CATO INSTITUTE

POLICY FORUM

# IS GLOBALIZATION GOOD FOR THE POOR?

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Moderator:

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Featuring:

David Dollar, World Bank; and

Mark Weisbrot, Center for Economic and Policy Research

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P R O C E E D I N G S

MR. VASQUEZ: Good afternoon. I'm Ian Vasquez. I am the Director of our Project on Global Economic Liberty here at the Cato Institute.

It is difficult to discuss any topic these days that does not directly concern the hideous events of last week, but we will try to do so in today's forum on globalization, a topic that is not entirely unrelated to the tragedies that unfolded last week in the United States. If anything, those events reminded us of just how integrated the world has become. We are only now getting a better sense of the economic repercussions around the world.

And those of us who were traveling abroad or in other parts of the country felt the immediate impact of not being able to rely on modern transportation and communication for several days. To be sure, those were minor inconveniences compared to the suffering of the victims and their families. And indeed, if you look at the list of those victims, they represent people from all around the world -- another reminder of just how globalized our world has become.

I do believe that globalization has in fact made us increasingly dependent on one another, enabling us to pursue more fulfilling, richer lives. And of course when we talk about globalization, really what we are talking about is the return to the global economy. Because it has only been in the last 20 to 25 years that the world has caught up to the level of integration that existed in that first era of globalization 100 years ago. And as we all know, that liberal economic order that began in the 19th century and that we are just resuming now was interrupted by the cataclysms of the 20th century -- the two World Wars, the Great Depression, the totalitarianisms of the left and the right.

So it is important, in my view, not to lose sight of, and indeed to highlight, the many blessings of globalization, as we at the Cato Institute have done for so many years. But not everybody agrees that globalization has been so beneficial. Some people reject it outright. Others question whether it has benefited everyone. Those criticisms are important, because they inform public opinion and the decisions of policymakers around the world.

Today we are fortunate to have two very able speakers address those issues. And they will be presenting opposing views, I suppose, on this debate as they try to separate facts from misperceptions on globalization, and as they try to explain how globalization affects growth, affects poverty reduction, and inequality.

I am pleased to introduce our first speaker, David Dollar, who is one of the World Bank's top research economists, somebody who has I think done some of the best work that has come out of the World Bank over the past many years, particularly as it pertains to economic growth and poverty reduction. He has written many papers on that. He was very much involved in a seminal work at the World Bank that assessed the impact and the effectiveness of foreign aid, with some very critical comments as well as instructive comments.

He spent six years before coming here to Washington as an advisor to the Vietnamese Government, beginning in 1989, advising Vietnam for the World Bank. And prior to that he taught economics at UCLA. It is my pleasure to introduce David Dollar.

(Applause.)

DAVID DOLLAR,

WORLD BANK

DR. DOLLAR: Thank you very much.

I want to begin by echoing what Ian said, that it's very hard right now to think about anything except the terrorist attacks last week. And my research, frankly, is not about terrorism and it's not directly related to these events. Ian wanted to proceed with this forum, and I think that's a good idea. I'm just going to try to tell you a little bit about my research on the topic of globalization, growth and poverty reduction.

The title of our forum, I believe, is the question, "Is Globalization Good for the Poor?"  And I think there are a number of ways to interpret that question.  The word "globalization" itself is fairly vague.  I'm going to focus on globalization in the sense of growing economic integration among countries, economic integration resulting from greater trade and capital flows and information.

And I'm also going to focus on the extreme poor.  There are different ways we can talk about poverty; I'm going to focus on the extreme poor in the world.  About one-fifth of the world's population lives on less than a dollar a day, consumes less than a dollar a day, and I'm going to focus on the extreme poor and try to give you some evidence to help answer the question of "Is globalization good for the poor?"

I'm primarily drawing on research I've done with my colleague, Aart Kraay, and our papers are available over the World Bank's Research Web Site.

Now, there are quite different views on this question. Let me start with a couple of quotes.  In a recent editorial in the British newspaper The Guardian, Walter Schwartz, who is one of their columnists, expressed the view that nonstop expansion of world trade in services makes rich people richer and poor people poorer. This is a claim we hear from some quarters, a fairly strong statement that expanded trade is actually making poor people poorer. Since we care about the poor, then this is a very important statement to assess.

A rather different view was expressed by President Fox of Mexico, who was here in Washington recently. He did a long interview with the Washington Post, and let me just quote briefly from the interview of President Fox of Mexico: We are convinced that globalization is good, and it's good when you do your homework, keep your fundamentals in line on the economy, build up high levels of education, and respect the rule of law. When you do your part, we are convinced that you get the benefit.

These are two quite disparate views of the relationship between economic integration in developing countries and the poor. And my research is really aimed at trying to pull together evidence to help us assess these different claims.

I want to make four points, and I'll probably spend the most amount of time on the first one. The first point is really a very simple factual point I want to really try to drill in, a factual point about what has happened to poverty in the world in the past 20 years. There are a number of ways to look at this, and I want to start by telling you that we have data on about 150 countries, which covers most of the world's population.

So, if you break that into groups, if you take the poorest one-fifth of countries in 1980, the poorest 30 countries in the world in 1980, and look at what has happened in the past 20 years, you will find that the average growth rate for the poorest countries was around zero. And when you see that, and you know the world economy is growing, you can see why some commentators are expressing the view that this era of globalization is making the poor poorer.

Now, that first fact is an important fact, but it turns out that it tells us very little about what's happening to the poor. And the reason is that among those 30 poorest countries you have some that are very small, like Togo and the Central African Republic, with about 5 million people, and also among the 30 poorest countries you have China and India. And among the 30 poorest countries in 1980 you had China, India, Vietnam, some very large countries.

Now, if you weight by population, the average growth rate for the poor countries was 4 percent per capita over the past 20 years. So, the locations where poor people live have been growing at 4 percent per capita, and the rich countries have been growing at 2 percent per capita.

Now, this is actually quite an important fact, because this is a very unusual pattern if we look back over history. If we take the previous 20-year period, from 1960 to 1980, you will find the opposite. Poor countries were growing slowly and rich countries were growing rapidly. And if you can go back all the way to 1820, you will find that a long-term pattern has been for rich countries to grow faster than poor countries, and it's only in the past 20 years that that has been changed.

Now, let me be very clear that that depends very much on rapid growth in China, India, Bangladesh, Vietnam, a number of countries that were very poor 20 years ago and which are very large. In 1980, about 75 percent of the extreme poor lived in the four countries I just mentioned.

Now, even that does not really tell us anything about the welfare of poor people. Because if you go back to India in 1980, not everyone in India was poor. So we also want to look at the distribution of income within countries. And we have better and better information for doing this. We can look at the distribution of income within countries and look at the consumption and the welfare of different groups. So, we can calculate what share of the world's population is poor and we can calculate how many poor people there are. And if we go back 100 years, those estimates are fairly imprecise, but we're getting better and better estimates over time.

Now, the number of poor people in the world, people living on less than a dollar a day, has increased pretty steadily throughout history up to 1980. The share of the world's population living in poverty has gone down, but the number of poor people continued to increase up to about 1980. Between 1960 and 1980, there was a large increase in the number of poor people in the world. And then, in the past 20 years, the number of poor people has declined by about 200 million.

So, my first point, which I've dwelled on, that I want you to take away from this, is that in the past 20 years there has been a very significant decline in the number of extreme poor in the world, and that that is an important historical development. So, that's really my first broad point. And I didn't relate it to globalization. I just want you to get the fact in your mind that large poor countries have grown rapidly, and then, it's important to add, lots of small poor countries have grown badly. There are a lot of small poor countries in Africa that have grown badly.

My second point is I want to try to relate this to globalization. We have some poor countries like India growing rapidly. I spent six years working on Vietnam; that's a good example. We have quite a few poor countries in Africa growing poorly. Let me emphasize, though, Uganda has done well over the past 15 years. So, I want to point out that we have some other examples of success. I don't want this to be an Africa versus Asia story. Uganda is an important example of rapid growth and poverty reduction in Africa during the past 15 years.

But looking at the developing world, one of the striking things is this difference in experience. Some poor locations are growing with the fastest growth in the world and other poor locations are doing very badly. And I want to try to understand that.

Now, to make a long story short, in general, the locations in the developing world that have increased their participation in foreign trade and investment are the locations that are growing rapidly. So, China has opened up to the world economy, India has opened up, Uganda is another example. And in general, the countries that are opening up to foreign trade and investment have seen faster growth. There are a number of ways to show this.

One of the things that Aart Kraay and I do is we just divide the developing world into a group of globalizing countries and a group we call non-globalizers. And we do that by taking the top one-third of developing countries in terms of increased trade to GDP over the past 20 years. So, China has doubled its trade to GDP. India has gone up by about 50 percent. So, if you take the developing countries where there have been large increases in trade to GDP, we get a group of 24 countries, with about 3 billion people.

What is striking is that most of the rest of the developing countries actually trade less today than 20 years ago.

So, I could give you a long list of countries that trade less of their GDP today than 20 years ago. Let me just name a few. Pakistan, Kenya, Togo, Nigeria, Egypt, Zambia -- they all trade less of their GDP today than 20 years ago.

And I don't want to dwell just too much on trade. A lot of today's trade is connected to direct foreign investment and multinational corporations. So, if you think of some of the countries I mentioned as having large increases in trade, they are by and large the same developing countries that are getting a lot of foreign direct investment. China is a huge recipient, Vietnam, Mexico, in the Americas, and Brazil would be another example, Thailand. In general, the countries that are more involved in trade are the same countries that are more involved in direct foreign investment.

So, in our research we separate somewhat arbitrarily -- the dividing line is arbitrary -- but we take the developing countries that are becoming more globalized and the ones that are becoming less globalized. And there you see a really striking divergence in their experiences. The globalizing group has had accelerated growth rates over the past 40 years, from the sixties to the seventies to the eighties to the nineties. So that in the 1990's, the globalizing developing countries have been growing at 5 percent on average -- and China is an important part of that, but it's not the only part of that.

Of our globalizing group, 18 of the 24 countries have had accelerated growth rates and, on average, they're growing at 5 percent. The rich countries are growing at 2 percent. The rest of the developing world is basically growing around zero. So, we have a lot of developing countries that trade less today than 20 years ago, and their growth rates in many cases are around zero or even negative. So, I want to emphasize that divergence of experience.

My second basic point is that there is a divergence of experiences in the developing world. And in general, the countries that are trading more and getting direct foreign investment, these are the locations, the poor locations, where we see rapid growth; and much of the rest of the developing world is growing very poorly. So that's my second point.

My third point that I have to make very briefly, I like to start with the growth rate of a country. But that doesn't tell us directly about the welfare of the poor because there are important things happening within countries in terms of distribution of income. So, one of the things that Aart Kraay and I have put a lot of effort into is putting together data on income distribution within countries for 137 countries, in many cases going pretty far back in time. So, we're interested in what happens to distribution within countries as integration proceeds.

And let me emphasize that in poor countries like Vietnam, what we actually measure is what people really consume. We track how much rice, how much pork. Most poor people spend the overwhelming share of their budget on food. So, the issue is how much are they eating. So, we often say income distribution, but I want you to understand that we are measuring real consumption by people. So, when we talk about the income of the poor going up, think of it in very real terms. Malnourished people who had almost no protein are now getting more protein. That's the real issue that we are trying to get at.

Now, what happens to the income distribution within countries is very complex, but some voices these days are saying that globalization is leading to growing inequality within countries. And my third point is that that is simply not true. As a factual matter, there is no trend toward growing inequality within countries around the world.

And then, if you look at the changes in inequality that we see in data, they are not related to any measure of globalization. So, to make that more concrete, the countries that are trading more, in some cases you see an increase in inequality, as in China; but in other cases you see a decrease in household inequality, as in Malaysia. And in many cases what you see are quite small changes in the distribution of income.

In Vietnam, we helped the government do a very good representative survey in 1992, and then come back to the same 5,000 households six years later so we could look in enormous detail at what was happening. And in Vietnam there was very little change in the overall distribution of income. The country has been growing like gangbusters, so the income of the poor has been growing like gangbusters. So what you find for the bottom 10 percent in Vietnam, for example, is about a 50-percent increase in real income over the 1990's.

So, my third basic point is that because this integration does not seem to be having any effect toward inequality, the poor benefit very powerfully from the more rapid growth that we see. So, some of the countries I've mentioned are countries where we have seen very dramatic poverty reduction in the 1990's. Uganda is a nice example. I like to have a good example from Africa. Uganda had very dramatic poverty reduction in the 1990's. And Vietnam, China and India.

So I began with the big picture, that the number of poor has declined by about 200 million in the past 20 years and, roughly speaking, about 100 million of that decline was in the eighties and about 100 million was in the nineties. And we have better data from the nineties. So, in the nineties, in the globalizing developing countries, you actually had a decline of poverty of 120 million, but in the rest of the developing world the number of poor increased by 20 million. So, I'm trying to give you a sense of net progress in the world, but very much differentiated among poor countries, and then this very important correlation that the countries doing well are the ones that we see with big increases in trade and foreign investment.

So, it's hard to make conclusions about causality from correlations, but there is just no evidence that increased trade is making poor people poorer. What we find is a very high correlation between increased trade and poor people becoming better off.

And let me just try to make it a little bit more concrete with the Vietnam example. The very poorest people in Vietnam, many of them are growing rice on very small plots of land in difficult conditions. As a result of its integration, Vietnam has become a major exporter of rice, which raises the price for farmers. And these farmers, their main input is fertilizer, so Vietnam now imports fertilizer.

So you can look in the household survey and see that the price for their rice that they sell has gone up, the price for the fertilizer that they buy has gone down, and that generated a large welfare gain for Vietnamese farmers. They eat a lot of the rice themselves -- in that case, it's nice to pay a small amount for fertilizer -- then they sell small amounts on the market, and that has enabled them to buy more pork and get more protein in their diet and to have a bicycle and other things that are part of improving life.

I can't go into a lot of detail but I want to quickly add that from the surveys such as in Vietnam, we can see that the benefits go far beyond consumption. So, child labor has gone down, infant mortality has gone down, and school enrollments have gone up. So we are talking about broad improvements in people's lives. Which is why if you talk to people in Vietnam, they're very enthusiastic about international integration because they have seen that it has visibly improved their lives.

I do have a fourth important point which is important. I've tried to emphasize that there are locations in the world that are not doing well, quite a few of them in Sub-Saharan Africa. One of their characteristics is that they haven't increased their trade, they are not getting foreign investment, so it's hard for me to blame international economic integration on their poor performance. But the fact that there are these locations that are doing badly is a very important problem, or issue, for the world.

My bottom line on the evidence is that for poor locations to integrate with the world has enabled them to improve their lives. And if you accept that, then we should be making it easy for poor countries to integrate. But there are many ways in which rich countries make it difficult for poor countries to integrate. So my last message is we could do a lot more to help poor countries integrate with the world. Some of this is through our trade policies.

Rich countries still have lots of protectionism against poor countries, so we make it hard for them to sell their products. And then part of it is a more positive issue of foreign aid. Integration is not just about policy, it's about roads and ports and connecting to the world market. And there is a lot that foreign aid can do to help these locations. And since the 1990's, foreign aid has been coming down.

I think it is a scandal that the United States only gives less than one-tenth of 1 percent of its GNP in foreign assistance. I'm an American citizen, so I think I can make this friendly criticism of my country, that I think it's a scandal that the United States gives less than one-tenth of 1 percent of GNP in aid when there is such a need to help poor countries connect with the international market.

So the bottom line is I think the evidence is pretty clear that integration -- I don't really like to use the word "globalization" -- I'm pro-integration -- or let me try to turn that around and be a little bit more careful in words. I think the evidence is pretty clear that integration helps poor locations improve living standards. And that is broadly accepted in the developing world. I started with a quote from President

Fox. I can easily find lots of quotes from the Indian Government or the Vietnamese Government of the Ugandan Government about the desire of poor countries to integrate.

So, I believe in freedom. Lots of poor countries want to integrate. An important policy question is: Are we going to make it easy for poor countries to integrate with the world market through our trade policy, through foreign aid? So, the real operational question is: How can we make it easier for poor locations to integrate, so we see more good results, so we have more examples such as Vietnam and Uganda?

Thank you very much.

(Applause.)

MR. VASQUEZ: Thanks very much, David.

Our next speaker will give a little bit more of a critical view of the last 20 years of globalization. Mark Weisbrot is currently the Co-Director of the Center for Economic and Policy Research here in Washington, D.C. His opinion pieces have appeared in the major newspapers in the country. He writes a weekly column on economic and policy issues.

He received his Ph.D. in economics from the University of Michigan. And he was a consultant with the Government of Haiti in 1995 and 1996. Please help me welcome Mark Weisbrot.

(Applause.)

MARK WEISBROT, CO-DIRECTOR

CENTER FOR ECONOMIC AND POLICY RESEARCH

DR. WEISBROT: Thank you. I want to thank Ian and the Cato Institute, and David, for organizing and participating in this event. I feel like they do, as a matter of fact. I was hoping this would be postponed in light of the events, but people are resuming their normal lives here. And so I guess part of our normal life is to have these debates. So, here we are.

If you want more information, I should say, you can find it on our Web site. It's www.cepr.net. That is for the Center for Economic and Policy Research, cepr.net.

I want to open by saying that one of the things we do at the Center for Economic and Policy Research is to focus on some of the big facts that often get ignored and some of the other side of the debate that doesn't get heard. The argument that David made is very well presented, and I think we hear it all the time. But there is another side that we don't hear, and it's based on the same data. I want to emphasize that. We are all using the same data. We are using World Bank data and other official data. So there is no dispute over the facts here. It's basically how you interpret them.

And the question today is: Has Globalization helped the poor? That's the main question. And I want to at least make one point about the United States, because here we have solid data and there is no dispute about the facts. Income distribution data in other countries is not always that good, but here in the U.S. we do have good data. And we know that the median wage today, for example, is about the same as it was 27 years ago. So, what does that mean? That means that half of the population, half of the labor force of the United States, has not shared in the gains from economic growth over a 27-year period.

Now, that's a profound change in the income distribution in the United States. If you look at the 27 years before that, the first half of the post-World War II period, income of the typical wage-earner grew by about 80 percent. The difference between 80 percent and zero is enormous. And there are few, if any, economists, serious economists, in this country today who would say that globalization -- that is, the increased opening to trade and both inflow and outflow of investment -- has had nothing to do with that. In fact, the dispute is really just about how much of an affect it had.

So this is a profound change in the United States. And of course, for the bottom quintile, which I would say includes the poor, the change has been even worse. Their wages have actually fallen over this period considerably. And this is exactly what you would predict actually from standard economic theory, due to the increasing opening up to competition of low-wage labor competing with the labor force in the United States, and also the ability of employers to move their plant and equipment more easily to defeat union organizing drives with those threats and everything else. So the results in the United States are very clear and unambiguous for the bottom half of the labor force.

And this is clear to anybody, by the way. Those of you who are old enough to remember the sixties and seventies, it was quite common for a one-income family, making just about the average income, to raise their kids, buy a house, and send their kids to college. That does not happen today. And this is a result of the changes in income distribution. And again, we can argue about how much of that is due to what we call globalization. But it is clearly a significant part of it. And it's almost certainly a greater part of it. That impact certainly outweighs the gains from opening up to trade that people have gotten through cheaper consumer goods, almost by definition.

That's one part of the story. But the people who are promoting increased opening to trade and investment, and I would say a whole set of other policies which are led by the IMF and the World Bank, have not tried to make the argument so much recently in the United States because there is not much of an argument to be made, so they have argued that this is a helping hand to the rest of the world. And this is what I would like to confront with a few facts and arguments today.

Now, there is one thing I wanted to say at the outset. The reason I mentioned the IMF and the Bank is not to disparage Dr. Dollar's institution in any way but to make people understand that this process of globalization is not simply a random opening to trade and investment or an opening to trade and investment that is demanded by particular governments and helped along, but it is very much led by these institutions. The IMF has what we call a creditors cartel, very much like the cartel that OPEC has over oil, in which it can say to a borrowing government: If you do not meet our conditions, you will not get credit for most loans -- not all but most loans -- from the World Bank, from the InterAmerican Development Bank, from other multilateral agencies, and very often governments and private credit, as well.

So, the Fund, the Bank, these are the most powerful institutions in the world, and they are able to impose a whole set of policies. And that power has increased enormously in the last two decades.

Now, first, the most important thing I want to look at is in the paper that you all have here. And that is, what has happened in the last 20 years to the most basic measure of economic welfare, which is just the growth of income per person?

All economists would agree that that is the most basic measure you can have. What has happened throughout the world?

If you look at the last 20 years for the whole world, it has been a very bad two decades as compared with the previous 20 years. And this is a fair comparison, because both of these two periods had major oil shocks and world recessions. If you look at, for example, Latin America, Latin America grew by 75 percent per capita, per person, from 1960 to 1980. If you look at it since then, the last 20 years, it's grown by about 7 percent. Again, a drastic slowdown.

Africa went from a growth rate of about 35 percent per person, from 1960 to 1980, to a decline of about 15 percent. And there are regions of course that did better in the second period. But if you actually divide the world into quintile groups of countries, the poorest countries by per capita income, and you look at them that way, in 1960 and in 1980, and look at the growth rates -- and that is what we did in our latest paper -- you find a very striking pattern, a drastic slowdown, again, through the vast majority of countries in the world in economic growth per capita.

So the poorest quintile of countries, for example, grew at a rate of 1.9 percent per capita annually, which is at least solid, or significant, growth, from 1960 to 1980, and since then their growth has fallen by a rate of about half a percent per year. Again, these comparisons are based on not necessarily taking the same countries and looking at them in two periods but looking at the countries started off in this category and then started off in the same category in the second period. This gives us a better comparison.

Again, this goes all the way through all quintiles -- the middle quintile, for example -- so it isn't just the poor. And I want to emphasize that. Because when we talk to the press there is this notion that, well, globalization has been great but some groups of people have been left behind. And what I want to emphasize is, just like it's true in this country, the majority of people have been left behind in this process, it's also even more true in the rest of the world.

If you go up to the middle quintile of countries -- and these are still countries earning between $1,800 and $3,300 a year, so it's mostly poor people in these countries; and for comparison, our per capita income is over $30,000 -- even in these countries you have a very sharp slowdown in growth, from 3.6 percent in the prior period to about just under 1 percent a year. This makes the difference between these countries increasing their income by 21 percent over a 20-year period versus doubling it.

So something has gone drastically wrong over the last 20 years. And nobody really seems that interested in trying to explain it. You see the Bank and others who have been promoting these policies not asking what has gone wrong here; are there policy and structural changes in the last 20 years that have led to this terrible performance?

By the way, I want to add that in this paper we also looked at the major social indicators. Those are progress in life expectancy, progress in reducing infant mortality and child mortality, progress in literacy and in education. All of those also slowed considerably for the vast majority of countries in the world. And this is partly because of the decline in the rate of growth of income and possibly due to other factors as well, including some evidence that distribution has worsened in many countries.

I want to come back to this idea that the response of the Bank and the response of David of course has been to say that the globalizing countries have done better. And China and India are the two examples. And that is not trivial; that's 35 percent of the world's population. And they have in fact done better in the second period. But it is very hard to present these as examples of globalizing countries.

First of all, they are among the most restricted markets in the world in terms of trade. China has a nonconvertible currency and India also has extensive controls over currency conversion and capital controls. Neither of these countries has really followed the advice that the IMF and the Bank have imposed on the rest of the world, but there certainly has been some opening.

Vietnam is another example. They have managed to take advantage of international markets over the last 20 years. And I agree with David that it has increased the income of rice farmers, for example, and benefited the country. But look at Vietnam. Sixty percent of their investment is done by the government. Is the World Bank willing to allow other countries to move in that direction, if that's what is best for their economies?

So, you see the economies that were able to take advantage of some opening and access to foreign markets seem to be the ones that had the strongest governments, the governments that resisted all of the other policies or didn't have in place the other policies that the Fund and the Bank have imposed on countries throughout the world. And it's not just them, but it's also the bond markets. And you can see this in various crises, like in Argentina today, for example. There is a whole set of policies that are really imposed by what people like to call the global economy, but are very often much more narrow interests. And these policies, it's very easy to see how they might lead to lower growth.

Let me give you a couple of examples, instead of obviously just to say that something has gone wrong over the last 20 years. I wanted to emphasize that the most, and I will keep coming back to it because I think this is something we have to return to until there is an explanation for it. Again, we don't have an explanation and we don't put forward a formula as the Fund and the Bank do as to which are good policies and which are bad policies for almost all countries. But there are clearly enormous policy errors that have been made over the last 20 years.

For example, in the transition economies such as Russia, you saw a policy, again, promoted by Western economic advisors and led by the IMF, which led to a decline in income that is unprecedented in world history outside of wars or natural disasters. About 50 percent of their income was lost in Russia in the space of just five years.

You have other examples in the last few years. In East Asia you had a crisis that was brought about by the increasing inflow, a huge inflow, of capital, hot money that was allowed in because these countries did as the U.S. Treasury Department and others here in Washington urged them. They removed their restrictions on this kind of money. That money flowed in and it flowed out very rapidly, in 1996 and 1997, and led to a massive financial crisis which was then worsened by extremely high interest rates and other policies, again, promoted by the same Washington institutions that had promoted this form of globalization to begin with.

Again, I want to emphasize that these are policy changes that have taken place. So, you can see examples very clearly of where growth would be slower.

What about Latin America? Well, you can see what is happening in Argentina today. They have been in recession for over three years now. They have an overvalued currency. And here we have our institutions again promoting the maintenance of that overvalued currency, propping up that currency with enormous loans which are going to have to be paid back eventually -- $40 billion agreed to in December.

Argentina now has a debt that is so high that its debt service is greater than its export earnings. Again, these kind of situations, which will lead to slower growth in the ensuing years, are the result of a whole set of policy changes that have been promoted, and very often imposed, by these institutions.

I also want to point out that there are policies promoted by the Bank and the Fund associated with their global regulatory, or deregulatory function as it may be called more accurately, that directly hurt the poor. One of those that we are most concerned with is the imposition of user fees for primary health care and education, a policy that the World Bank has been promoting for about 15 years.

Now, as a result of the efforts of 120 organizations in the United States, nongovernmental organizations, the Congress passed a law last October that said that the U.S. representative at these institutions, at the IMF and the Bank and the InterAmerican Development Bank, must oppose any loan that imposes user fees; that is, fees for poor people on primary health care or primary education. And this we hope will put an end to it, but it's not clear that it has. We know that in December the U.S. Treasury Department violated this law, because they actually supported these user fees in a program for Tanzania.

I mention this because this is part of the problem. This particular form of globalization that we think is wrong is being led by institutions that are completely unaccountable. They are not open. They do not have recorded votes. They do not have any of the safeguards of democracy that we expect from our public institutions in the United States. And as a result, they are able to continue policies that are harmful to the borrowing countries, and especially to the poor people within them. And that is one of the major reforms I think that people are demanding today.

Now, one last point, to give David a break, so I'm not just bashing the Bank. I want to mention the WTO, because that's another set of policies that is already draining what is going to be tens of billions of dollars from south to north, from the poor countries to the rich, by insisting on enforcing U.S. patent law outside of the United States. That is one of the major initiatives and one of the ones that is supposed to go ahead in the next round, if it happens. It is scheduled for Qatar in November.

This is a policy of trying to enforce U.S. patent law, and it has finally reached the front pages here, after several years, because of the AIDS crisis and because of the role of these patents in blocking access of millions of people in developing countries to essential medicines and life-saving drugs.

I will stop there, because my time is up, and hopefully we can have some back-and-forth here. Thank you.

(Applause.)

MR. VASQUEZ: Thank you, Mark.

I would like to give David a few minutes, if you want to respond to some of the things that Mark addressed in his comments.

DR. DOLLAR: I guess I would say that Mark cleverly changed the topic. The topic was, "Is Globalization Good for the Poor?" and Mark seemed to have changed the topic to whether or not the World Bank is good for the poor. And I'm certainly happy to have a debate about that, but that wasn't the topic and I'm not sure how interested people are.

I just want to emphasize again that a lot of the current policy questions concern whether or not we're going to make it easy for poor countries to integrate. And Mark actually gave a nice example of one of the policies that makes it hard. Through the WTO, the rich countries are trying to impose a model of patent protection on poor countries. I personally oppose this, and I'm glad Mark raised it. It's an excellent example of trying to impose a standard on developing countries that may not be appropriate for their level of development.

And then I would hope Mark would agree with me that the proposals by some to have labor regulations imposed through the WTO is exactly analogous, and the proposal to have environmental regulations imposed on countries through the WTO is exactly analogous. So, I think these are all examples, bringing all these different institutional harmonization issues into the WTO, I think is a good example of the kind of creeping kind of protectionism we have; and instead of making it easy for poor countries to trade and integrate with the world economy, we are basically setting up a lot of hurdles. And I would be interested to hear what Mark thinks about that.

Let me just briefly say, on the World Bank/IMF issue, that I guess we have a real disagreement here. From the inside, I don't see the World Bank as a particularly powerful institution. As a social scientist, what I find striking -- I've mentioned some countries that were poor and that have done well. For example, I mentioned China, India, Bangladesh, Vietnam, Uganda. All of these countries have large assistance programs from the World Bank. So, the World Bank has been deeply involved in all of these successes. So it might be nice for me to pat myself on the back and say the World Bank must have played a big role in their successes.

But then I have to agree with Mark that the World Bank has been deeply involved in Kenya, in Zimbabwe and a whole range of countries that have done badly. So, as a social scientist, I say, well, if we see in all poor countries the World Bank and the IMF active, and then we see countries with very different policies and very different results, then a social scientist says, well, I guess the World Bank and the IMF are not that powerful. Policies seem to be determined primarily by a country's own politics and institutions. And that's the lesson we've drawn. So, we've moved away from the World Bank.

I might add, by the way, that Danny Roderick, who is an economist that the anti-globalization movement likes to cite, has come to the same conclusion, that the IMF and the World Bank are not very powerful. He has a nice article called "Understanding Economic Policy Reform," where he basically says sovereign governments are just that, sovereign. Conditionality is not very effective. The IMF and the World Bank cannot get countries to change their policies.

So, I agree with Danny Roderick that, by and large, the international institutions do not have a large effect on policy. And that's why we have adjusted to this reality and we have really moved very sharply away from conditionality. That is really a change in the way we do business. So what we do now in Africa, for example, we make an assessment that Uganda has a good environment for poverty reduction; we see a lot of poverty reduction occurring in Uganda and we're putting a lot of support in there.

We used to give a lot of support to Kenya, but now what we've done is we have simply backed off and reduced our financial support to Kenya, because we've learned that conditionality doesn't really bring about change. So the World Bank has shifted over to what we call selectivity, and has learned from this experience that in fact countries make their own decisions, and they should make their own decisions.

So, I come back to this issue of freedom. What I see is a lot of poor countries that would like to integrate with the world economy. And the issue is, are we going to help them and allow that to happen or are we going to contribute to this creeping protectionism that we see in rich countries, and which I think is really very detrimental to the poor countries?

MR. VASQUEZ: Thank you, David.

We have time for questions. And we can try to stick to the topic of globalization as opposed to World Bank policies, which I don't think are necessarily the same thing. In my role here as an impartial moderator, I must say I am in favor of globalization and integration, but I think that the World Bank is at fault in many ways by presenting itself all too often as being very effective in promoting liberalization around the world. And somehow I believe that this is very misleading and somehow it has been effective in fooling people who are critical of globalization and actually making them believe that the Bank has this power.

In fact, when we look around, we discover that the Bank has actually been supporting many regimes that have been resistant to liberalization, have been doing the wrong things. Look at Russia over the past several years. Look at most of Sub-Saharan Africa. Those are the countries that are doing the worst. Countries that have reformed -- many countries in Latin America, countries in East Asia -- have done so precisely as David says, because of their own internal dynamics. And oftentimes it has just been plain economic reality that has forced countries to liberalize, making their own decisions.

So, this idea that the World Bank is effective at imposing liberalization I think is entirely wrong-headed. If anything, if the World Bank and the IMF did not exist, my view is that we would see globalization happen much more rapidly.

We can take questions if you have any. Please raise your hand and wait for the microphone, identify yourself and your institution. We can start over here.

MR. SUNDERLAND: My name is Sean Sunderland. I'm with the Canadian Embassy.

I would like to ask a question for Dr. Dollar. I've lived and worked in Zambia for many years. And Zambia is a country that, in the 1990's, actually did a lot of the things that you suggested -- liberalized its economy, especially its investment regime and its currency regime. And yet social indicators and economic well-being has gone down considerably in Zambia over the last 10 years. So, how do you situate countries like Zambia, a small, poor African country, into the pieces that you have just provided us with?

DR. DOLLAR: To try to be brief, I come back to the point I made, that basically the World Bank has been involved in just about every poor country in the world. And based on the kind of evidence I used, some of them have reformed and some of them haven't. I mentioned that Zambia is the case of a country that actually trades less today than 20 years ago. We know actually trade depends on a number of things, but it's very hard for me to look at a country and think there has been a serious trade liberalization if at the end they actually trade less than they did 20 years ago.

One of my new projects is looking at port costs out of Africa and transport costs. I can show you that problems with transport costs have gone up over time. So, if you think of integration in the real sense of can you get stuff out to markets, can you get stuff in, I would argue that for many African countries integration has gone down.

Even if you can point to a tariff schedule and say, well, the import tariff rates have gone down, but if ports have become more inefficient and corrupt, if there are more delays in the transport network, then you don't really have integration. So, I accept that integration is a hard thing to measure, and we're trying to move into creative areas of looking at transport costs and other aspects of integration.

MR. VASQUEZ: Yes?

MR. DESTLER: I'm Mack Destler, University of Maryland and Institute for International Economics. Congratulations to the Cato Institute on a very good forum. I have two small questions, one to each, both very much on the topic.

For David Dollar, many Latin American countries have undertaken globalizing reforms and taken a lot of policy pain, and it's not clear how many of them have gotten major economic gain. I wonder what your numbers look like if you just focused on Latin American countries rather than globally.

For Mr. Weisbrot, why do you use countries rather than human beings as units?

MR. VASQUEZ: Let's let Mark go first.

DR. WEISBROT: Well, the data collected is for countries, not for just the individuals. I think that's one reason. And also the policy decisions are made by governments, to the extent that they're allowed to make them.

As for Latin America, I did mention that Latin America has in fact experienced a lot of pain, but no gain. As you mentioned, the numbers are, for the last 20 years, per capita income has grown by 7 percent, as compared to 75 percent over the previous 20 years. Again, if you look at the case of Argentina today, if you look at what has happened in Brazil over the last couple of years, you can see this slow growth, this sharply reduced growth, is very much a result of policy changes that are either associated with globalization or they're imposed and supported and would not happen in the absence of these globalizing institutions.

That's why I mentioned them. It's kind of silly to say that Argentina is deciding its own policy when they're getting $40 billion from the IMF. It's like a seventh of their whole

GDP. It would be like us borrowing $1.4 trillion to prop up an overvalued dollar in the United States. We not only wouldn't do that, we wouldn't be able to do it, because nobody would be standing by with the money, trying to hand it to us. That's the only reason I mentioned these institutions; they have played an enormous role.

DR. DOLLAR: On Latin America, how you perceive the history of Latin America over the past 40 years really determines whether you view the reforms as successful or not. I think a number of major Latin American economies did okay in the sixties and seventies, but some of that was based on unsustainable borrowing from abroad and from relatively inward-focused policies that had to burst. So then, in the early 1980's, you had the debt crisis and a lot of recessions in Latin America.

And the question is, so you had this bad period in the early eighties; is that the result of opening up or is that the result of the earlier policies? I think it's the result of the earlier policies. So then, if you look from the early eighties through the nineties, many Latin American economies had accelerated growth. Mexico is a good example; Brazil is an example.

I think there is a disappointment in Latin America that they haven't gotten the spectacular growth rates of East Asia. And I think that comes back to issues of the institutions, the rule of law, investment in education -- a whole range of things that are important. But I would say they have gotten the return from integration that you would roughly expect, which is their growth rates have accelerated by about 2 percentage points.

Obviously at the moment lots of economies are going into recession. We are at a very dangerous moment when quite a few economies seem to be going into recession. And I would just like to add that while I think in general integration is good for developing countries, I think this is a particularly important moment to move forward and not to basically give way to protectionist instincts in rich countries because of this potential for global recession.

MR. VASQUEZ: I think also, wouldn't you agree, that when you look at particular countries like Mexico and like Argentina, that have done so much in the early nineties to liberalize their economies, they have also done so many things wrong that have nothing to do with a market economy? The Mexican peso crisis is a perfect example of monetary and fiscal policies that are thoroughly inconsistent with what a market economy requires. Thus, this gigantic depression that Mexico has lived through in the 1990's.

If you look at Argentina, it's not a perfect picture of liberalization. In the early nineties, they began to liberalize. By the mid-nineties, they decided that that's about it in terms of liberalization. The diminishing returns of the earlier liberalization turned into low growth. But what did they do in terms of government spending? They increased government spending dramatically. That has nothing to do with market policies. And now they're in trouble for it.

In the nineties, the Argentinean economy grew by about 50 percent or so, but the government spending grew by more than that, by about 90 percent. So that you have a situation where the Argentinean Government cannot pay for the incredible growth of the state. This is directly responsible for the current crisis in Argentina today, and it is well known by many economists in Argentina, but it is easy to caricature what has happened there.

We'll take a question here in the front.

MR. MCDONALD: Sam McDonald from Reason magazine.

A question for Professor Weisbrot. The question being: If not globalization, then what? If integrating these economies is bad, is making them more insular good, or outlawing trade? What would make these countries better off and the people within them?

DR. WEISBROT: It's interesting that people always ask that, as though simply by presenting the results of the last 20 years in an honest and straightforward manner, they assume that I'm promoting some form of protectionism or isolationism or something like that.  I think countries can gain from trade and they can gain from investment.  But they have to do it on terms that actually benefit them -- and benefits the individuals, as one person pointed out, the individuals within those countries and the majority of individuals within those countries.

You don't even really need the economic analysis to know that it's wrong for some force outside of a country -- such as the IMF and the Bank -- to be making their major macroeconomic and other economic decisions for them.  And I know people are trying to say that they don't do this, but in fact, if that's true, then let's just get rid of all the conditions that they put on these loans and let's just say that if a country doesn't accept the IMF's conditions it can still get money from the World Bank or it can still get money from the other multilaterals or governments.

So, I'm talking about something very basic, which doesn't have all that much appeal in Washington but in the rest of the world it tends to be a very important concept, which is called self-determination.  It means that governments actually get to decide their economic policies because they are responding to the needs of their own populations.

And that is what is being prevented not only by these institutions but by international agreements, such as the WTO, NAFTA.  All of these agreements are written in a way that benefit particular interests -- generally narrow segments of society -- the pharmaceutical companies, for example, on the patent question, which David agrees with me, but also other corporations that want the freedom. Our mutual funds wanted to be able to go into Asia, even though they didn't need the savings. They were countries with very high savings rates; they didn't need to borrow this money, but these companies wanted to go in there, so therefore these economies were opened up in a reckless manner.

So, you see, I'm for restoring the basic national sovereignty that most people believe in, in the world, and that people in this audience I think would believe in, in principle.

MR. VASQUEZ: A question in the back of the room.

MR. MISTRETTA: My name is Phil Mistretta. I'm a former economist and policy advisor at the Treasury Department, and now at the NEC at the White House.

I have two brief comments and then maybe a question for David. I would add the U.S. Treasury to your list of institutions that is not as powerful as its outside critics claim, whether that's directly in bilateral relations with other governments or working with and through the multilateral institutions.

To Mark I would like to say I think your understanding of the Asian financial crisis is quite misguided, or at least leaves out a very large part of the story. This was one of my responsibilities at Treasury, and I'll be glad to talk about it with you later.

My question really to both of you is to ask you to comment further on some things that have come up, issues of ownership and sovereignty, particularly with a view towards a massive corruption and inefficiency in many of the public and private institutions in poor and developing countries.

DR. WEISBROT: Corruption is a problem everywhere. We have corruption in the United States, too. It takes a different form -- the form of campaign finance contributions. Private interests are able to effect policy through a form of legalized bribery here, as well. But it is different obviously, and it's different in different countries. I just want to point out that it's not necessarily fatal to development.

For example, South Korea had an extremely corrupt government. Two of its Presidents went to jail for stealing literally billions of dollars. And during the period in which they did this, the economy grew at one of the fastest rates in the history of the world. So, it's not an explanation for everything.

When we see corrupt governments in Africa, for example, and people tend to say, oh, that's the entire problem, very often that's just one part of the problem and it reflects other problems, of abandoning the entire project of economic development by these governments. So, it depends a lot on the type of corruption.

If it's corruption that involves hundreds of billions of dollars leaving the country, as in Russia, for example, in the nineties, then that's the kind of corruption that really will hurt the domestic economy very immediately. If it's just a redistribution of income, while it's still a bad thing and it's a problem for the citizens of that country, it doesn't necessarily prevent economic growth.

DR. DOLLAR: I think that's a very important question. When I talk about trying to assess the costs and benefits of integration -- and let me emphasize, there are real costs; there are always going to be individual losers, and I hope that everyone understands that -- but when I try to assess the costs and benefits of integration, I try to focus on poverty, which is my main area of research. But if you ask me personally, I actually think this whole process of integration is good for improving transparency, reducing corruption, and fostering democracy. I think that's hard to prove as a social scientist, but my own personal experience is that this integration actually has spillover benefits that tends to make sovereignty and democracy work better.

I will just mention one brief example. There was a great example in India -- I guess it was about a year ago -- when somebody filmed a minister accepting a bribe, and then it was out on the Internet and all over India so quickly. And just speaking as a private individual, I find it exciting that we see the use of the media to try to improve transparency.

So I think democracy works imperfectly everywhere. It's particularly hard to make it work in poor countries, but I think it's exciting that we have a lot of democracies in the developing world. And I really sincerely believe that countries decide their own fate and we should recognize that.

I would like to point out that it was a bunch of democratically elected countries in the Americas that went to Quebec to try to negotiate a Free Trade Agreement of the Americas and basically the anti-globalization movement tried to stop a meeting of democratically elected governments trying to negotiate integration. That's why personally I'm worried that we have a real protectionist movement developing in the rich countries that is trying to prevent developing countries -- and in the Americas we're talking about democratically elected governments -- that are trying to negotiate integration because they think it's going to be better for their people.

MR. VASQUEZ: A question here.

MR. TENNASSEE: Paul Tennassee, World Confederation of Labor.

I'm concerned about the least developed countries. Recently the U.N. had a conference on the least developed countries. What I'm concerned about is that, from looking at the evidence of the performance of these countries over the last 20 years, regardless of whether you agree or don't agree with your narrow definition of globalization, these countries don't seem to be able to make it.

So my question is, what is the destiny of these countries? If the evidence is overwhelming that these countries just cannot make it according to these rules of globalization, whether you call it a neo-liberal model or the very narrow definition you gave of merely integration, what do you do? Do you look for an alternative path for these countries, or do we have to live and die with this royal road of globalization that you are pointing out?

And this is a dilemma I think we face in the world today, that you're insisting on this royal road in spite of the fact that these countries are collapsing and these countries are not making it. And any intelligent, rational person will tell you that they are not going to make it with these rules. And I'm quite sure the World Bank and you have come to that conclusion, but what I observe you do is that you choose sometimes Ghana and you make that your symbol. And when things get bad, you move to

Bolivia. When things get bad, you go to Kenya. Now you're telling us about Uganda.

So I'm wondering whether you're just shuttling around and you're not really facing the reality and addressing your mind to the fact that we must have not only one royal road, but like after the War, we had a mixed economy model, we had state capitalism -- capitalism had various models -- we had a nationalist democratic path. So why can't we pursue multiple paths to see? Because none of us have a monopoly on wisdom, and it's through experiments and failure that we finally succeed in the world?

MR. VASQUEZ: David, have all countries followed the same path?

DR. DOLLAR: No. At the risk of repeating myself, I keep saying that I firmly believe countries in practice do make their own decisions, that they should make their own decisions, and certainly in the World Bank there is much more tolerance now for taking different approaches. So, we don't impose a model. We have moved away from conditionality. You can see this if you actually look at World Bank activities.

There was just an example in Mozambique, where the government didn't want to lower import tariffs, and there was some discussion and there was no issue made by the World Bank. So, the behavior is changing. Focus on how the actual behavior of the institution is changing. The issue is what actually works for countries. I don't have a simple answer for many of the locations that are doing very badly.

Personally I find it very encouraging that, as I said, if you go back 20 years, the overwhelming majority of the world's extreme poor lived in China, India, Bangladesh, and Vietnam. So, these were the least developed countries, and they have managed to do pretty well. India is still the largest concentration of poor in the world. The largest concentration of poor is in India. We could do a lot to help India. There are locations within India that are not doing well. So, we could do a lot with foreign aid and with more support to help locations figure out what works for them.

There are difficult locations in Africa. I don't have easy answers. We know that malaria is a problem. We know that HIV/AIDS is a problem. So, let me be clear, when I talk about more aid, I agree with Jeff Sachs, for example, that we could channel more of that aid to address health problems of malaria and AIDS. So, we could put a lot of money into AIDS and malaria, and I think we could have a significant impact. That's a totally separate issue from this integration that we're talking about.

And then I have to say that migration is also an important issue. The population of Africa is spread out very sparsely across the continent. Africa has fewer people than

India, and they are sparsely distributed around the continent. And if that's what people want, fine. I come back to freedom. But if people want to integrate with the world economy, as in any other continent, they're going to have to cluster together into more cities. And because many African countries are small, that's going to involve more migration across African countries.

So there are a whole set of challenges that African people and African nations are essentially going to have to address. I see them moving on that. And I think if you talk to people in many of these countries you will find that they view the World Bank and other donors as quite supportive of their efforts, and that the attitude of the institution has changed. A lot of this discussion just seems stuck in the past.

I have to say, since Mark brought it up -- I anticipated this -- I brought along our official policy on user fees. The World Bank opposed user fees for primary education and for basic health services for the poor. So there it is, the official policy on the Web site. So some of this discussion is just stuck in the past.

MR. VASQUEZ: Mark, is there a new World Bank?

DR. WEISBROT: If it's the past, it's the very recent past. It was December that the World Bank approved that. Its Executive Board minutes were leaked and that is the only reason we know about what happened there. But we also have the document, what's called the "Poverty Reduction Strategy Paper," which is the conditions that the Tanzanian Government has to meet in order to qualify for debt relief or loans under the HIPC Initiative. And in fact that agreement included user fees on primary health care.

I hope it has changed in the last few months, I really do. And we are going to try and hold you to that. And I want to respond to his comment as well, because I think it's a very important one.

And here is where the damage is done. It's not that countries can't gain from trade or gain from foreign investment under certain conditions, but they do need to have a development policy. Opening up your borders indiscriminately to trade and investment is not a substitute for development policy. And that is one of the reasons why economic performance, I believe, has been so bad in the last 20 years as compared to previously, when governments were at least able to have a development policy, to say, well, we want to have an industrial policy, like South Korea and Taiwan did successfully, for example.

And this is what the gentleman here has pointed out. So a lot of the damage is done, and it's not a question of globalization or trade and investment is bad or good; it's a question of whether or not you are just going to impose a simple set of rules on a country and force them to follow them. He gave examples from Africa.

I just returned from South Africa, and there is a country where they had a very good program when the new government came to power in 1993. And they said we're going to create jobs. Half the population was unemployed and they wanted to have public works, they wanted to develop the country, for the first time, for the majority of people who could now vote. And the World Bank actually played a major role, if not the major role, in convincing them that this was not possible. And since then they have followed the policy of very high interest rates, low wages in order to be competitive in world export markets, abandoning any of the public works. In fact, they have been trying to privatize now major parts of essential services even, such as water and health care.

This is the kind of thing that was very much a terrible thing for the people of South Africa. I saw the same thing as a consultant to the Government of Haiti, when again, in 1990, the country elected for the first time in over 100 years their own President, and he was not able to implement any of the policies. First he was overthrown, but even when he came back he couldn't implement any of the policies for which he was elected because the IMF and the Bank and all the other agencies, the IADB, lined up and said: This is what you're going to do; you're going to produce coffee, mangoes and you'll have light assembly -- in other words, sweatshops, where 85 percent of the parts are imported -- and you will not have a development plan.

Because of that, by the way, the Parliament was never able to agree to that, and the country is still a mess today, and there has been almost no economic growth. So these are the kind of things, at very crucial transition points, when there really is democracy in a country that hasn't had it, this is where these institutions and these ideas of globalization -- so it isn't just the IMF and the World Bank but the idea that there is only one path to development, and it's the one put forth from Washington -- this is where they create so much damage and suffering in the world.

MR. VASQUEZ: I might add that places like Haiti are also among the least free economies in the world, and that has a lot to do with its current abysmal conditions I think.

DR. DOLLAR: South Africa is an interesting case in that the World Bank doesn't have any adjustment lending in South Africa. They don't particularly need outside financing. So it's a country where all we do is have a respectful policy dialogue basically.

I did want to make an important point. Mark, if you think carefully, there is an inconsistency in your argument. I read to you the official World Bank policy, that we oppose user fees in primary education and basic health services. And Mark shoots back that Tanzania, in their poverty reduction -- and I don't even remember our own lingo, but -- in Tanzania's own development plan they wanted to put in user fees. So now are you saying, Mark, that we should force countries not to have user fees?

DR. WEISBROT: This is a document that has been approved by the Bank. The Bank and the Fund determine really what is allowed in it.

DR. DOLLAR: No, that's not true.

DR. WEISBROT: They've always determined this, for the last 20 years.

DR. DOLLAR: We are opposed to user fees and we are happy to help finance poor communities to provide free services. You will discover that there are many communities around the world that choose to have user fees. And I come back to freedom. So, I'm not in favor of imposing this from the outside. I'm in favor of having a respectful dialogue, and I'm in favor of working with communities to see what do they want to do to actually get poor people into school and to actually get health services to poor people.

MR. VASQUEZ: I would like to try to get back to the discussion on globalization because I think it is a bit different than World Bank policies. One thing that we have done at the

Cato Institute, and it has been a long-term project, has been to look at the level of economic freedom in countries around the world over a period of 25 years. And there is a clear relationship between economic freedom and prosperity. Countries that are more economically free are more prosperous.

There is no relationship whatsoever between economic prosperity or economic freedom, on the one hand, and World Bank aid to those countries. Which is just another way of saying that the World Bank has been basically ineffective at either promoting prosperity or promoting economic reform. And this is something that many studies, even coming out of the World Bank and other places, have increasingly found.

So, if we could get back to the issue of globalization, of economic policies in countries, that might help. I will take a question from the back.

MR. BAKER: Dean Baker, also with the Center for Economic and Policy Research.

A couple of points I wanted to make in reference to Dr. Dollar's comments on protectionism. First off, I again want to commend you for noting that the imposition of copyright and patent protection on developing nations is a form of protectionism that impedes globalization. But I think it is important to distinguish between the way in which that protectionism works and what you had talked about in terms of labor standards or environmental regulations.

In the case of copyright and patent protection, we're talking about what nations in South Africa, South Asia and Latin America do within those nations. Whereas when you talk about labor standards and environmental standards, they are generally only talked about in terms of what would get exported back to the industrialized nations. That's a very, very different issue for at least everyone I've ever known who has had anything to do with that. And maybe you know other people.

The second point on protectionism -- and again, for some people it's a dirty word, but not for me -- but since I think for some here it might be, I just want to talk a little bit about how we use that. There is a lot of us -- I can say this as an economist, but I think most professionals -- if we're at least smart enough and honest enough, we will acknowledge we benefit from protectionism. It's very, very difficult for a smart kid from India, Mexico, Brazil, Ethiopia -- pick your country -- to come to the United States and become a doctor.

The U.S. has spent the last 50 years -- or I should say the industrialized nations more generally -- have spent the last 50 years to try to make it as easy as possible for General Motors or whoever to go and locate a manufacturing facility in Mexico, Malaysia, China, in order to put our blue collar workers in competition with the lowest-paid labor anywhere in the world. They have not done the same thing with doctors, lawyers, accountants, economists, on down the list. And I'm a good enough economist to know that if they had done that, I'd be making a hell of a lot less money than I am today.

So, when we talk about protectionism, what we're talking about, we enjoy protectionism, we benefit from it, and that isn't even on the agenda because it isn't allowed, because the professionals are powerful enough as a group that it's not going to be allowed on the agenda. And what we are fighting over is whether blue collar workers in the United States, the lower-paid workers, might benefit to some extent from the same sort of protectionism that we do.

DR. DOLLAR: I would just say briefly that there are different types of protectionism in the United States. And I agree with you that you can find some examples that benefit some professionals. I'm kind of surprised you picked economists, because just about every economist I know living in the United States came from another country -- I mean, almost all the good ones.

(Laughter.)

DR. DOLLAR: I can say that because I'm one of the American economists. But I take your basic point. And of course a lot of protectionism in America is aimed at protecting blue collar workers. We still have tremendous protectionism in the textile and clothing industries. We have protectionism in the steel industry. So a lot of our protectionism is aimed at blue collar workers.

Now, I'm an optimist, and I think that this process of integration actually has powerful benefits for poor countries, and it imposes some costs within the United States -- and some of them on me -- and benefits, too. But as a U.S. citizen, I'm willing to argue that we can have adjustment policies to help people hurt by these things. And I recognize that there are individuals, but I think that this is really one of the powerful things we do for developing countries is to have an open economy.

By the way, we haven't really even touched on migration, but 10 percent of Mexico's population -- and I'm not talking about Mexican-Americans, I'm talking about 10 percent of Mexican citizens -- live and work in the United States. And this has had a huge effect on Mexico's welfare.

I liked the question from the gentleman about, why do we talk about countries rather than people? You can talk about Mexico's growth rate, but don't forget that 10 percent of the population moved here. And there are good studies showing that individual migrants immediately earn 10 times as much. So there are a whole bunch of Mexican people who have benefited very powerfully, and then they send remittances back home and they take pressure off the labor market.

I am not in favor of completely open borders -- that's not practical in today's world -- but I am in favor of more liberal immigration policies, which I think has powerful benefits for poor people in the developing world. And different types of immigration. Some of that is going to be around Africa. I already mentioned the need to develop more clusters in Africa. And there is going to be a declining labor force in some of the rich countries, so there is going to be tremendous economic pressure for migration. And this could really benefit poor people if there is intelligent policy managing that.

MR. VASQUEZ: I'm afraid we have time for just one more very quick question, with hopefully a brief answer before we go upstairs for an informal luncheon.

MR. SMITH: My name is Gordon Smith. I am a local residential builder and developer in Washington, D.C.

My question is mostly to Mark. You lamented early on in your comments that the bottom quintile in the United States has suffered over a long period of time. But isn't it true that really in the United States we are very mobile between quintiles? I know I started in the bottom quintile and like to think I'm closer to the top right now. I would suspect that most people in this room are the same, including you.

I suspect when you got out of school, statistically you were in the bottom quintile; you're obviously not there now. And this mobility is very important. As opposed to saying this is a low rate, you failed to mention what's happening in the top quintiles, which we all, through our ingenuity and hard work, are striving to, and a lot of people are making it. And a lot of people are going from the top quintile back on down, which is very, very healthy. And statistically, if you're married and over 40, you're almost never in the bottom quintile. And I would like your comments on that.

DR. WEISBROT: There are two responses. First of all, it does matter, even if you're not even in the bottom quintile for the rest of your life. It still matters to me how much money you're earning at that time. Because people that are poor today are still poor even if some of them will get out of it. There is no evidence that mobility out of that bottom quintile has increased over the last 27 years. So when I say that the bottom quintile has lost wages, it means that people who are in that quintile for however long they're in there are making less than they did 27 years ago, in spite of the fact that the overall economy has grown by probably 70 percent per person over that period. So that's a terrible redistribution of income.

Second of all, there are still many millions of people in that quintile who don't get out of it, and they literally can't make ends meet.

MR. VASQUEZ: We are going to have to end it on that. That topic is for another Policy Forum here. I would like to thank both of our speakers for joining us today. I would like to thank all of you for joining us. And I want to invite you up to the Winter garden upstairs for an informal luncheon.

Please help me thank again the speakers.

(Applause.)

(Whereupon, the Cato Institute Policy Forum concluded.)