RESHAPING THE GLOBAL ECONOMIC LANDSCAPE

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Transcript by Way With Words
JAN TECHAU: Ladies and gentlemen, can I ask you to come over and let us start. The great thing about globalization, of course, is that nobody can hide anymore, also not hide there in the beyond parts of this building. We have a couple of free seats here, two more free seats, and I’d ask you to occupy them.

Welcome to Carnegie Europe. Thanks for joining us for a lunch meeting on a Friday. You are the real heroes again of this town. Thanks for joining us for a debate on a book and on one of the big mysteries of the emerging world order and thanks for being here in great numbers. My name is Jan Techau. I’m the Director of Carnegie Europe and I’m very glad to hold another event here at our building in Rue du Congrès.

Think tankers like us are obsessed about two questions, basically. How is the world changing? That’s the first one. The second one is what can we do? The world is generous with us think tankers because it provides us endless mysteries of change and that leaves us all with a question of what can be done.

One of the biggest mysteries, of course, is globalisation, the buzz word for the last decade or so and the very complicated, very deep and very broad and sweeping economic developments that will have political implications are now already having political implications. From the beginning, people in the West, populations specifically, while profiting from it, have also been very fearful and fearsome of globalisation.

This is the subject of today’s talk, I guess. The book that we'll be talking about is not so much about the West, per se, but about those that have profited even more from globalisation. That’s the emerging countries, the developing countries, the emerging big players in the economy, so it’s these that are at the centre of this.

The talk is about this book. It’s called Juggernaut. It was just published by the Carnegie Endowment and it’s the first full analysis really of not how the world is changing and not of globalisation, not at all, but how the emerging of those developing countries and their much, much bigger role in the future is not only going to change the economy but also global governance and the things we will think about, some of the really big questions in the world.

There is a quote from the President of the Carnegie Endowment on the very first page. In her forward, Jessica Matthews writes, by 2050 - that’s the time when my little children will be about the age that I am now, so it’s actually just around the corner - China’s economy will be almost twice the size of the US economy in purchasing power parity terms and India will be the world’s third largest economy and no European country will be among the top eight largest economies.

This is something that we’ve known for quite some time now. The question is what comes out of this politically, how is global governance changing because of this?

The great thing is that we have the author of this book here with us, Uri Dadush, who’s one of Carnegie’s noted experts on the world economy. Actually he’s the Director of the International Economics Programme at Carnegie. He was with the World Bank for 17 years, first as the Director of International Trade and then the Director of International Economic Policy at the World Bank.

He’s been in Brussels now for the last couple of days, basically running from one place to the next to talk about this, but also to talk about some of the subsections of this phenomenon that he’s describing much in the book, which is the economic crisis here in Europe, the change in the Arab world, which has of course very important economic elements to it, and to make sense of it, to brief and get briefed on this. It’s great to have you back at Carnegie Europe and we hope that you will come back many times.
JAN TECHAU: The third thing that think-tankers are obsessed about of course is debate. In order to give you that debate we have another person here, Stephen Fidler, an old friend of Carnegie’s and the Bureau Chief of the Wall Street Journal here in Brussels. He’s a journalist, an observer, but also an analyst in his own right. He will give us the comments on some of Uri’s findings that we will be learning about in just about a second.

Thank you very much. This is a debate event. We’ll be having presentations and then of course it’s up to you, so please listen to all of this with the specific purpose of giving us lots of ammunition in return and fire at will in the Q&A section. A snack will be served later on, as you know, so that we can hopefully not only give you food for thought. Thank you very much again for being here.

Uri, it’s yours.

URI DADUSH: Yes, thank you very much, Jan, and welcome to you all. Thank you for coming, and also to many friends who are here in the audience in particular.

This book and this presentation is joined with William Shaw, a good friend and associate of mine for many years, also Adrian from the World Bank and now a visiting scholar at the Carnegie Endowment. I wanted to recognise Bill, who’s a complete 50% partner in this work from the outset.

It wasn’t always the case that we had very rapid economic growth in the world as we have observed over many years recently. In fact, human history is characterised by economic stagnation not economic growth.

This chart shows you, in the pink, the growth of population going back 1,000 years, and in the green, the growth of per capita income in real terms going back 1,000 years. You could take it back 2,000 years and you would still have a flat line, both for population and for per capita income, until about the time of the Industrial Revolution, 250 or so years ago. That’s when both population and per capita income began to rise. Then the shaded area at the extreme right is the projection for the next 40 years, where you see that the growth in per capita income is steepest in the whole period that we cover, while the growth of population is also very high, but tapering off as we get to 2050. These are United Nations projections.

The Industrial Revolution brought the technologies that broke us out of stagnation that had lasted centuries and centuries. The Industrial Revolution divided the world in two; the western countries, Western Europe and its colonies, the scarcely populated colonies, North America, Australia, etc, etc, that moved ahead and adopted a lot of these technologies relatively rapidly; and essentially the rest of the world, which is by far the largest part of the world population, much of which was colonised.

Japan is a special case because they were the first non-western country to break through and adopt, through a concerted state effort, these technologies and management practices. That was around the second half of the 19th century. It took another 100 years before the acceleration in the non-western world began to spread to a few economies in Asia, immediately following the decolonisation process of the 1940s, 1950s, early 1960s.

Still the spread of these techniques remained quite limited to a few Asian tigers. It is only in the last 20 years, with the fall of the Berlin Wall and the collapse of the import-substituting economies of Latin America and others that opened up to the world, that the largest part of the world population began to
share in this historical process. That's when the Berlin Wall came down and that's when, approximately at that time, a little bit earlier, China and India, with a combined population of 2.5 billion people, opened up and stabilised their economies and began to enjoy the fruits of catching up to hundreds of years of technological innovations, which are widely available today but slowly being adopted in different parts of the world.

In this sense, the current moment is a very special moment in economic history, a very unusual moment, and promises to be transformational. It already, of course, is to a degree, but the point of the book is that much more of this change is to come.

One way to understand this is to look at the demographic projections. These are the demographic projections of the United Nations population division. It shows that the working-age population of the world will grow by 40% in the less developed countries - that's the green line - in the course of the next 40 years. It will decline by about 8%, 9% in the more developed countries and will decline by close to 20% in Europe in the course of the next 40 years. All of the 2 billion or so working-age people that are going to be added in the course of the next 40 years are going to be in the developing countries, while the working age population in the industrial countries declines.

This obviously is going to be an important driver of aggregate economic growth, but, actually, economic analysis over many years has shown that it is the least important of the factors that are driving economic growth. Far more important, and the most important, is technological advance. The speed of this technological advance is built into a model that is in the book and that depends on the degree of openness of the economy and the initial lag with respect to the United States, which is the most advanced country. There, in that differential lies the most important driver of growth.

There are other factors - I'm not going to cover the whole thing - but the other important factor is the rate of investment and savings in the developing economies, which is typically about 7% higher than it is in the advanced countries. They save and invest about 27%. In the advanced countries you save and invest about 20%. The combination of these factors, demographics, capital accumulation, technological catch-up, is what is driving this process.

The effect will be that in 2050, as Jan mentioned, the United States will be the only country among the advanced countries that is in the top seven economies using purchasing power parity, so comparable prices across the world, and China will be the largest economy. Even today four of the seven largest economies of the world in purchasing power parity terms are developing countries. The United States, Japan and Germany form the other three.

If you want orders of magnitude, take, of course, all these projections with a pinch of salt. Even as I say that, I want to underline that I firmly believe that the underlying processes we are describing are going to work out roughly in this direction. It may take another ten years, it may take ten years less, you may get a little less growth here, a little more growth there, but I believe the underlying historical processes are very, very powerful and moving in this direction.

Let me just show you the relative sizes in the baseline projections. This is what the world looks like in 2050: China by far the biggest economy, purchasing power parity terms; United States second; India third; and a distant, distant way behind is the United Kingdom, Germany, France and Italy. If you put them together and you look at the European Union aggregate, the EU, so to speak, is still in contention, but in purchasing power parity terms is a smaller economy than India.
Now, this obviously creates huge opportunities. One way to illustrate the opportunities is to look at the number of people that can actually buy stuff; cars, television sets, etc. We call them the global middle and rich class. Today the global and rich class is concentrated in the blue, which are the advanced countries. There's relatively few of these people, about 400 million of them, in the developing countries.

By 2030 there are more people able to buy goods, sophisticated consumer products, in the developing countries than there are in the advanced countries. By 2050, that population in the developing countries dominates that of the advanced countries. These are people who have an income in purchasing power parity terms of above $4,000 per capita today. It's not a particularly high level by the standards of industrial countries.

One thing I want to underscore is that while there'll be more of these people, many more, in the developing than in the industrial countries, the purchasing power of the middle and rich class in the advanced countries will remain quite a bit higher than in the developing countries.

The other big opportunity is the eradication of poverty, so absolute poverty, people living on less than $1.25 a day, essentially not enough to be well nourished or in any way secure. That proportion of people falls very sharply in the course of the next 40 years and absolute poverty essentially becomes a phenomenon of about 5% or 10% of the population, only in Sub-Saharan Africa and South Asia. The rest of the world essentially doesn’t have any significant number of absolutely poor people.

These are the opportunities, and that's what a lot of the book is about, is the managing of this transition and the risks associated with this transition. In order to bring these risks home and the tensions that are associated with grasping these opportunities, I want to stress the fact that we are going into a world where, in an unprecedented and very surprising way, the largest economies are also relatively poor economies. Even in 2040 the developing countries that dominate the world economy in terms of size remain much poorer than Europe, the United States, Japan.

For example, China is by far the largest economy of the world in this projection in 2050, but its per capita income is less than half that of the United States at purchasing power parity terms. India is a much bigger economy than Japan, but its per capita income is less than a third of that of Japan's in 2050. The difference in income is really only the headline.

This diamond shows you the wider the diamond, the better off you are on corruption, financial openness, democracy and environmental performance. The pink line, the big diamond, is the United States. The red diamond, the small diamond, is China. The green diamond is India. What this brings out is that today China is much more corrupt than the United States. It is essentially a financially closed economy. It is an undemocratic system, according to these. I'm not here making big, normative judgements; I am referring to the measures that are available on this score. It is a much less democratic country than the United States and its environmental standards are much weaker than those of the United States and India is in just as bad shape as China except it is more democratic.

Why am I showing this? To highlight the tremendous structural differences and policy differences between these developing economies that are now the largest economies of the world, or becoming the largest economies of the world, and the advanced countries, which are going to be relatively small, but very, very different in terms of their structure, governance, etc, etc. It is very natural that with this contrast there are going to be tensions as we try to deal with the big international economic issues.
What are the risks associated with this process? Let me preface by saying that I see very significant risks, but I stay with my point at the beginning that I don’t think this process will be stopped. This process may be delayed by these risks, and it may be a very, very tough world that we’re going into with occasional conflicts, etc, etc, but I believe that the risks will, in the end, be managed and the process that we’re talking about will assert itself, whether it’s 30 years from now or 40 or 50.

Four types of risks from this evolution: geopolitical breakdown, protectionism, financial crisis and depression and climate change. This sounds like the ten plagues, if you are familiar with Hebrew liturgy. It’s actually just four plagues, so it’s relatively moderate.

Let me illustrate geopolitical breakdown. The point is very simple, that historically when one country has moved way ahead of the others that has led to conflicts. I don’t need to tell you this, sitting here in Brussels in Western Europe. You know your history. The whole process of colonisation essentially can be interpreted in that light; a bunch of countries that just moved so far ahead of the others that they just felt they could, and did, go and preach their gospel and colonise the rest of the world.

Often this discussion is cast in the contrast between China and the United States, but actually China and the United States historically have been friends. I know it’s difficult to believe that today, but historically the United States has supported China and China’s independence. One of the reasons the United States went into World War Two was to preserve China’s independence from Japan.

The biggest tensions today are actually in Asia itself. If you look at China, Japan and India, these are three countries that have major territorial differences; between China and Japan, China and India, and historical rivalries. This is the relative size of the economies in 1990, this is the relative size of the economies today, and this is the relative size of the economies as projected in 2050. Both Japan and India are going to have to contend with an enormous shift of economic and implicitly political influence and military power towards China, a country with which they have very, very deep historical and territorial differences. This is one set of risks that has to be managed.

The second set of risks is protectionism. This shows you the share of the EU and China - the EU is the yellow and China is the blue - in 2006, with partners all across the world. The EU, in 2006, was at the centre of world trade. It was by far the biggest partner for the United States, Brazil, India, etc, etc. Already in 2010 some of these countries are already trading more with China than they are with the European Union, but in 2050, according to our projections, China is a much bigger trading partner for the United States than is the European Union.

Japan, which is already trading more with China than any other country - I believe that’s right, I know that’s true with respect to the United States - is predominantly trading with China, as is Brazil, as is India. The centre of world trade moves from the European Union onto China. EU trade with China is actually bigger than intra-European trade in this projection, simply the differential between the growth rates of China and the growth rates of the European countries themselves. This kind of change in trade relations means that relatively poor countries, low-wage countries are dominating world trade. This is going to lead to a lot of trade tensions. It already is.

The third source of risk is financial crisis. Now, how does this risk arise? The first thing to observe is that even though the most recent financial crisis is an American and Irish and British financial crisis, historically it’s developing countries that have suffered by far the greatest financial crisis and the greatest incidence of crisis and frequency of crisis. That’s the yellow line, which shows you the incidence of
financial crisis in developing countries. The green line shows you the incidence of crisis in advanced countries.

Now we're moving into a world where the developing countries are becoming increasingly integrated into the global financial system, but they retain, as I have shown with the diamond, many weaknesses. However, we think the institution of regulative framework is in the United States. Believe me, it is a much better regulatory and institutional framework than you'll find in a lot of developing countries, and that's shown in the numbers and incidence of crisis.

The next big financial crisis may very well occur not in a big industrial economy but in a big developing economy, an economy that has weaker institutions and, by and large, with the exception of China, weaker capacity to handle the crisis. They will become a more important source of systemic risk.

Last but not least is climate change. What this chart shows you is that by 2050 most of the accumulated carbon in the atmosphere, which scientists tell us is what determines climate change, will come from developing rather than industrial countries, as it is today, and the accumulated emissions will be such that they may increase the world temperature - not necessarily by 2050, the science is not very clear on this, but over time by about four to five degrees centigrade, which is characterised as catastrophic climate change. Of all the risks - I don't know if it happens by 2040 or 2030 or, for all I know, 2060 or 2070 - this is the most significant and evident risk and the one that we are less used to handling.

That's the four sources of risk in this transition.

The book argues that the international frameworks, which means the combination of domestic policies and international institutions that are supposed to manage this transition, are almost entirely unequipped to deal with it. The book has a chapter on managing the transition in trade, in finance, in migration and the global commons.

I've amused myself, not in the book but in the presentation, to give grades to where the international community is on each of these dimensions. It may surprise people who deal with international trade, which is now in a rut because of the impending failure of the Doha negotiations, to find that actually trade is in pretty good shape. In trade, we have the World Trade Organisation. We have a set of rules that is relatively clear, what you can do, cannot do, and domestic policies have been pretty good, meaning that there's been a lot of opening, domestic opening in trade so that we have mechanisms that can more or less handle and support this increased integration, although obviously there are many tensions and there are many risks. Unfortunately, once you get out of trade, the international community gets Ds and Fs, failing grades on the other scores.

In finance, as we have seen from the most recent financial crisis, the regulatory frameworks remain extremely weak. Even after the new reforms that have been announced, the frameworks designed to contain financial crisis, manage financial crisis, not only in the developing countries but in the industrial countries as well, remain extremely weak.

Migration: F across the board. Migration is a huge opportunity to increase human welfare, to compensate for this huge demographic imbalance that is apparent and is going to get even worse in the next 40 years. I would characterise the international frameworks for managing migration and domestic policies for managing migration as a jungle. It's the large jungle today. People do whatever they want to do. As in the jungle, because there are no clear rules, you get all sorts of anomalous behaviour, illegal behaviour and all sorts of issues associated with that, which are discussed in the migration chapter.
Essentially, I gave a failing grade on the global commons. We are so far from achieving both domestic policies and international frameworks that can manage the climate change that is projected that is implicit in these projections, that we are bound to be suffering a lot of these problems unless we find a way forward.

Finally, I want to say something about the conclusions of the book, what's the bottom line. This is why the book is not going to sell a million copies, is because even though we worked hard, we didn't come up with a silver bullet for managing the transition of the developing countries. In the final chapters we do say that the G20 is a significant innovation that can help us move forward on some of these issues. It has many weaknesses, but it's a big step forward relative to the G7 and G8.

We also say in the book don't rely on big multilateral consensus processes for arriving at the agreements that are needed to manage this process. The idea that you're going to get 200 countries in a room and they're going to agree on a detailed set of control of carbon emissions or indeed on a detailed set of new trade rules, 153 countries in the case of the WTO, I think is ideal, if you like, is idealist, but it's completely unrealistic.

The book argues for deals among critical mass suppliers. Of course, China and the United States are going to be at the centre of any of these discussions, but there could be different groups of players, depending on the issues. Once a small group of players agrees on the overall context, there are all sorts of ways, which are discussed in the book, to make the agreement broader, legitimate, to co-opt and include other countries.

Finally, the book stresses the need for global conscience. Again, I get beaten up, especially by my economist friends, for arguing for a global conscience. What does it mean? Where's the price? Where's the supply? Where's the demand? Basically, it's a very simple point. It's that, especially in the big countries, they are going to take the decisions. The decisions are not going to be taken at the in Geneva, they're not going to be taken at the United Nations in New York; they're going to be taken in Berlin, they're going to be taken maybe in Brussels, they're going to be taken in Beijing and they're going to be taken in Washington

The policymakers there have to develop a better awareness of the change that we are undergoing. In the same say that at some point countries developed a national conscience, we need to have a global conscience, an understanding of the effects of our actions on the international community. This is not some kind of religious appeal. This is about the self-interest of these different players, the self-interest in preserving the peace, the self-interest in preserving open markets, the self-interest in preserving a climate where the temperature is manageable.

Thank you.

JAN TECHAU: Thank you very much, Uri, for giving us a wonderful outlook on the coming weekend for us. Now it's onto Stephen Fidler.

STEPHEN FIDLER: Thank you very much. First of all, I’d like to congratulate Uri and the Carnegie Endowment for producing this book. I’ve dealt with Carnegie over many years and sometimes you forget its full name, the Carnegie Endowment for International Peace. I’m used to talking to them about things like arms control and strategic arm reduction and all this kind of thing, and it’s interesting that they’re now talking about issues that are economic because it’s clear that the components of a stable global order have changed since the end of the Cold War and things have moved on.
Historically, we know that global peace has been threatened when established powers are overtaken by new powers, and it seems as if such a transition, at least in terms of gross product, will occur in the coming decades with the rise of China and other developing countries.

This book looks at the really very important question of how the world copes with the eclipse of the West and the post-war global, economic order that it made. Let me applaud the context of the book. Though it's economic focused in the main part, it starts to bring together the two separate disciplines of grand strategy and geopolitics on the one hand and economics on the other. I'm associated with a UK think tank, the IISS. It's trying to do some of the same kind of things, but these are two groups of people that have tended to talk across each other and not understand one and other's languages. I think this is an important contribution to getting the two disciplines to talk and think along the same lines.

Of course, I'm sure Uri will agree, the future won't be like this. However well such a book is done, I guess we're left extrapolating from the information we have into the way into the future. We're like Fritz Lang directing Metropolis and imaging the future from what we know now, no computers, no iPads, no information technology, just big machines with big dials and flying machines zipping through the streets and all this kind of thing. The future won't be like it, but it's a valuable exercise, not least because it's very hard to critique, it has a baseline and general projections there, but also, as we've just heard, he brings up the evident risks to that and it's clear that nobody who's seriously looking at the future can ignore these risks.

The one big theme which I think is emphasized in the talk is the question of governance in the future. There's been quite a lot of discussion about global governance, the issues of international governance. While welcoming the G20, how do we correct its flaws, its legitimacy to make it more representative, make it more of a body that can take decisions? What should the WTO do to increase its relevance in the world? That's all discussed here. The lack of an international governance mechanism for migration, he's talked about that, the need for better international regulation of finance and the challenge of dealing with climate change and other issues around the global commons.

What came strongly from this book that I haven't read in other exercises was the challenge posed to the global order by weak institutions within emerging nations, so the potentials for externalities for external costs posed by frail or dysfunctional domestic institutions. That's not just a matter of, say, China's military driving a policy toward its nearer broad [Inaudible] that has potentially destabilising effects in the neighbourhood; it's about the impact of poor financial regulation in China and elsewhere on the rest of the world economy.

It's an issue where the West and particularly the Anglo Saxon world may not be in a strong position after the last financial crisis to lecture, so we have the dangers of major financial crises emanating from the developing world. We've seen, in the last 20 years, when there was much less financial integration, 20 to 30 years, from the Latin American debt crisis in 1982 and onwards that even with a significant less degree of financial integration, that the developing-country crises can have big effects more broadly.

The other thing which is emphasised - and obviously I didn't know what he was going say, and I'm not sure there's a precedent here for this historically - the economies that will be the biggest in terms of gross product will still be poor in per capita terms, so US GDP per capita, more than three times China's in 2050, eight times India's. That will probably give these countries a moral weight in international affairs and it'll have consequences on what their domestic politics will look like, so when China is the greatest economic power in the world there's no way its domestic politics will look like America's do now.
Another theme in the book that I think comes out of it - and one’s heard some discussion about this and I think it’s important, and I’m not sure that people who are generally in favour of open markets I think really understand this sufficiently - I noticed that finance is different. Finance is different from trade in goods and many services. Free trading goods and services, I think many would agree it’s the key to improving living standards for people throughout the world.

One interesting point, an aside made in the book, is that the world will never run out of copper because there’s a functioning market in it. While repressing finance can inhibit growth, giving it free rein is potentially highly dangerous. We’re seeing now a strong institutional resistance among the banks and that kind of thing, so the measures now being proposed to correct the problems that caused the financial crisis, it possibly has the greatest capacity to disrupt some of the more positive scenarios here.

When I joined the journal a couple of years ago I just looked at the growth of British banks from 2000 to 2008. I went through all the balance sheets and that kind of thing, and you see, in retrospect, this massive, massive growth of the balance sheets of banks. They’re growing 20%, 30%, 40% a year.

Now, how can this be managed? This was light regulation, light touch. The dangers just were not seen. It seemed to me just to underline, even as somebody who favours, where possible, giving people freedom, this is something that I think is cause for concern and really wasn’t seen. I think that’s why one’s seeing the British trying to rein in their banks more than perhaps we’re seeing the French and the Germans and that kind of thing. In the immediate future I think we have positive policy instruments to deal with. Fiscal policy has exhausted monetary policy in some cases at its limit and we’re seeing the emergence of bubbles in some places, so the policy instruments aren’t there.

One thing that’s not emphasised in the book, and it’s very difficult to write about but I think it’s important in the context of the Eurozone at the moment, is the relevance of leadership. It seems very relevant, as I say, in Europe, as the European Union confronts its problems, it seems, for whatever reason, we have a surfeit of tactical leadership in Europe with very few politicians looking at strategic issues. I think when the most powerful countries start to think in purely tactical domestic political terms, solutions to big problems, such as are now being confronted in the Eurozone and, by extension, in the European Union, will be hard to find.

There’s a lot of anxiety here in Europe about the growth of emerging powers, and particularly China. I was in Russia last year and the worry there seems to be very palpable. Russia, just as an aside, it seems to be almost like a special case in the book. We’re talking about all these countries. It’s the largest country on earth and in some ways seems to be at the moment discussed as an aside that it’s not taking part in the rest of this story that we’re talking about. One senses that it’s there, but people are beginning to think, well, this is China and we need to be closer to Europe, but it’s not clear that what it would take to do that is really understood in Moscow.

Amid this concern, I think it’s clearly not in our interest to look on the world like French aristocrats before the revolution, only being able to feel wealthy if others are poor. No predictions of the world in 2050 say Americans and Europeans will be poor. Life here will still be good in the museum; it’s just that others will be richer than they are now. In fact the economic rise of these countries is something we should all welcome.

The other thing, because if we turn these forecasts on their head and think of the world in 2050 where China and India and Brazil and these other countries are not major economic powers, what sort of world
would that be? What dire things would have happened to keep them weak? I don’t think the alternative is anything that we want to consider.

I was going to make some remarks about Europe in this context, because the book isn’t about Europe. Obviously Europe’s an important part of it. Maybe it would be better to leave these observations to discussion and if we want to have more of a discussion about Europe and its co context in this, leave it until that part of the debate.

JAN TECHAU: Thanks, Stephen.

Uri, I have to come back to the one thing that you mentioned in the very end, the global understanding, before I open it up to the audience. You say that your fellow economist friends usually give you a hard time because you introduce this concept.

My question is a global understanding means a huge expansion of the idea of what self-interest constitutes, from narrow, local, small, me, myself and I, to a larger consciousness. Humans traditionally - and this is almost like an anthropological kind of problem - are very good at accepting and recognising immediate, very concrete threats, clear and present danger, but they’re very bad at recognising abstract threats. Most of the numbers are very abstract, most of the projections are very abstract.

The question in terms of how can we develop this kind of global understanding is to make people more accepting of abstract threats, stuff that’s in the future that they can’t feel, smell, hear. That seems to me to be at the core of the question of a global understanding. What makes you hopeful or maybe sceptical that this kind of global understanding can be developed? Is it leadership that must come? Is it an increase in our understanding of the world in terms of educating people better? Where does the global understanding come from?

URI DADUSH: Yes, I called it a global conscience. Global understanding is fine. I see national consciences. I see, around the world, people talking about the interest of India, the interest of Germany, the interest of Israel, etc. I also see a European conscience. It may not be the greatest conscience we’ve got at the moment, as we’re seeing in the current Greek problems and issues, but there’s definitely a European conscience, which has developed in the course of the last 40 or 50 years, a sense of operating within a context where you take into account the effect of your actions on the broader European community.

Some countries are better at it than others, but that has occurred. I just don’t see an alternative to the United States, for example, the United States congress, the United States Senate. They have more people who are taking into account the effects on the rest of the world. I don’t see an alternative to that in China.

Now, how does this global understanding or global conscience actually come about? There’s no magic formula, but I think that education plays a very important role. I think that civil society plays a very important role, as they do, for example, in the environmental NGOs. I think that international exchange and negotiation also play a very important role.

I would argue that there is greater global understanding today after thousands of meetings of G20 working groups on a variety of different issues than there was three years ago. I have several friends who are participants in these processes, who are shapers [Inaudible] or very active participants in these working groups. They all say, look, it’s very tough, we waste a lot of time, etc, but it’s incredible how
much we learn from each other and how we understand the issues better and why this country looks at things that way rather than another way.

I think a combination of these things combined with, of course, as always in human history, the accidents. It’s the accidents that very often lead us to change the way we operate. The Greek accident will hopefully, over time, lead us to a better understanding of the sort of institutions and approaches that we need. World War Two, the little accident of World War Two bred the Bretton Woods System, the post-war order. The Great Depression, the little accident of the Great Depression bred a whole series of initiatives from social security to healthcare to financial regulations, which made the world, at least for a while, a safer place.

JAN TECHAU: Thanks, Uri. I will now open it up. I have, I think, two arms up. Giovanni is first and then the gentleman behind you. More arms are coming up. That’s excellent. Giovanni first and then the gentleman on the left.

GIOVANNI GREVI: Thank you very much. Giovanni Grevi from FRIDE in Brussels. Thank you very much for excellent presentations and remarks to kick off debate.

I was interested actually in these aspects of the global conscience that you have raised now, Jan, and I would take it a step further, moving from the shift in the balance of economic power that Doctor Dadush has sketched out in the presentation, to the shift in the balance of ideas. How do you see that evolving?

There is quite a bit of debate, of course, going on as to the implications of the shift of power assets for normative shifts, whether in terms of the management of the global economy, development issues, energy. Some speak of two models. Well, one existing liberal market economy model and a statist model or more mercantilist one, emerging as a potential challenge to the former.

Do you see an emerging clash or confrontation of normative frameworks in how to run domestic economies, developing the models and the global economy at large, or do you see also, at least in parallel to that, the scope for perhaps contamination, synergies? How do these different models, which probably respond, as you’ve said, to different stages of economic development within countries, come to coexist in future? Will it be only about competition? Will it be also about mutual adjustment? It seems to me that there is a degree of that that we can detect in responses to the financial and economic crisis, but I’d be very grateful for your views. Thank you.

JAN TECHAU: Shall we take another one?

URI DADUSH: Sure.

JAN TECHAU: Okay, one more. The gentleman from NATO here. The microphone.

ADRIAN KENDRY: Thank you. First of all, a huge congratulations, Doctor Dadush, for your presentation and for the book, which I’m looking forward to reading fully.

I’m NATO’s senior economist, so your presentation and the issues you are addressing are of extreme interest, as you can imagine, to an organisation like NATO, and, just quickly, four thoughts following on from your presentation. One is I wonder what you feel about the domestic institutional capacity of countries like India and China and their ability to be able to manage internal change set against the background of the economic projections that you made, and you made very well.
Secondly, following up slightly the last point on the energy issue and resources, we are looking at growing competition for resources, water, different types of energy, rare earth elements, these kinds of things. I wonder what you feel about the dispossessed, that is to say those who may be producing or distributing these resources may be left out of the equation of the growth in GMI per capita. It goes back I think a little bit to your geopolitical risk issue, but I’m interested in that.

Finally, on the gender imbalance issue, you talked about demography. I wonder what you feel about some of the projections about the growing imbalance between males and females and the way that that, in a number of these societies we’re talking about, is going to motivate possible increasing illegal behaviour, a greater trend towards engaging in organised crime and so on and so forth. I see that some of these models of insufficient females, too many males between certain age cohorts as a possible break in stability for the future. Thank you.

JAN TECHAU: I think we’ll take these two. I have yours. It’s noted here. I think we take these two first and then go onto a second round.

URI DADUSH: And Stephen also may want to come in on this. There are a lot of hands and so I don’t want to be prolonged in my answer.

Let me say that my reading is actually there’s a remarkable convergence of economic models. That is the history of the last 30 years. It is not a history of divergence of economic models; it is a history of convergence towards economic models. That’s the way I read the fall of the Berlin Wall, that’s the way I read the progressive move of China towards a market economy, that’s the way I read the decline of import substitution models in Latin America, the adoption of much sounder macroeconomic policies in large parts of the world. I know there are exceptions. We’re sitting here in Brussels in the middle of a Euro crisis. I could go into that, and I’m sure Stephen could too, to explain the very special circumstances of that crisis.

The book brings out the fact that more and more countries have adopted the policies, and I know this is controversial, but this is my views, have adopted the essence of the Washington Consensus, which is a loose term but essentially encapsulates openness and macroeconomic stability. We are moving towards the Washington Consensus plus, which would stress a lot the need for financial regulation, the need for the state setting clear rules of the game for the operation of the market economy, but somehow reining in the excesses of the market economy and intervening where the market economy doesn’t work.

I see virtually the whole world moving towards this model and I see it as a very important reason why the process of convergence between developing and industrial countries has accelerated so much in recent years.

On the question of gender imbalance, I don’t know what to say on gender imbalance. I’m not sure that I fully understood the question. You may want to come back on that. The ability to manage the process in India and China, the domestic institution capacity is a very big question. I certainly will admit that it is not covered in any detail in the book, partly because what we were trying to do in the book is to focus on the international consequences and the international governance processes and we could not do everything. The book is already a very ambitious enterprise.

I would say that the capacity of the domestic institutions, China and India and other places, to manage this process is a very central question. I’m somewhat more confident in the ability of Indian institutions to manage it in a very messy way, in a very disorderly way because India is very much today a pluralist
society and a society that has a lot of problems but is able to roll with the punches in a way that I'm not at all sure the Chinese institutions are able to roll with the punches. They've certainly shown a lot of capacity to adapt in the course of the last 20, 30 years, but there is still such a huge demographic gap. This is a big question.

If they have a revolution in China, if there is a revolution in China like there is the Arab Spring - I just came back from Cairo so revolutions are very fresh in my mind at this moment - does this mean the end of this process? It's going to mean a tough road, a very rocky road, but I don't think it means the end of the process at all. The same forces, underlying economic forces, the adoption of technology, of techniques and the quest for openness, ability to trade and invest will remain there and the capacity of the Chinese people will not have changed. Yes, I think that this is a major source of risk.

In terms of resource competition - and Stephen noticed this point, for which I'm grateful - in the book, we drew our distinction between situations where the market works. You don't run out of copper because there is a market for copper, there are property rights for copper and as copper becomes more scarce the price goes up and then the wonderful market economy that we have compensates in many different ways. You have substitutes, you reduce the consumption of copper, you find more efficient ways of using copper and you go and you find technology that gets your more copper even in mines that you thought were exhausted, so you never really run out of copper. That is the situation for a very large part of the natural resources.

If I may simplify, I am generally not worried about that issue. This is not a Club of Rome book at all. However, when we're talking about the fish in the ocean or the atmosphere, the market doesn't work, not by a wide margin. The externalities are so huge and they are so un-captured that there are enormous incentives unless there's a co-ordination and an agreement that is struck. There are enormous incentives to pollute the air, to emit as much carbon as you want, etc, without taking into account the affect on others. That's why the book says, that's why we have words in there like unless we get a way of handling that we're headed towards a great human catastrophe.

I would say in terms of class of problems, climate change and carbon emissions are in their own class because, frankly, we may run out of fish because of over fishing and because of precisely the same economic problem of these large externalities, so we'll run out of fish in the oceans, we'll have more farmed fish. The advantage of farmed fish is you have property rights. The farms don't just happen. People invest in the farms. The Norwegians own the fish farms, and so as we run out of Norwegian salmon they'll produce more Norwegian salmon. That's the distinction.

I'm sure Stephen will want to add.

STEPHEN FIDLER: Just a couple of brief points. One, I had the luxury about two years ago, right in the middle of the financial crisis, of spending two months in a think tank before I moved to the journal. In that time we were thinking about the possible effects of it. One of the things was, just as Uri raised, there is obviously a balance of powerships but also a balance of ideologies, and we were wondering whether that would happen. I think I agree with Uri that it hasn't actually.

One reason I think is that we were thinking, well, what this seemed to show at the time was the failure of the market economy and the market model and that kind of thing and that we would see more state intervention. We indeed saw state intervention. There was a greater takeover of the state by banks and a larger share of the economy was taken over by government.
I think what we also are seeing now is the limits of the ability of the state to take a greater share in market economy and no real desire for the state to be running banks and that kind of thing, so a reduction, the inclination to reduce the size of the state, obviously for the reason that there's now, in many parts of the world, a debt repulsion, if you like. People don't want to buy the debt of every government that wants to issue it. We're reaching the limits of the state in that respect.

I think it's only a partial answer to your question, but I think it's potentially an important one.

The only other footnote really on gender is that looking at development economics and looking at differential development of North America and South America in the 1700s and 1800s, some development economists suggest that it's actually the more equal gender ratios in North America that was an important contribution to making sure that it was North America that grew very rapidly, and South America, with large numbers of males, very few women, actually suffered in development terms for centuries. It's a footnote, but just an observation.

JAN TECHAU: I have three arms up. The gentleman there in the back, then here in the middle and then the man with the red tie.

MICHAEL SANFEY: Yes, my name's Michael Sanfey from the Irish Permanent Representation.

JAN TECHAU: Sorry?

MICHAEL SANFEY: Michael from Ireland. I just have two questions for Uri. One is you mentioned that migration, it's like a jungle and you give it an F. That was brilliantly illustrated by a BBC TV programme last night, which showed the incredible numbers of homeless Afghans on the streets of Athens, for example, and various other tremendous problems. I just wondered, do you think migration might actually merit being put in your list of risks? You listed four very serious risks. Could migration even merit being included in that or would you put it under geopolitical breakdown?

Then the second question was you have spoken a couple of times quite approvingly about the G20, but people like Anders Aslund have pointed out that the G20 actually undermines the position of smaller states in particular and it's basically just a club for big states talking to each other. Isn't this point brought out? You have criticised so many countries in a room, nothing is produced out of that, but in fact the WTO, in your ratings there, trade comes out very well. Doesn't the WTO approach, if you like, show that actually multilateralism is very desirable and works very well?

Finally, a question for Stephen of the Wall Street Journal. You made an interesting observation about Russia, this huge country essentially being on the side. Do you have any suggestions as to what Russia could do to get out of this very peculiar situation of, not irrelevance, obviously, but it's not as relevant as it might otherwise be?

JAN TECHAU: Thank you. Here in the middle.

DINOS STASINOPOULOS: Stasinopoulos, formerly with the European Commission.

My question or comments are related with the last slides on to what extent the international institutions, the way that they have been set up, rules, procedures, reflect the new economic landscape, if the answer is of course they don't reflect it, because that's most commentators' feelings, analysts, whether there is a need for major reform and small fine tuning, let's say, we're not doing.
Let’s take the case for finance. There has been a lot of discussion about IMF, the role of IMF, and the only aspect which has been touched is also the voting rights, one way to allow, let’s say, emerging economies to play a bigger role by giving them more holding rights. This is quite a good and valid point, but there is another aspect, liquidity. IMF was set up to provide liquidity, but with all these substantial reserves that China is accumulating, what the relevance of IMF is at the time.

Then the question of WTO and trade. Certainly WTO is a very valuable organisation and has been very effective, but given that the discussions have been paralysed and many countries, left and right, are signing bilateral agreements, either in pairs or regionally, and given that there is no bilateral agreement with China or Russia, where we are going really. Even though WTO is a very good organisation, the way that things are going they will have no mechanism to influence our trade transaction.

**JAN TECHAU:** We’ll take one more here at the table, this gentleman.

**JOHANNES VOS:** Thank you very much. My name is Han Vos and I’m a former council administrator [Inaudible], European Union official. Two questions; these can be, in a way, related.

You spoke about the Arab Spring, and you were there, so we would like to hear from you some impression of how you assess these events and how they interfere with your model.

Secondly, you spoke as well about accidents, so terrorism or [unclear] council with organised crime and drugs trade. Are they also taken care of in your model?

Last of all, I can [Inaudible] stop by saying what would you recommend to us Europeans, stay quiet, have our nice order of life with the high income and relatively marginal in world affairs or have a liberal [Inaudible] approach, which [Inaudible] leaders, I should say, will have more technical and strategic concerns or do we need a major event which may wake up unforeseen talents?

**URI DADUSH:** Yes, it may be coming very soon, that event.

**JAN TECHAU:** Uri first.

**URI DADUSH:** Yes, I don’t see migration as a risk in the sense that it can threaten or slow the process in the same way as the others that I’ve mentioned, very simply because it hasn’t, by and large, become an issue among sovereign states. It is an issue, but it’s not a big issue among sovereign states. It’s more an issue of the migrants vis-à-vis the receiving country.

The risk from migration can be described in two ways. It’s a risk in some countries that are not able to manage the migration process, their social cohesion, etc. By enlarge, it’s been a very difficult process, but the things are holding together there. The biggest risk of migration, and we stress it in the book, is that it’s a huge foregone opportunity. We’re missing the opportunity of migration by restricting it in a very arbitrary way and in a very idiosyncratic way in different countries.

The analysis, the economic analysis of migration suggests that there are enormous benefits to be derived, both for the migrants for the receiving country and for the sending country, from an increase in migration relative to current levels, but we’re not capturing those benefits, partly because of the restrictions and partly because we are forcing a large number of migrants into illegality and precarious living.
The G20 undermines the small states. There is no ideal system, but I prefer a system that has a smaller number of countries that can arrive at agreements and that reach out to a broader community, and that can be done. Again, in the trade chapter we discuss some of the mechanisms that can be established where a small number of countries reach agreements. It’s called plurilateral agreements in trade, but they have provisions for including others and that this increases their legitimacy and gives some voice or some options for the countries that are initially excluded.

I don't think the international institutions reflect the new order, and this is a theme of the book. They're changing, but they're not changing fast enough. It's one of the reasons, for example, that you have these huge reserves that are being built or you have the Chiang Mai Initiative in Asia where they're establishing something like their own International Monetary Fund, because a lot of developing countries consider the International Monetary Fund, they call it the Euro Atlantic Monetary Fund. It's really dominated by the Europeans. They have to move, but equally, the developing countries have to also move in order to have a bigger weight in these emerging markets.

Let me just provide you an example from the Arab Spring. While I was in Cairo, Egypt came out in favour of Christine Lagarde. Egypt is traditionally a developing country, a large developing country with some diplomatic influence. I said to myself, now, why did the Egyptians do that? Why didn't they stick with the BRICs and look for Augustine Custers [Inaudible] or another developing country representative?

The answer is simple, is that in their hour of need the Egyptians found help from the Europeans and they found help from the Americans. The IMF mission had just left Cairo and had left them with a nice $3-billion package without imposing very harsh conditions because the Europeans and the Americans behind the scenes said to the fund mission, look, these guys are going through a very important democratic transition, help them. China, nowhere to be seen for reasons that everybody can understand. What did India do for Egypt?

This is just an example of why the developing countries themselves have to change in order to play a more important role.

I think the Arab Spring takes us a little bit beyond the topic, except to say that I frankly see the Arab Spring as very much part of this movement. The Arab Spring is about freedom. It's about political freedom, but it also is, in a sense, about economic freedom. One of my conclusions from my trip is that they're not going to go and reverse all their market reforms. I'd be very surprised if they did. That's not my reading at all.

Again, I see a close parallel between the quest for human dignity, the quest for ability to express oneself, which is at the core of what the Arab Spring is about, the freedom to move to invest where you want to invest and the freedom to buy what you want to buy and to sell what you want to buy. I actually see a close analogy between those two. I see it as part of this movement and I don't think the Arab Spring is going to lead to a major backtracking on economic... It's going to be a very rocky road, but I don't think in the end we're going to get a backtracking.

On what the Europeans should do, maybe Stephen can tell us what Europeans should do because you're here in Brussels. Anyway, over to you, whatever it is you want to pick up.

**JAN TECHAU:** Leave the hard ones to you.
STEPHEN FIDLER: I don’t know whether I want to go there. I was asked about Russia, and the strong impression I got that although they would never see this said in public is the Russians have looked into the future and it’s a nightmare for them. Apart from all the demographic problems that we know, they see their future as essentially being an oil well, a mine and a wheat field for China. There’s a power next to them that’s producing all this stuff and they’re just shovelling over all their raw materials.

There is a recognition among some people in Moscow - and probably people here are greater experts in this than I am - that this is really not the future that they want. They’re beginning to hear people claiming the European-ness of Russia.

What they need to do, well, I wouldn’t presume. I think clearly they have to join the world economy. They have to join the WTO. All the questions of property rights and legal rights that people have, that needs to be developed, but it’s a problem in an economy that’s essentially a raw material producer, as we see around the world. Rent seeking is the predominant way of becoming wealthy if you have access to natural resources and that kind of thing. There’s a strong resistance to making Russia into a true market economy, but I think that’s really the future.

I suppose the question is there is a middle class there, a growing middle class, and is that middle class able to claim some kind of political influence? There are reasons to think that it might in time, but obviously there is an important election. I think it is important and it depends quite importantly I think on who’s standing there.

On Europe, I don’t know where to start really. I did say I do see a lack of real leadership. I think the whole exercise shows what happens when political projects become divorced from economics. I think there hasn’t been at all a full understanding of what the consequences were of a monetary union in Europe. I do think there is a danger, I think actually more of a danger than I thought a year ago, because I haven’t been somebody who has looked and seen a breakup of the Eurozone or at least people peeling off it, countries peeling off it, but now I think there’s a higher probability, a significantly higher probability of that than I thought a year ago.

I think the dynamic is very unhealthy because it’s not just a matter of sovereign debt; it’s the matter of a financial integration that we’ve seen. We’ve seen an enormous financial integration, and this is the story of the euro, a belief in Germany and Netherlands and that kind of thing, that you can invest in Greece, you can put your money in Spain or Portugal. It’s like putting your money in Germany except the weather’s sunnier.

What’s happened since 2008 is the financial disintegration within the Eurozone and a repatriation of funds to institutions and banks and pension funds and this kind of thing in the Netherlands and Germany and this kind of thing. That process of financial integration has gone into reverse. The euro crisis is nothing to do with hedge funds and nothing to do with speculators and all this kind of thing; it’s to do with the institutions that are the favourite institute, the French banks, the German banks and the German insurance companies, the Dutch pension funds getting out of investments that they made over the last ten years.

One reason for my pessimism is in that financial sector, because if there was the political will, and I don’t think there is, Greece could become a ward easily of Germany. It could keep the Greek budget deficit going without a problem. The ECB could keep the Greek banks going without a problem. It’s not a problem in the whole scheme of it. It’s like keeping West Virginia going. That’s no problem for the US government. There isn’t a political will to do it.
Now we're learning or we're seeing the limits of the willingness of Greeks to sacrifice itself. In the meantime, we're seeing a migration of funds out of the Greek banks. If you were a Greek, would you be putting money in a Greek bank or would you, if you had a choice, put it in a German bank? Or would you put it in €500 notes?

This is something that, while we're all talking about this, the Greeks are actually moving with their feet, and this is why I think I've become really quite pessimistic about it.

JAN TECHAU: Thank you. The big difference between Greek and West Virginia is that West Virginia wants to be West Virginia but Greece doesn't want to be West Virginia.

There's a question over here on the corner and then on the left. Yes, that's you. Then maybe these have to be very short questions really because we are running out of time and we still want to serve you some sandwiches there in the back. Please keep those questions short and also the answers, please.

BARBARA STACHER: Yes, Barbara Stacher [Inaudible], European Commission. Two questions, one on income distribution, one on protectionism.

Well, what we can observe in Europe is income distribution becoming more unequal, new poverty. Also, in the developing countries the leads are emerging but it doesn't necessarily mean that also the poor people there are really benefiting from economic growth. I was actually very surprised about your optimism, that you projected world poverty is going to fall by 2050, so I would be interested to hear how you came to that conclusion.

Concerning protectionism, yes, well, you mentioned it briefly, but I would also be interested to hear more of what your conclusion was about that because the convergence of systems that you mentioned, I don't really see that so much because I see, on the one hand, our model, the European democratic welfare state model as becoming a minority model. Nobody wants to adopt this model anymore. It's too costly. It's, for developing countries, not really so much of an option, it seems.

What I see more is many of the emerging big powers, semi democratic with protectionist tendencies. They are more prone to keep part of their population out of the political process and out of any process whatsoever in order to be able to export at lower prices to our more developed system. I am really wondering whether we see this convergence of systems and whether we are not simply becoming, us, the people in this room [Inaudible], with our perfect rules and then becoming the real model for the future.

JAN TECHAU: Thank you. The next question is over here on the left.

LEONARD SCHRANK: Thanks. I'm Lenny Schrank, the former CEO of Swift. I just have a comment and a question. The comment is the good news is the reduction of poverty over the next 30 or 40 years, if it happens. The bad news is Europe. I don't know what the columnists will be writing about in 30 to 40 years.

One thing, I'm really looking to reading your book. It gives you a lot to think about. That’s what think tanks are for.

It seems we did mention of another very big trend that could impact all of the conclusions, which is the world of Silicon Valley, InfoTech, what's going to happen in 30 or 40 years to the internet, Biotech, all the discoveries, all the diseases that could be cured, and then mostly importantly - it's number three up there
- a clean tech, the breakthroughs in clean technology, all those big, big, big activities going on today in Europe, in America, in Asia, which is good news. It’s good to end this discussion on a positive point - to have something to do with MIT, I thought I’d get in a plug for that area. - the technology side, going with all the political issues that we have to wrestle with over the next 30 or 40 years. Thank you.

JAN TECHAU: Next question is over there.

UNIDENTIFIED SPEAKER 1: My name is [Inaudible].

JAN TECHAU: Please wait for the microphone. Just one second.

UNIDENTIFIED SPEAKER 1: I’m a [Inaudible] at the Cabinet [Inaudible] of the Commissioner for Dolevant [Inaudible]. To continue this round of questions regarding [Inaudible] my very short question is what do you think the future holds for those countries which are at the very end of the list in terms of rich and poor countries, like, for example Africa? We’ve heard a lot about North Africa, but let’s say the rest of Africa, will it be only a playing ground for the other emerging countries and Europe competing for resources or there will be some significant players emerging as well? And would regional integration help in this context? Thanks.

JAN TECHAU: And then we have the shortest question in the world over here in the corner.

UNIDENTIFIED SPEAKER 2: Thank you. Frankly, it was a really fascinating discussion, presentation.

I see in the book, if I understand correctly, you tried to predict the state of the world in 2050, which is about 40 years from now. Now, 40 years ago something similar was attempted with the Club of Rome in the 1970s. Of course, they got the predictions wrong.

I wondered whether you looked at that and have you seen how to avoid those pitfalls, which were basically projecting current trends into the future, imagining the future to be just like the present, just more so, which is a good way to understand the present trends, but don’t necessarily lead us to understand the future. Have you looked at that, and, for instance, have you imagined a change [Inaudible] of approach, scenario planning for the future? Thanks.

JAN TECHAU: Thank you. Uri, your final words.

URI DADUSH: Yes, so I’m supposed to keep the answer short on income distribution. Anyway, these are huge questions, very good questions. Income distribution, clearly a big issue, and again, very important; didn’t treat it because our focus in the book was more on the international questions. We should have treated it. We should have gone into it. We have a little bit because we have projections of the middle class and we have projections on poverty.

I recognise that in several countries the widening income distribution represents a threat to social cohesion. Again, I’m a forecaster, I’m an economist. I’m not going to say that the United States will collapse because of the widening of the income distribution. There’s a lot of tension, but I think they can handle and, over time, find correction to these trends. It’s not a universal trend. There are many countries in Europe, for example, that haven’t seen widening income distribution. Brazil has seen a reduction in its inequality, and other parts of Latin America in the last several years.
The poverty projections are done according to the World Bank techniques, so you have the world split in
deciles and then there are elasticises [Inaudible] that are estimated, empirically estimated, and that are
applied. As the average income goes up, these elasticises are reflected to a greater or lesser degree in
different countries in reductions in poverty.

Bear in mind that the poverty we’re talking about are people who make nothing. $1.25 a day, what is it?
$400, $500 a year. If your country, its income per capita is going up two or three times or four times in
the course of the next 30, 40 years, you don’t need a lot of trickle down in order for the poorest people to
be picked up. That’s the way the projections are done.

We’re just going to disagree about the divergence of economic models. You said the world is becoming
more protectionism. It isn’t. The numbers are very clear. Tariffs in developing countries are one-third
what they were 30 years ago. The advanced countries, Europe, for example, has almost zero tariffs on a
huge part of its trade today.

BARBARA STACHER: What tariff [Inaudible] other countries.

URI DADUSH: Well, I use tariffs because I can measure that. Quotas have been largely eliminated.
Subsidies have been rationalised. They are essentially confined to agriculture.

BARBARA STACHER: I was thinking about Russia, for example, all these protectionist measures that they
are implementing [Inaudible].

URI DADUSH: I refer you to a paper that we just published a month ago, which is on the website, which
we wrote. It’s called Is Protectionism Dying? It explains why protectionism was, by and large, held at
bay. Protectionism that we saw during the crisis has nothing to do with the protectionism that we saw in
the 1930s and, by and large, it has not affected the trends in the growth of world trade. I encourage you
to read that paper.

The Silicon Valley technology, Lenny, the way technology is in the model is actually very, very simple, and
that is we look at what happens to total factor productivity, the total productivity of a country. We find -
we didn’t find this established stylised fact in economics - that the productivity of the really rich countries
like the United States, this developing biotech, clean technology, etc, etc, the total factor productivity
tends to grow at one to 2% a year. The total factor productivity of the poor countries grows at 4% a year.

Why? It’s a lot tougher to innovate at the frontier. Even when you have these very important innovations
at the frontier where these countries are very rich already, with all of Silicon Valley, etc, you’re adding
only one to 2% a year. That’s the history. That’s what we observe. The 4% in the developing countries,
despite the fact that they don’t have Silicon Valley, is simply due to the fact that, guess what, they are
adopting electricity, which is only applied to a small number of people in many developing countries, and
they are learning to drive cars, etc, etc. That gives them a huge acceleration.

There is a chapter on Africa in the book, which I encourage you to look at. To the question will it join the
rest? The answer is an emphatic maybe. There are reasons for optimism; there are also reasons for
pessimism. I don’t have time to go into it, but I encourage you to look at chapter seven in the book. These
are straight-line projections.

Did we look at the Club of Rome? These are not straight-line projections. The model takes into account
the fact that as developing countries become richer they get closer to the frontier, their investment rates
tend to go down, their demographics slows and so they slow down. For example, the growth rate predicted for China over the next 40 years that is reflected in everything I’ve said today is half what it’s been over the last 20 years, so it’s 5% instead of 10% because of the workings of the model.

On the Club of Rome, no. Again, the Club of Rome was proved wrong in predicting that we were going to run out of copper - I discussed this. Malphis [Inaudible] was wrong when he said we were going to run out of food. Why? Because the markets work. The book clearly distinguishes between market-affected situations and situations where the market doesn't work, like in climate [Inaudible] officials, and says, hey, we're going to have a huge bomb there unless we do something about it. We are going to run out of clean atmosphere over whatever it is. We are, and we're going to have a big problem.

As far as the bulk of economic activity, by and large the market can lead us to efficient solutions which are sustainable for a large part, but not for everything.

**JAN TECHAU:** Uri, thanks so much for covering all of these questions. I think they were great questions. Stephen has decided not to give us his final comments because undoubtedly they are going into his next column. I'm encouraging you not only to read the book and the articles, but also the next Wall Street Journal.

This was all pretty heavy stuff. As a contrast, we are going to serve you a light lunch, which is right there at the end of this room on the other side.

Think tanks, as you said, are about giving people stuff to think. What we're doing is we're giving you stuff to read. Whether that makes you think is another question. I hope that you have a not too heavy weekend ahead [Inaudible] of you. Thank you very much and join us again.