very open question.

It's not clear that we've resolved the debate about targeting versus more universal expenditures in this country even. But, I think it's very much front and center on Latin America's public policy agenda. And it's something where I think multi-laterals, academics and policy makers in the region really could collaborate on some thinking, and it's sort of part of the political economy framework that's necessary to making these policies politically sustainable in the region.

MS. BIRDSALL: Thank you, Carol. I did mention these themes but you articulated them nicely. I kind of groped around a little bit, and I'm glad to have that as our closing remark, that social justice works when it's geared to the citizens in residence as a whole. I want to end thanking Peter, there are others, I don't know if they're still here, from Carnegie who were wonderful and helped me with support getting this report to publication and having this event today.

And finally I want to mention Rachel Menezes, who could not be with us today, but was really stalwart in support in every possible way from doing research, talking to people, drafting, and generally being a good partner. Thank you all for coming, and I hope you'll -- each of you in your small way find a way to get this message out.

MR. HAKIM: And some of you in your big way.

[END OF EVENT.]