

## **On Globalization by Joseph E. Stiglitz and Thomas Friedman**

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INTRODUCTION. Hi. My name is Andrew Rosenthal and I'm the deputy editorial page editor of The New York Times. I want to thank you all for coming tonight. This is the first of what we hope is going to be a series of Times Talks brought to you by Times Select. As you know, Times Select is our premium service online, and I think many of you here are Times Select subscribers. It's a pleasure to be here in Washington tonight. And I would like to thank George Washington University for hosting this discussion.

Before we begin, the usual quick reminder, if you've got your cell phone on could you please turn it off. And I'll follow my own instructions. And after the discussion our panelists will be available to sign books out in the lobby. We're honored to have such distinguished guests on this stage tonight. Among them they have won the world's highest honors for their work: Nobel Prize, three Pulitzers, eight Peabody Awards, numerous Overseas Press Club Awards and 40 Emmys.

You'll hear much more about them from our moderator, the recipient of all those Emmy Awards, who I'm now pleased to introduce. Since 1980, he was the anchor and managing editor of one of the most honored broadcasts in television history. And now The Times is very fortunate to have him as a contributing Op-Ed columnist. He is also managing editor of the largest cable network in the United States, the Discovery Channel, for which he anchors and produces programs that examine major global topics and events. Please join me in welcoming Ted Koppel.

TED KOPPEL. Good evening. Somehow the Overseas Press Club Awards and things like that don't seem that significant when you're in the presence of — what is it, 37 Pulitzers that you've won now, Friedman? And of course that doesn't seem like a big deal when we have with us the 2001 winner of the Nobel Prize in Economics, Professor Joe Stiglitz. Without further adieu, I'm going to get right into the subject, which initially was supposed to be about globalization. But globalization has a new name now in the wake of the this extraordinary best-selling book that Tom Friedman wrote a couple of — what is it, about a year ago? — or it came out about a year ago, arguing that the world is flat. And indeed, as you can see, our title for this evening's conversation is: How flat is the world? Tom, what did you mean by that in the first place? I suspect many of our audience here have read the book. But you've just updated it, so tell us what you mean by the world being flat.

TOM FRIEDMAN. Well, basically, the sort of core idea, Ted, is that there was a convergence of three technological events that created a global platform that more people in more places in more ways could plug and play on than ever before. And those three technological events were, first of all, the personal computer. And what the PC allowed and enabled was for individuals, for the first time in the history of the world, to become authors of their own content in digital form. We've all been authors of our own content ever since cavewomen and cavemen etched on cave walls. But with the PC, individuals could become authors of their own content — words, photos, spreadsheets, data, video — in digital form, in bits and bytes. That was the first thing. Second huge event, which happened a short time later, was the emergence of the Internet and the World Wide Web. And with the emergence of that Internet, suddenly these individuals could take their digital content and send it anywhere in the world, virtually for free. And then through

the course of the 1990's there was a revolution in software. And that revolution in software basically made everyone's computer interoperable. We take that for granted now. But we forget those days when Joe had a computer and certain software, and you had one, and we couldn't communicate. Well what that breakthrough in software, in protocols, enabled was: first of all, we had all these individuals offering their own content; then, thanks to the Internet, they could send it anywhere for free; and then, thanks to that software, they could collaborate on it. I could collaborate on my content with you anywhere in the world. And it was the convergence of those three technological events that created what I would call a platform, a platform of technology, which more people in more places on more days can now plug and play on, compete and collaborate on. So when I say that the world is flat I'm not suggesting the world is equal, that suddenly we're all equal. What I am saying, though, is that more people today than ever before have access to a technology platform for innovation, entrepreneurship, education — and unfortunately, Ted, also for terrorism — than ever before. That's what I mean.

KOPPEL. We'll come back to some of those particular points. But Professor Stiglitz — May I call you Joe?

JOSEPH STIGLITZ. Yes.

KOPPEL. Thank you. You would make the point that the world is not quite as flat as Tom sketches it. I mean you don't disagree with the basic premise. You're simply saying that there continues to be a form on inequality in the world. Why don't you talk about that for a moment.

STIGLITZ. That's right. I agree very strongly with Tom that there's been a change, you might say, in the global landscape. But in some dimensions it's actually getting less flat. And so the metaphor of flatness is a useful one for starting a discussion, a debate — and that's why I like the title of this discussion — that inequalities within countries almost everywhere in the world are getting larger, and differences between the very poor in Africa and the United States, in the advanced industrial country, are getting larger, the gap between the United States and Mexico is getting larger. This is particularly important because, as you emphasize in your book and you've just commented, a lot of what has made the world flatter is technology. And those who have access to technology and access to education that can use that technology can participate in this. And there's been a real revolution. The integration of China and India into the global economy, which this has been part of, is a change of historical proportion. Something I've been talking about in my new book that's coming out in August —

KOPPEL. The name of which is?

STIGLITZ. "Making Globalization Work."

KOPPEL. There you go. That's your pay for the night. Let me just interrupt for a moment. Is what you are talking about a permanent condition? Or isn't it inevitable that with time all of that will flatten out, if Tom will permit that?

STIGLITZ. No. It's not inevitable that it will flatten out. In fact, there's a long-standing economic theory that trade liberalization, opening up trade among countries, will actually increase inequality in the advanced industrial countries. Basically —

KOPPEL. Within? Or Between the advanced industrial and the —

STIGLITZ. No, within. Within the advanced industrial countries.

KOPPEL. Talk about — All right. The most advanced industrial country is our own.

STIGLITZ. The United States. Exactly. And you see it dramatically. Even though we've had growth in the last five years, it's not just poverty has increased, the people in the middle, the median family income has gone down by about \$1,500. So the average American today is worse off than he was five years ago.

KOPPEL. Because?

STIGLITZ. Well, one of the factors — there are many factors going on and some of it has to do with technology, some of it has to do with globalization — that as the world becomes more integrated, in effect, Americans are competing with unskilled workers — unskilled Americans are competing with unskilled workers in China, all over the world. And their wages are much lower.

There's a discussion of minimum wages going up in China, but it's like to about a tenth of what it is in the United States. So that's putting downward pressure on low-wage workers who are among the poorest in our country. Now in Europe they've responded not to allow the wages to fall. But they get more unemployment. And the workers there are being told accept globalization and you're going to gain enormously by globalization. And to enjoy these gains you have to cut wages and lower your job protections.

KOPPEL. Indeed —

STIGLITZ. And they're a little bit — don't understand how lower wages and less job security is supposed to make them better off.

KOPPEL. We just saw demonstrations, riots in Paris, for precisely that reason. The government wanted to require young people to accept the notion that they could be fired. They weren't prepared to accept that.

Do you accept Joe's premise that inevitably this is going to accrue to the disadvantage of the less educated in the advanced technological societies like our own? Or industrial.

FRIEDMAN. Well there's no question that — I think the point Joe is making, Ted, is that because this platform that I'm talking about is based on technology, and because success on this platform requires more and more education, therefore the gap between those who have that education and the ability to compete, connect and collaborate on this platform, and those who don't, is going to definitely expand. There's no question that gap will grow. And it'll grow within our country between those who have those educational tools. And it'll grow between countries with more educated clusters and those that don't have it. So education is clearly one of the key things. I would argue that there are three key things that countries have to focus on. The first is simply infrastructure. You've got to have the infrastructure to connect to this platform if that's where the innovation's going to happen. Here I'm talking about bandwidth, telecom, railroads, ports and airports. Everything. You've got to be able to connect.

The second is education. You have to have more people who can be collaborators with other people on that platform. And thirdly, you've got to get your governance right. And governance for me is everything from intellectual property laws to your investment laws to your social security protection — all the things that actually manage the flow between your society and that platform. But I guess the one thing that I would say in answer to Joe's larger point, kind of where

this is all going, is that I don't know. I really spent all my time in this book focused on trying to understand this platform really. And the book is very unpredictable, even the second — the new version of the book. I don't make any predictions. But here's what I do say, there's sort of a line of criticism that I often get, which is that kind of Friedman goes to India, hangs around with his high-tech pals, but what he doesn't understand is that there are poor people in India. And my response to that is, well, first of all, thank you very much for telling me there are poor people in India. I wouldn't have noticed had you not pointed that out, Mr. and Mrs. Reviewer. But here's what I've also noticed, I have been going to India for a period of time, and what I remember is that the first time I went to Bangalore in southern India, the capital of outsourcing, geez, 15 minutes out of center city and you were back 15 centuries. Now you have to go an hour out of center city to get back 15 centuries. And so to me what is new about India today is not that there are poor people, to me what is new, and the reason I focus on this, is that for the first time we're seeing the emergence of very powerful Indian engines to make India unpoor. That's a very important thing I think.

KOPPEL. Let me speculate for a moment, Joe, that what is happening — and we see it already happening in places like China, where there is tremendous pressure to bring the overall wage level up. President Hu of China is in Seattle this evening having dinner with the chairman of Microsoft —

FRIEDMAN. You have to love that, though, Ted, that the president of China meets the president of Microsoft before the president of the United States. If you don't think the world is flat —

KOPPEL. That's because the president of Microsoft was prepared to give him a state visit and the president of the United States was not.

FRIEDMAN. Exactly. That's exactly right.

KOPPEL. My question, though, is this: To the degree that we are successful in convincing the Chinese either that they have to upgrade the yuan against the dollar or to the degree that we are successful in convincing them that they have to make their salaries a little bit more akin to what salaries are in the Western world, inevitably we're going to drive some of the market to Cambodia and Bangladesh and Laos and other places where indeed wages are significantly lower than they are in China. Does this not contradict your concern that the flattening out of the world, it may take 50 years before all of this, and it's beginning to sound dangerously like an international trickle down theory, but that eventually all of this is going to make its way down to the very poorest countries and raise them up?

STIGLITZ. I think eventually it could reach out to clearly many more than it has. So far it has not been reaching out to most of Africa, for instance. It is fortunately getting to a number of the poorer countries like Cambodia. But one of the other points I wanted to make is that in some ways the world is getting less flat, not more flat. And international agreements have not been helping.

So that for instance almost 12 years ago, 1994, we agreed to take away our textile barriers. And we eliminated the quotas, but we still have quotas on Chinese goods. And in Hong Kong with the end of the meetings in the last round of the development round, the United States still is not willing to open up its doors to the poorest countries — unlike Europe, which has opened up its doors to the poorest countries. So the poorest countries are still going to have a hard time. I think you'd be fooling yourself —

KOPPEL. Let me just stop you for a second, only because I'm a little confused. When I stop at Wal-Mart, which I do at least twice a week, the labels I see are indeed from Bangladesh and from Cambodia and from India and, yes, a great many from China. So you're telling me these goods are not coming into the country, I see them all the time.

STIGLITZ. They are coming. The question is the pace at which they are raising the living standards in these countries. And as I said, in Africa there's just very, very little of this happening. They don't have the roads — Some of the same points that Tom made, but at a much lower standard. Not the infrastructure, not the education, not the governance. All of those are missing.

But even — take a country that's right next door to us, Mexico. Over the last 10 years, the gap between the United States and Mexico has increased, not decreased. And that's in spite of Nafta that opened up our markets freely to them. So that fact is that some of these underlying forces of increasing inequality between and within countries are not going to be solved by this high-tech revolution. It's going to — Go back to the story of India, one of the BJP's, the governing party's motto when Tom was there, and I was there about the same time, was India shining. And it was shining on 250 million middle-class, aspiring middle-class people in India. It wasn't shining at 800 million others. And that's why they voted the government out of power. Now that increased income has the potential to help all those others if the government does the right thing. And the current government is beginning to focus on that. But it's not going to happen automatically just like it's not happening in the United States. We're one of the wealthiest countries, but the divide between the rich and the poor has been growing.

KOPPEL. Tom, let me pick up on something that Joe Stiglitz said a moment ago, having to do with Mexico. One of the huge political issues before us right now, you've written about it, is the immigration issue. Millions of Mexican immigrants coming into this country, clearly despite the fact that you're telling us the world is — I mean theoretically if the world is as flat as you think it is, there's no longer much of a reason for many of those Mexicans to come into this country. They come here not because they're seeking necessarily democracy and freedom, they come here because they get a better wage here, even working for substandard wages, than they do back home.

STIGLITZ. Can I just comment on that?

KOPPEL. Sure.

STIGLITZ. One of the reasons for support of Nafta was the belief that it would narrow that gap and reduce the migration pressure.

KOPPEL. So why hasn't it?

STIGLITZ. It didn't work out that way.

KOPPEL. Why not?

STIGLITZ. I'd like to hear what Tom thinks.

KOPPEL. I want to hear what you think. You're the Nobel Economics guru here.

STIGLITZ. Actually, Nafta made things in some ways worse for Mexico. And this has partly to do with some of the unfair trade agreements, partly because the free trade agreements are not

really free trade. One of the things that we do is we subsidize enormously agricultural goods. The poorest people in Mexico are corn farmers. And about half — the corn farmers in America really farm Washington, they don't farm the land. About half their income comes from Washington. And it's very difficult for a poor farmer in Mexico without good seeds, without fertilizer, to compete with American farmers without the subsidies, let alone with these huge subsidies. So the price of corn went down when they joined Nafta. And that made the poorest people in their country even poorer. The second thing that happened is that while we said it was a free trade agreement, it didn't eliminate protection of sediments. And we imposed all kinds of non-tariff barriers on a number of goods from Mexico. And then the third problem was that American banks and other foreign banks took over almost all the banks in Mexico except for one. And those international banks were more interested in lending to big multinationals than they were to the average small businessman in Mexico. And credit really shrank in Mexico enormously.

KOPPEL. All right. Let me come back to you, Tom, and ask you whether you'd perhaps like to modify your theory on the flattening of the world.

FRIEDMAN. No, I don't think so.

KOPPEL. Well hold on one second and let me ask the question. At least modify it to the point that the world is flattening insofar as educated people are concerned, but certainly not flattening insofar as the uneducated of the world are concerned. And it seems to me, and Joe has twice mentioned the continent of Africa, that there is absolutely nothing to make anybody think that the flattening process is going to extend the sub-Saharan Africa any time soon.

FRIEDMAN. Right. Again, go back to what I said at the beginning, Ted, which is that when I say flat I don't mean equal. O.K.? I mean that we've created a platform, a technological platform, where innovation, entrepreneurship, education, will increasingly be done by who you compete and connect with horizontally rather than by vertically of command and control. O.K.? And this platform is allowing more individuals, more individuals in more countries more opportunity to plug and play, compete, connect, collaborate and innovate than ever before. That is to me indisputable. What is also indisputable is Joe's point that not everyone has access to this flat-world platform yet.

Now as I said, you've got to get three things right: education, infrastructure and governance. And what I would tell you is if you actually look at Mexico during the last 10 years, the pace of micro reform — micro reform the way it's defined by the World Bank in terms of the ability to start a business, the ease with which you can start a business, the ease with which you can raise capital, the ease with which you can hire and fire people, the ease with which you can go bankrupt, very important to unleash dead capital — Mexico, I would argue, has really stalled in a lot of those areas. I think a lot of Mexicans would tell you that. Whereas China and India, China in particular, actually increased the pace of its reform in a lot of those areas. So Mexico went from being right on our border to a thousand miles away, and China went from being thousands of miles away in some ways to right on our border. But — And I'll just finish this one point because this is important — People have to make choices. Governments have to make choices. Priorities. Look at India. Today they're about, I think, 70,000-80,000 Indian foreign students in the United States. There are roughly a similar amount from China. I think there are about 10,000 from Mexico. Those are also choices societies are making in terms of how to get educated, what language to learn and how to become a competitor and a collaborator on this platform. So you have to — Development is a choice. It's not some inevitable thing. You have to choose to

bring your infrastructure, your education and your governance to the level where you can access this whole new technology platform.

KOPPEL. As we both know, and China is a perfect example, there is in China today enormous unrest. We see little eruptions here and there, but by and large the rural population of China is exceedingly unhappy and is becoming more and more vociferous, in some cases to the point of violence. It is after all a country of 1.2-1.3 billion people. And inevitably I think those tensions between the haves and the have-nots, particularly as the number of haves let's say rises to a couple hundred million, 300 million, and the have-nots remain around the 1 billion mark, that sounds to me like a formula for disaster — for revolution. So I know you said you don't prophesy, you don't do much prediction. But where do you think that tendency is going to lead, whether it's in China or in Mexico?

FRIEDMAN. Let me just take this up because I would like to say two things I'd like to comment on that. One is that, kind of how you look at China. Because I think you're asking a really important question. And then kind of what do you see. Whenever I'm in India, people ask me about China; and whenever I'm in China, people ask me about India. And so I've kind of developed an answer that to me India and China are both two six-lane superhighways. And everyone's going really fast.

Now China's a six-lane superhighway — perfectly paved roads, perfect sidewalks, streetlamps on a lot of these highways. Just one problem. Off in the distance there's a speed bump called political reform. And when 1.3 billion people going 80 miles an hour hit a speed bump, one of two things happens: your car jumps up in the air, slams down, everyone says, You O.K.? You O.K.? I'm O.K., drives on; the other thing that happens, car jumps up in the air, slams down and all the wheels fall off. And what will happen in China's case? I have no idea. All I know is I'm rooting for the first scenario.

Now India's also a six-lane superhighway — cracked cement, half the sidewalks aren't finished and three-quarters of the streetlights don't work. But off in the distance it looks like it smoothes out into a perfect six-lane superhighway.

KOPPEL. Because?

FRIEDMAN. The question with India: Is that a mirage or is that the oasis? So those are the two big questions I have —

KOPPEL. But to what do you attribute that difference?

FRIEDMAN. That difference. Well in India's case, I want to go back to that choice. That choice to develop and to do more of the right things that you need to develop. In 1991, as Joe knows and has written about, India was on the verge of bankruptcy basically. It had \$100 million in foreign reserves. A billion people with \$100 million in foreign reserves. And the current prime minister was brought in as finance minister, Manmohan Singh. And he adopted a set of policies, micro and macro policies that opened India's economy to the world. Today, India has foreign reserves of about \$140 billion. Now you look at the last Indian budget, I thought it was very revealing, the one that was just put out about six weeks ago — 30 percent increase in rural health spending, 30 percent increase in rural infrastructure spending, the kind of points Joe was talking about that the Congress Party is now getting around to doing. But the important thing here is this is Indian-generated income. Now going back to China. The point you're raising, Ted, I think is a very important one. We've been stuck in a perception of China that I would argue is kind of the Tiananmen perception. That the way to look at China — that what's going on in China is a bunch of students and intellectuals building papier-mâché Statues of Liberties and

wanting to write op-ed pieces in The New York Times and The Wall Street Journal. That that's the key fulcrum with which to look at Chinese politics today. But I think what you alluded to and what I found in my last visit there is that the framework to look at China through is what I would call tiger leaping gorge — one of the many gorges that China's trying to dam up today, taking — confiscating land from rural peasants without properly compensating them, creating enormous unrest in the countryside, without a political system that knows how to manage that unrest. And I think what you're suggesting is certainly where I've been trying to go, we've got to look at China through a very different prism. And it's a prism that has kind of an environmental component, this rural poverty component. And I would get off that Tiananmen Square. I think that's out of date. I think it's tiger leaping gorge is where the action is.

KOPPEL. Joe, I'm going to come to you because I know you want to comment on this. We've been going for about half an hour. We're going to go for about another 15 minutes up here. We have microphones out in the audience. I just want you to start getting your questions and comments ready because the second half of this program is going to involve you asking the questions and making your comments rather than my doing it. Joe, you wanted to comment.

STIGLITZ. Couple of things. First, the development process is I think much more complicated and textured than Tom thinks. That actually if you want to go back to try to look at India's success, it began in the early 80's. It had nothing to do with Manmohan Singh. There was a crisis and he got them out of the crisis and he played an important role. But the history of the change of India from a stagnant economy into an economy that was growing at 5-6 percent, and this year up to 8 percent, dates back to the early 80's. And it has to do with a number of changes, but all the focus on liberalization and all those reforms is not the source of their economic growth. The second observation I wanted to make is that one of the interesting things about China is that at the senior level they're very cognizant of most of the problems we've talked about. Their eleventh five-year plan that was announced the middle of March, the No. 1 issue is doing something about rural poverty.

And one of the really interesting things when you talk about choices, directions, is the extent to which governments sort of recognize the problems and then try to do something about it. It is interesting that both China and India are simultaneously focusing on the problems of poverty — and coming up with health programs, education programs focused on the poorest people. Because they recognize that the stability of their country, and therefore the long-term success, is exactly — has to do with this issue of doing something about reducing the gaps. Now the third issue, and it comes back to the story of Mexico, you begin with the statement: It is a matter of choice. But one has to have resources. One of the problems of Mexico was that as a result of Nafta tariffs were cut down. Tariffs had been a major source of revenue. The ability of the government to invest in education and infrastructure was reduced. And meanwhile they're being told from so many other quarters don't raise taxes because you won't attract investment. But if you don't have infrastructure, if you don't have education you're not going to attract investment. So the point is I think some of the advice they've been getting from the outside, which is just liberalize, has not been well directed. They need to do some of these other things that China is doing. And I think the point that you made is one that I've made, that in a way Mexico put all its faith in trade liberalization as the solution. And meanwhile China was going ahead. So it didn't pay attention to all these other things. And that meant the gap between China actually increased more than offsetting the free trade agreement that it got with the United States. There are a lot of lessons there for a lot of the countries thinking about bilateral trade agreements with the United States.

FRIEDMAN. I think, though, just to pick up on one thing Joe said — in fairness, though, Joe, to speak about Mexico as a country with no resources, it's a country with enormous oil resources and enormous mineral resources, as compared to say India, which had nothing.

STIGLITZ. That is true, but —

FRIEDMAN. And so —

STIGLITZ. — their tax revenues. Oil provides quite a bit, but the fact is the tax revenues are so low that even with the oil the fraction of GDP that goes to support infrastructure and education is extremely low.

FRIEDMAN. I mean there's also a question, and this is very touchy, but you can't talk about it without — I mean India and China, these are societies that have a very high ethic of education. And you are expected in many middle class families to grow up to be a doctor or an engineer. And I don't know if that same ethic extends as far and wide in Mexico. I mean culture does matter.

KOPPEL. Let me move the conversation back to something that you said at that tail-end of one of your answers. And that was the degree to which the flattening of the world has had an impact on what after all is one of the key concerns that this country faces today, and that is terrorism. Talk about that.

FRIEDMAN. Well, couple things. Let me give you an example, Ted. When I was in Beirut for The New York Times back in 1981, The New York Times used to arrive by ship, sea mail, about six weeks after I would write a story. Now if somebody made a long-distance call from Beirut to New York they could find out I suppose what I had written about on a scratchy line. But even that, as you know, was always a bit dicey. I wrote a column about a year and a half ago saying that the Nobel Peace Prize should be given to Ayatollah Sistani, the Shia leader in Iraq, for the way he had restrained the Shia community from not retaliating in years past to the provocation of the Ba'athist insurgency.

About three or four months later somebody sent me an item, Zarqawi had issued one of his tapes, and in this tape he said that Sistani should be executed. And the reason, among the indictment, proof that he is a running dog is that Tom Friedman wrote a column, O.K., calling for him to get the Nobel Peace Prize. And all I could think about was that in Beirut it took six weeks for The New York Times to arrive, now you have a terrorist in a cave somewhere in Iraq who's online. Does he pay Times Select, Andy? Is he on our subscriber list? M. Zarqawi? Could you check that credit card? And that's how much the world had —

So not only is he connected, but he can make me nervous. He can sit there and make me — That's one factor. So when the world is flat for [infosys?], it's also flat for al Qaeda. And al Qaeda's just a global open-source supply chain. It operates just like Wal-Mart. KOPPEL. But just broaden that out a little bit. I think you're O.K. I don't think Zarqawi's —

FRIEDMAN. Coming for me. Thank you.

KOPPEL. I don't think he's coming for you any time soon.

FRIEDMAN. . . . Google map.

KOPPEL. But broaden out the concerns that you have.

FRIEDMAN. Well the concerns I have is that when the world is flat you get your humiliation fiber optically. You get your humiliation at 100 megabytes per second. And what I mean by that is you can see just where the caravan is and just how far behind you are really clearly. And because I'm a big believer that part, and a big part, of what we're up against in the Arab-Muslim world today is a deep sense of frustration of falling behind the world. The word they use most often is humiliation —

KOPPEL. You've written about that often talking about, for example, the paucity of inventions that are coming out of —

FRIEDMAN. Right, of patents.

KOPPEL. Patents that are coming out of the Arab world.

FRIEDMAN. Yeah. And you can see that. And it's been written about now in three Arab human development reports. And so this flattening of the world really intensifies that, Ted.

KOPPEL. Why isn't it working as positively in the Middle East as it is for example in India and China?

FRIEDMAN. I would argue there are many reasons for this. Some are cultural, some are historical, the legacy of colonialism, many, many things. But if I were to put my finger on one thing, it is the curse of oil. That when you have elites who can — You know, the motto of the American Revolution was: No taxation without representation. The motto of politics in the Arab world and the oil Arab world is: No representation without taxation. That is if I don't have to tax you, I don't have to represent you, pal. So if I can get ahead in my country, if I can rule by tapping an oil well and I never have to tap my people, their energy, creativity, entrepreneurship, men and women, and therefore structure my society in a way to maximize my ability to unleash and extract their talent, if all I have to do is drill an oil well, well, then who needs to plug into the flat world, let's just dig a well.

STIGLITZ. You know what, that's a general observation that — economists refer to this as the paradox of plenty or the natural resource curse. It turns out the countries with more natural resources in general do not grow as fast as those with more natural resources —

KOPPEL. Say that again, Joe?

STIGLITZ. Those with more natural resources, the oil-rich countries, the countries with other kinds of natural resources wind up not growing as fast, not doing as well. And there are both economic and —

KOPPEL. As well as what? As countries without the resources?

STIGLITZ. Without the resources. It's the story of Switzerland, where if you don't have any resources, you had to invest in human capital, you had to do something. You had to create laws that protected what you do. And so you have better governance, you have better —

FRIEDMAN. Entrepreneurship.

STIGLITZ. You have stable societies —

KOPPEL. But I mean that's clearly untrue on the face of it. Theoretically then Egypt ought to be leading the Middle East.

STIGLITZ. On the average. This is not every example.

KOPPEL. Ah, well.

FRIEDMAN. But I would say that on that point, Joe —

KOPPEL. You remember what Mark Twain said about averages: If a man has one foot in a bucket of ice water and one foot in a bucket of boiling water, on average he's comfortable.

FRIEDMAN. But I would say in defense of Joe's point on Egypt, Egypt was a beneficiary of regional oil wealth that poured into Egypt, and it became really one of the repositories of that.

KOPPEL. Are they still?

FRIEDMAN. Yeah, to a — Well, first of all, Egypt has oil. Egypt has a lot of natural gas. I mean they are a major oil and natural gas producer. I've actually got a piece coming out in Foreign Policy magazine which builds on Joe's point. It takes it just one step further. And I call it, for lack of a better name, the first law of petrol politics. And the first law of petrol politics, what I argue is that the pace of freedom and the price of oil run in an inverse relationship. So as the price of oil goes up, the pace of freedom goes down — in certain states, I call them petrolist states, which are states that have weak institutions, authoritarian governments and a huge dependence on oil. And you see this in Venezuela, Russia, Iran, Sudan, Equatorial Guinea, that — Look at Iran. With all due respect to Ronald Reagan, and people say he brought down the Soviet Union, people forget the day the Soviet Union collapsed you know what the price of oil was? Seventeen dollars. Don't think that didn't have a big impact. And look at — Putin I. Putin I, George Bush looked into his soul and saw a democrat. Oil was \$20 a barrel that day, Ted. Putin II, you look into his soul you see Gazprom, you see all the companies he's nationalized. And so what I'm basically arguing, this is unscientific, but that there is an inverse correlation between the price of oil and the pace of freedom. And this is something to worry about as we approach the world of now \$75-a-barrel oil.

KOPPEL. All right. We are now going to transition into involving many of you, I hope. It's always been my experience in events like this that it's difficult to get anyone to ask the first question. So let's skip the first question and go right to the second question. The second question from you, sir. Go head. Q. The second question. O.K. My name is Steve Brandt. And it's an honor to get to talk to the three of you.

Mr. Friedman, at your M.I.T. lecture that I got to watch on the Internet for free, thank you M.I.T., you talked about this terrorism problem, the 9/11 mindset and the end of the cold war mindset sort of in competition with each other.

FRIEDMAN. Yes. Q. That's what I wanted to ask you about because you basically said it was optimism battling pessimism for what view of the future was going to dominate. And I am an engineer originally, and in Scientific America, Gerard Piel, used to talk about the science of peace and whether we really had enough technological ability to feed and clothe and house everyone on the planet. Because if we can't feed, clothe and house everyone then the root cause of war exists because there's not enough for everyone. If we can feed, clothe and house everyone, the root cause of war actually goes away. Except we don't ever seem to have talked

about that even though Gerard Piel apparently published in the early 60's about this. And so as an engineer looking at globalization knowing we have the science to have peace because Malthusian economics is now obsolete. How can we bring this scientific perspective into the mix and get brilliant folks like you to look at this question of scarcity versus abundance as a physical reality? And, Ted, maybe there's a Discovery Channel show on this in the future.

FRIEDMAN. Well — and I'm eager to hear what Joe has to say on this as well — I would say that it's why I ended the book with, in a way, a very strange chapter — in some ways it had nothing to do with technology — called imagination. Because what I basically argued is that, O.K., if this flattening is going on as I think it is and more people are getting the tools to compete, connect, collaborate, innovate, then what really matters is what they imagine to do with them. And I argued that there were really two competing forms of imagination in the world: the imagination of 11/9, which happens to be the day the Berlin wall came down, Nov. 9, 1989, 11/9; and 9/11, the day the twin towers came down. And 11/9 was the product of a certain kind of imagination. Because what basically happened was somebody in the leadership in Hungary, we don't know where exactly, we don't know exactly who, but somebody had roughly this conversation. They said: Imagine. Imagine if we open our border with East Germany. And then they come in one door. And then we open our border with Austria. And they go out the other door into the free world. We could bring down the Berlin Wall. Somebody had a conversation something like that. Unfortunately we know from the 9/11 Commission that another conversation happened in Kandahar, Afghanistan around the year 1999. Someone said: You know, imagine if we could fly a fully loaded 757 and hit the World Trade Center between the 96th and 97th floor. We could bring it down.

And so it was using the same technology, in many ways. Same platform. But two competing totally different forms of imagination. Now it sounds ludicrous even to say this, but you really have to say it, in this flattened world what individuals imagine becomes really important. Because individuals can do so much good and so much harm now, as individuals on this platform. And how we get more people to have a more positive, progressive, sharing imagination, concern for the poor and the things we've been talking about tonight, that's a real challenge. I don't have the answer to that. But I do know one thing, we, the United States, have the biggest responsibility for setting the right example. And if there's one thing that disappoints me in the last few years is that we haven't been the best country we can be.

KOPPEL. I'm going to ask Joe Stiglitz to respond to that. But would whoever the next questioner or commenter is going to be come up to one of these mics. Forgive me, but I need to move it along just a little bit.

STIGLITZ. I agree with your last point. One of the ways of seeing the point you raised is . . . talks about the fact that most famines, or almost all famines, do not occur because of lack of food. It's the distribution of food. And that's the same thing about the ability of the world to produce resources. That's not the issue. The issue is in some sense making sure that the technology gets transferred, that the capital gets transferred and that the food, the other resources get distributed. And that is a question to a great extent of politics, the way we organize our societies.

Take one example that you didn't raise but one which I've been — a lot of people are very concerned about: global warming. If everybody in the world were to emit greenhouse gases, pollute at the rate of Americans, the world is doomed. We can't almost surely do that. We have the technology to emit much less. There are other advanced industrial countries that per capita, per dollar, GDP, that emit half, a third of the amount that we do. So it's clearly possible. It's

technologically possible. It's engineeringly possible. But it is a question of will. It's not a question of imagination I argue. It is a question of how those decisions get made. Who is making the decisions? If you have an energy lobby making these decisions you're going to make different decisions about conservation than you do if you are some of the people who are going to be put under the water in Bangladesh as a result of global warming.

KOPPEL. Joe, stay on that point for a moment because the United States, which has roughly 5 percent of the world's population, consumes approximately 25 percent of the world's oil and gas. Right?

STIGLITZ. That's right.

KOPPEL. Roughly 20 million barrels a day.

STIGLITZ. That's right.

KOPPEL. The question that was raised before is really a political question as much as anything else.

STIGLITZ. That's right.

KOPPEL. If we, as the world's leading democracy, cannot find a way to share equitably what chance is there of it happening anywhere else? I mean you can well understand the Chinese and the Indians saying, Wait a second; it's our turn. We want a piece of this. And folks like Hugo Chavez, who is saying, Well, that's not such a bad idea. Maybe Venezuela will sign some big deal with China. This may become one of the key political issues of our time.

STIGLITZ. I think that's right. And I think maybe the reality of that will bring a change in policy maybe with a change in administration. But you know the point that Tom made so forcefully a minute ago, that because of our lack of conservation, to a large extent prices are higher, those high prices are feeding the people who are the source of the problem. If we had conservation, not only would it be good for the global environment and save people like Bangladesh who will be under water, but it would also do probably more for democracy than any other policy you could think of.

KOPPEL. Let's go to another question. Go ahead, sir.

Q. Good evening. I just read an article recently in Foreign Affairs magazine that noted that possibly up to 56 million American jobs will be outsourceable in the relative near future. And it was saying that the outsourcing is underestimated in the United States as far as the potential impact. And it was saying also that it's also not just manufacturing and low-wage jobs; it's also knowledge jobs, education is not a panacea. And talked about the middle class stagnating wages, health care costs, college education's going up. All these factors. The oil — the fuel prices — all these things seem to be squeezing the average American. They're going further and further into debt. And I'm just concerned about the economic well-being and the future of the United States and the average American's future. And I wonder if you could comment on this and globalization's impact and where it all comes out.

KOPPEL. Joe, why don't you start this time and then let Tom.

STIGLITZ. O.K. Well, I'm worried too. And a lot of the things you talk about are things that worry me a great deal — the fact that the household debt has been rising; fiscal debt; the United

States is borrowing 2 to 3 billion a day. You know, the richest country of the world can't live within its means and borrowing from people who are much poorer; lecturing them about staying within their budget.

The other point that you raised is, though, a little bit more complicated. The number of jobs that can outsource is a question of considerable debate. I have a colleague at Columbia, Bruce Greenwald, who argues that one of the major changes going on in our economy is the fact that we're going more to a service economy. Manufacturing is only 11 percent of G.D.P. And over 60 percent is the service economy. Some parts of the service economy can be easily outsourced: some of the back office financial services. On the other hand, it's going to be very difficult to have your hair cut by somebody in China. An awful lot of the services — the health care services that we get, the people in management, a very large spectrum of jobs simply cannot be outsourced. So the magnitude of the threat of outsourcing in terms of the number of jobs lost, I think may be exaggerated. But even relatively small numbers of jobs being lost can affect the relative balance of demand and supply and push down wages at the bottom enormously. And that is a major issue.

What we should be doing is recognizing the strains that globalization is imposing, that while it may make our country be able to grow faster, if we become a rich country with poorer people, it's not a game. And therefore we have to actually think of policies — you can call it governance or whatever you will — that address the problem of the fact that people at the bottom and, right now, people in the middle are actually becoming worse off. And the problem is over the last five years we've been doing exactly the opposite. The income tax cuts were directed at the people at the very top. There's a very good article in The New York Times describing who are getting the benefits of some of the tax cuts. So that one can see very clearly the impact of both technology and globalization increasing inequality but rather than government trying to address the problems, it's looking the other way and actually making things worse.

FRIEDMAN. I would agree with Joe's analysis and your question, which is the way I talked about it in the book is that I believe flatism, you know, the challenge of this flattening process, is as big and profound and of a challenge to our society as Communism was. And I believe we need as strategic and comprehensive approach to responding to it as we did with Communism. And as I describe myself — my own philosophy in the book, I call it compassionate flatism. I believe we have to have a whole range of health care, tax policies, innovation policies, investment policies, unemployment insurance, that takes account of this new environment.

Now what I actually did in the update version of the book was focus specifically on a point that Joe raised, which is that if we go from — look, the middle class is the foundation of our democracy. It's the foundation of any democracy. And if we go from a bell jar middle class, big — our economy or the big fat middle class to a barbell economy, you know, big at the top, much bigger at the bottom and then really small in the middle, that would have enormous political implications for us, let alone economic.

And so what I actually spent a lot of the last year doing was going to companies, actually, and just saying, What does she do? What does he do? And I came up with a schema of jobs that I simply called the new middle. Yeah, we kind of know the jobs at the top. I would call them really special or specialized. Those people, Michael Jordan, Barbra Streisand, J.K. Rowling, they cannot be outsourced, automated or digitized. Then there are people at the other end that Joe referred to — your butcher, your barber, your baker your candlestick maker, your divorce lawyer — people who have to do a job face to face with you in a specific location. He or she also can't be outsourced, automated or digitized. But in between are a whole set of jobs, as that Foreign

Affairs piece by Alan Blinder referred to, that will be small, slightly or largely affected by these forces of automation, outsourcing and digitization.

And what I basically looked at in the new version of the book is: What will be those jobs of the new middle? And what kind of education do we have to have to nurture a society where more people will have access to those jobs?

I'm not going to go into that list right now. But all I would simply say is: You have to think strategically about this. And to think that cutting taxes is going to be the answer for every one of these questions is really a fairy tale.

KOPPEL. Very quickly and briefly, if you would, Tom and then we'll come to your question: What's the difference between compassionate flatism and social democracy? In other words, the European Social Democrats who —

FRIEDMAN. Yeah. I guess — that's a good question — I'm a little more of a free market kind of guy than European Social Democrats. You know, my motto, historically, is people said, you know, there's no third way. And my answer is that the only way is the third way. That is pure let 'er rip free market system is not politically sustainable. And a pure socialist, you know, planned economy is not going to produce the income that you need to nurture an advancing society. So it's got to be some combination of the two.

Where I would draw the line would be slightly more to the free market side than you find in Europe. But the idea that you have to have some combination of social safety nets and markets to me is indisputable.

KOPPEL. O.K. Go ahead, sir.

Q. My name is Sessotay and I have a question for Mr. Friedman. If we assume that the flattening process described by you is referring to a melting of classes across national lines, how might religion influence this as an outward expression of human identity and national identity?

FRIEDMAN. You know, that's a really, really good question. And I'd like another question please.

No, that's a really good question. And I did not address that in this book. And a lot of people — and that's why I think it's a good question, because so many people have asked me about it.

I did address it in my previous book, "Lexus and the Olive Tree." And so let me simply say, you know, that I believe, obviously, you know, religion is part of what I call olive trees. They are the things that root us and anchor us in the world. And, you know, a tree, to be healthy, has to flower and bud but it also has to be anchored. And so I believe that obviously, you know, faith and a sense of rootedness are going to be very important. But I don't have a particularly intelligent answer on that side of it.

What I have tried to do in the updated version of the book, though, is try to deal with a slight derivation of your question. And that is the question of culture. Because it's a little bit, also, I think, was embedded in your question. What is all this flattening going to do for culture?

Now when I wrote "Lexus and the Olive Tree," I was really terrified that globalization was going to be Americanization. And the chapter I wrote about culture and religion in that book was called Demolition Man, which was named after one of the worst movies ever made, a Wesley Snipes/Sylvester Stallone movie that is about globalization in the year 2040 when every restaurant is a Taco Bell.

KOPPEL. And Schwarzenegger was president of the United States.

FRIEDMAN. Yes, right. Exactly. So and because I really felt that there was a logic to this. You know, when the walls started to fall, call it what you want — flattening, walls falling — it was American fashion, American fads, American styles, American fast food, American music, American movies that were most poised to immediately take advantage of a world without walls. And there was a real sense out there and a real fear of people that globalization was going to be Americanization. Now I don't want to suggest for a second that that threat is gone. We have a very powerful culture and it has a very — an ability to attract and repel around the world. But what I really — come to a different conclusion now in this book. And the more I've traveled, the more I've seen that a phenomenon that is described by an Indian communications expert, Indrajit Banerjee, I think really captures what's going on in the world today. And he calls it the globalization of the local. And you are seeing now the power of this flat world platform for more and more individuals to upload — upload their own culture, their own story, their own music, their own styles — through blogging, through podcasting. And they're going to be huge forces of homogenization in this flat world. And they're going to have a red, white and blue face on them, don't have any doubt about it. But I think the forces of particularization, the ability of people to globalize their local, are growing more and more powerful every day. And I think it is not an inevitable question that globalization is going to be Americanization.

Now with one, you know, minor caveat. And that is globalization is also modernization. And modernization has certain forms. It has the superhighway, skyscraper and the shopping mall. And therefore as more and more countries globalize, they're also adopting these uniform forms. And that's why the fear, the real fear, that the whole world will look like a Florida strip mall after 30 more years of this is very serious. And I take that very seriously. But on the particular culture side — and I would add religion in there — the ability of people to inscribe themselves on the world now, to tell their own story in their own language — think about this platform. Google's now in 140 languages. Think about what that's going to mean for preserving the languages and the texts of lots of different societies and cultures that in a flattened world might have lost them.

KOPPEL. Let's go to the next question. And Joe, if you'll take the next question, please.

Q. Actually it's for Mr. Friedman. I'm sorry.

KOPPEL. Ah. O.K.

Q. But you're welcome to comment too. Earlier you made a passing reference that Wal-Mart and al Qaeda operate on somewhat of a similar platform. I was wondering if you could expand upon that.

FRIEDMAN. Basically, Wal-Mart gets really mad when I say this so don't put this on — Andy, don't put this on the Web.

Well, let's take the name off it. I mean, you know, al Qaeda operates very much like an open source global supply chain. And it invites kind of innovation from many different quarters. And what it delivers in its supply chain, unfortunately, are suicide bombers. They are recruited, inspired over the Internet. They are brought up a supply chain from largely the Arab Gulf region through Syria into Iraq and they are deployed. And as one is killed in Iraq, another is created and manufactured and sent up the supply chain. The exact same way a product that is bought in a Wal-Mart in Bethesda, another copy is immediately made in Shenzhen, China, and sent up the supply chain. And so remember Osama bin Laden was an engineer. And his family was big in the construction business. And he understands supply chain very, very well.

KOPPEL. Next question, please.

Q. Good evening. I feel like I'm learning a lot of new words and a lot of new terms tonight. Mr. Stiglitz, sorry, Mr. Friedman, this is a question for you.

Mr. Stiglitz mentioned Africa a number of times tonight. But when Mr. Koppel passed on a question to you about it, you kind of skillfully maneuvered around it and didn't talk about it. Could you talk a little bit about how your model of globalization is going to extend to sub-Saharan Africa? And also you asserted that development is a choice.

FRIEDMAN. Right.

Q. So are you saying that Africa is just choosing not to develop? Thank you.

FRIEDMAN. Yeah. In some cases, you know, I would simply say I happen to be a big believer, and I want to hear what Joe says about this, that of those three things, you know, infrastructure, education and governance, the thing that matters most is governance. And it's what elites do. And the decision that elites make. And I don't think Zimbabwe is not developing because of the World Trade Organization. I think Zimbabwe is not developing because it has one of the most venal, greedy, selfish, dictatorial, evil leaders in the world. That's why I think Zimbabwe isn't developing. And so this isn't just Africa. And what about Africa? And you just forget about Africa. There are reasons that these countries have the governance that they have. And the decisions that come out of them affect their development. Now, South Africa is develop — South Africa's growing extremely fast right now. Under a very different government. O.K.? Botswana is growing very fast under a different government. And I happen to believe government matters. And I do believe. I stick by this statement: To develop is a choice. It isn't the only thing that's going to govern. Natural resources, historical legacy, colonial legacy — all of those things matter.

But, you know, I look at Taiwan. Taiwan is one of my favorite countries in the world. It's a barren rock in a typhoon-laden sea. O.K.? But it has about 20 million people and it has the fourth largest reserves in the world. Because the leadership there has made certain decisions and the people there have made certain decisions. And those decisions count. And people have to be held accountable for them.

KOPPEL. Let's get Joe Stiglitz in on this. Pick up anywhere you like.

STIGLITZ. Well, obviously the government matters enormously. And I think one has to push the question back a little bit further though and ask why is it that some countries have better governments than others. And then the second question is: Even if you have a good government, if you have people without education, without infrastructure, if you have limited resources, you're going to have a hard time. One of the things that Europe did is it opened up its markets unilaterally to the poorest countries of the world. And there was almost no trade because they just didn't have the supply capacity, the infrastructure. They didn't have — you know, and this was true with — you know, countries with good governments, bad governments. They just didn't have the capacity to take advantage of those new opportunities.

FRIEDMAN. But certainly our ability to help those with good governments would be —

STIGLITZ. Very much. Now, one of the things that is very — again, one of the very disturbing problems in many parts of Africa is that there are some countries that have had stable macroeconomic policies, reasonably good government — no government's perfect, as we know — and still have not grown. South Africa still has 20, 25 percent unemployment rate. And so,

you know, whatever the government, you know, the economy's growing. But with 20, 25 percent, one out of four people out of jobs, it's not a happy situation in many, many ways. If you look around and say look at some of the few of the successful cases, Botswana is one of the success cases. It's growing at a 9 percent since it got independence. Very interesting stories about how that — what it did. But one of the interesting aspects of it is that there was a contract for the taking out of diamonds, which is the big resource in Botswana, that had been signed while it was a colony, at extremely disadvantageous terms. And there was somebody seconded to Botswana who pointed out that they were being robbed. People were very upset. They tried to get him fired from the World Bank. And you know, a lot of pressure was brought to bear. People would say it's a violation of contract; you signed a contract. But what they said is basically if we are going to grow, we have to get a contract that's fair to our people. They did get it negotiated in that case and that helped it grow enormously. So what worries me is that in many ways we've been making it more difficult for many of the developing countries. We've been having our international companies come in and sign unfair agreements. We have unfair trade agreements. We haven't been giving them the assistance that these very poor countries need. We've left them with a colonial — we, Europe — with a colonial legacy with very little education. So I think there is an enormous amount that we could do that would in the end lead to better governments and move them toward a positive —

FRIEDMAN. Joe, where do you stand on —

KOPPEL. Tom, hold on just one second.

FRIEDMAN. Just one tiny thing.

STIGLITZ. — cycle rather than a vicious cycle.

FRIEDMAN. One tiny thing.

KOPPEL. We've got about 20 minutes left and I really want to get a few more questions in. We've got a whole bunch of people.

FRIEDMAN. But just one tiny thing. Please.

KOPPEL. . . . Go ahead. I don't know, your tiny thing is getting —

FRIEDMAN. O.K. While you're getting up, where do you stand — Joe and I have done this before and I haven't heard you — because in a way we're actually looking at the problem from two different — I tend to focus on governance and what people can do themselves. And you tend to focus on the international system a lot and what it is not doing or doing to — ? And also how do we get better governance? I'm not just giving a lecture about it's good to have good governance. But — ? My question is: Where do you stand on the issue of foreign aid? The whole kind of Easterly-Jeff Sachs debate.

STIGLITZ. I'm very much on the side of Jeff Sachs in this, that there is enormous role for aid that we know more now how to do it better. There've been a lot of failures. That's clear. But a lot of the statistics is based on foreign aid that wasn't given for purposes of helping countries develop. When we gave money to Congo, to Mobutu, we weren't — we knew that the money was going to Swiss bank accounts. We were doing it to buy friendship in the cold war. And that taints almost all of the statistics that you see in this area. So I think that there — you know, I've

seen too many examples of money that's being used well to think that the Easterly negative view is — it's not right.

FRIEDMAN. I'm going to Kenya next week so I wanted to know your answer.

KOPPEL. Just sort of remind people, if you would, because I think many Americans are under the illusion that we are enormously generous in our foreign aid. And we are not. What percentage of the gross national product do we —

STIGLITZ. We give about .15 percent. There was an international agreement, to which we agreed, to give .7 percent. The Scandinavian countries are giving 1 percent of theirs. So we are — we're in the race for among the stingiest of all the countries and certainly among the higher income of the advanced industrial countries, we are. We win hands down.

KOPPEL. You're on.

Q. Good evening, gentlemen. My name is Michael. I'm a senior psychology major here at George Washington University on the verge of graduation. So I have to apologize. I'm going to try to keep this as academic as possible. But, you know, I don't have a background in political affairs or economics so — all right, we'll give this a try. I spent the year abroad last year. And one of the semesters I really had no access to Internet nor to TV. And it was actually like the most fulfilling and enjoyable semester of my life. You know? I felt compelled to start reading the newspaper, reading books. It was incredible. And then right after that I went to Thailand and I traveled for a month backpacking. And I went to some of the rural areas. And I was completely shocked to see how many smiles there were and how many happy people. Isn't kind of underlying this idea of globalization and this flattening of the world the idea that this is a good thing? That modernization or colonialization brings happiness? You know? And at the same time isn't it kind of like we're forcing this upon people because we are — it does create great opportunity. But it seems like to the large percentage of people, we're kind of telling them either get hip to this or not, or suffer. Because we're using up all the resources and this is a changing world. It's like get into the times or be left behind. You know? Shouldn't there be some room left for people who do enjoy living a rural lifestyle? Shouldn't we even talk about that? Isn't that, you know, part of the situation as well?

FRIEDMAN. Go ahead, Joe.

STIGLITZ. Well, the king of Bhutan would be very sympathetic with what you said. He has said, rather than maximizing G.D.P., we should maximize G.N.H. — Gross National Happiness. And, yeah, because he's very serious about a program to try to think about what that would entail. On the other hand, if you don't have enough food, if your children are dying from diseases, if you can't — you know, you don't know where the next meal is going to come from, it's very hard to be happy. And that the issue in most of the developing world is really an issue of, you know, with a billion people living on a dollar day — less than a dollar a day — 40 percent of the world living on \$2 a day, it's not a question of — it's a question of really getting them to a point of bare survival. There are still a lot of choices of what kind of lifestyle, some of the cultural things that people have been worried about — the impacts of globalization on culture, you know, are relevant there whether there'll be excessive homogenization. But the fundamental point that without a basic standard of living, without basic health, it's very hard to be happy.

KOPPEL. Let's see if we can begin to generalize this a little bit and bring it around. We've got about 15 minutes left here. Tom, as you have put forward this theory of a flattening of the world,

put it into the context now of where you think that will take the world insofar as ameliorating some of the conditions for the world's poor, the possibility that some of those nations that now have the least will actually even be a part of this process and take it any further than that that you would care to.

FRIEDMAN. Well, thanks, Ted. Just to add something to what Joe said, you know there's a Microsoft researcher named Linda Stone. I'm not whether she works at Microsoft anymore. She coined a term continuous partial attention. And it really is the disease of our age, that we are involved in a continuous set of activities to which we devote partial attention to. So we're on our Blackberry writing a column, answering a cell phone, talking to the kids. And certainly this is part of, call it modernity, flattening, globalization, anything you like. Look, I'm keenly aware of the downsides of this whole system and this whole process. Yet I am struck at what I have seen in the countries I've followed the closest — India and China — that more people appear to be moving from that dollar-a-day world into at least a \$2 a day world and into a lower middle class and into the upper middle class than ever before. It has with it lots of problems. And but that is what I tend to focus on.

And I am just struck by when you go to India today — if you want to know what India feels like, at least what it feels like to me — or China — take out a champagne bottle and shake it for a half hour and then take the cork off. You don't want to get in the way of that cork. What you are seeing is enormous pent-up aspirations of people that are getting unleashed and unlocked. And a lot of people again will say, Well, your pals at Infosys or Wipro, I've talked to consultants. They're 1 percent of the Indian economy — these high tech. That is true. But the example they have set has unleashed, O.K., a geyser of hope and opportunity and aspiration that I can do that too. And you know where you see that? You see that in the move to have English taught in Indian schools, in public schools in India, very poor, decrepit, enormously problematic. English was not taught until either 4th or 6th grade. I forget. There was a huge move to bring it down to 1st and 2nd grade by the poorest classes of the population. Because they get it. They want that for their kids. And so I focus on these examples.

And I plead guilty to that, to highlighting these examples that work because I get a call last week from the head of Satyam, one of the top Indian technology companies. And he knows I'm interested in this stuff so he calls me from India. He said, I just wanted to tell you the story of what we're doing. I thought you'd be interested. We have a foundation now, because we've been really successful. And what Satyam had just started doing is outsourcing to Indian villages. O.K.? So we're taking the work that's being outsourced to us and the outsourcee is becoming the outsourcer in India. Because a lot of this work can be routinized. Indian villages can have 2,000 people. I mean these are very — and a lot of them can have college degrees even. And they're now outsourcing that work to Indian village.

I got another call two weeks ago from Google. They said, Thought you might be interested in this story. You know, we have Google news. Well there's now Google finance. We thought you'd like to know that Google finance was completely designed, thought up and driven by our India team.

Now, that's also a source of enormous — that example and Stan Fisher has a saying that I really believe in — that one good example is worth a thousand theories. And when you have the example of people around you succeeding, the impact that has on a society is enormous. So I plead totally guilty to trying to use my time to highlight those examples because I think they will have an enormous amplification effect.

And if you'll pardon me, there's a deep moral sensibility under that. You know, this isn't just hanging around with my high tech pals. I happen to believe that it is that amplification effect that is going to get India more Indian engines to get more Indians out of poverty than anything else. And that's what I'm about.

KOPPEL. To what degree, Joe, do you think that the United States is perceived, both in countries like India and China and the rest of the world as enablers of that grand vision that Tom has sketched out here or as roadblocks in the final analysis? And I'm not asking what is the truth here; I'm asking what you think —

STIGLITZ. I know. You listen to Tom and you almost get convinced. And —

FRIEDMAN. I take that as a compliment from you, Joe.

STIGLITZ. The number of people living in poverty in Africa in the last 20 years has doubled. And those are the numbers.

FRIEDMAN. But India matters. We're talking —

STIGLITZ. — big numbers. No, no, I — and the success in India and China has moved out the number of people in poverty enormously. So we lived in a very mixed world. And one other fundamental point: we do have the resources to address these problems. And the question is we aren't doing it in lots of the world where we could be doing it. Now this comes to the question of how the United States is being perceived. I think that to a — there is a very big mixed perception. I mean obviously we are the — we have been the engine of growth in many ways. If you ask, Where were the people at Infosys — half the people, not all of them — trained? Half of them were trained in the United States, spent time in the United States in the business community, went back there. Same thing in China. Enormous recognition of the — particularly the importance of our universities, the importance of, you know, the dynamic nature of our society. On the other hand, they also recognize that particularly in the last five years, the kind of American unilateralism is a kind of a global picture that they feel uncomfortable with. And that when it comes to the area of economics, that the global trade regimes are not making things helpful; they're making it more difficult. In the area of even exchange rate policy, that the global imbalances have to do with American trade deficits. They know that all those words about China being the source of the problem, they know that's not true. It's American trade deficits, fiscal deficits, that are the problem. So they live in this world where we play an extraordinary part in their economic success but we are also in a political context viewed as, I don't know, an untrusted — not playing by fair rules. Maybe that's the simplest way of putting it.

FRIEDMAN. All right. Let's see if we can get two or three more questions in. Why don't we just take the next three questions here and then, folks, I'm afraid that's going to be it.

Q. Here's actually one for both of you, not just Mr. Friedman, for once.

It's sort of on the idea of the state-run economies that you guys were touching on at the end. And you were talking about how — you were comparing the liberalization, the negative social effects, that it had in Mexico as compared to what it had in China. And Professor Stiglitz, I know, in globalization and its discontents, you really kind of criticized like I.M.F. policies and the . . . consensus for really forcing this liberalization during an economic crisis. But on the flip side, if you look at Mexico, kind of this — the forced liberalization, even like kind of exploiting these economic crises, it kind of moved it along toward democracy by sort of taking a way the PRI's control over business and things like that.

So here's my question: Do you see — you know there are these sort of negative social impacts. But do you see a positive political effect of liberalization?

STIGLITZ. Well, in general, I think there are very negative political effects of forcing any policy, including liberalization. I think that process in which the I.M.F. in December said the World Bank was involved, of saying you can have our money but here, you have to do this, you have to pass the social security law in 30 days or, you know, something that we can't do. You have to do this in 90 days. I think that really undermines democracy.

And because those policies have done what Tom described, hollowed out the middle classes, another process somewhat different from the one he described but it is a process of hollowing out the middle class that's occurred in so many of these other countries, it actually has been having a negative political consequence and contributing, I think, to an instability that you see in many of the countries, particularly in Latin America today.

KOPPEL. Next question please.

Q. My question really goes toward, O.K., how fragile is the world. In the beginning of the discussion there was the discussion of the effect of globalization to local regions. And I realized that there was a reluctance to express what will happen. But the question really is what could happen. So if China does hit that speed bump and all the wheels come off for a day, a month, a year, does Ted's shelves become empty because the supply chain's run out? When the difference between the haves and the have nots become so great that the have nots really decide to do something, how does that affect what's going on in the global world economy. You know, with the world being flattened, events in local regions really play out on a world stage and especially on critical events. So as the world gets flattened at a more accelerated pace, don't local events really start to affect stuff? And I guess, you know, how fragile is the world?

FRIEDMAN. Well let me take a first crack at that, Joe, if I could. I have a chapter in the book called *The Unflat World*, you know, in which I look at what are the forces that could stop this flattening process or reverse it. And I would point to four. One of which we've talked about, you know, a lot this evening. The two sick — actually we haven't talked about it a lot. I mean there are whole communities of the world, primarily in Africa but not exclusive there, that are enfeebled by HIV-Aids, tuberculosis, malaria. They are simply too sick to be able to connect up with this platform and have that opportunity.

Second, and lord knows, in the age of influenza and whatnot, how that . . . possibly spread. But that's a huge unflattening force.

Second, our people are too disempowered. People who don't have those tools that we've talked about, either the infrastructure or the governance, the education. And that's really rural India, rural China, rural all these countries. And that's what the last — as Joe alluded to — Indian election was about. It was Indians who had actually been to Bangalore saying I've been there; I've seen it; I get it. But I need the tools. I need a stepladder and you haven't built that for me.

Third, are they too humiliated? And that is the whole al Qaeda phenomenon, the whole terrorism phenomenon. And there one can really speak to the fragility question you've raised. I think we're one more 9/11 away from the end of the open society as we know it in this country. God forbid we should have one more 9/11. I shudder to think, knowing what this 9/11 has already done in terms of curtailing the open society as we knew it on Sept. 10, what another 9/11 would do. And that would be an enormous unflattening force.

And the fourth category, and again we've talked about it, is I'd simply say: Too many Toyotas. What happens when 3 billion people walk onto the flat world, all with their own version of the American dream: a house, a car, a toaster, a microwave and a refrigerator. If we don't find an alternative to fossil fuels to meet their justified energy needs and demands, we're going to burn up, choke up and heat up and smoke up this planet so much faster than anybody realizes. And so, to me, any four of those, any of those four could have the effect of destabilizing this whole process.

STIGLITZ. I agree with everything Tom said. There's one more point: that when you have a more closely integrated world, it means that shocks can be dissipated but it also means — and that's sort of the principle of diversification — but it also means that shocks can sometimes be amplified. And it really depends on how you manage this process of globalization and process of integration.

Unfortunately, the way we've managed it, way some of the aspects of our global financial system work, we've increased the economic instability. There's so many examples of how one can think of things going around, particularly with our global financial system, that I think there are grounds for worry about the way things are configured at the present time. It's not inevitable. But it's the way we've left things and we've not done something about some of these major problems.

KOPPEL. All right. There's tremendous pressure on you now because you've got to sum everything up with this last question. Go ahead.

Q. All right. Well thank you for taking my question. It seems like there's an inherent tension between the idea that governance is important and the idea that there are social and political and economic changes that are essentially borderless. So my question is: What are the effects of globalization on sovereignty, in your opinion?

FRIEDMAN. You in the back, yeah. You know, there's no question that globalization — the more we get intertwined, the way Joe just alluded, your ability to — I don't want to say be sovereign — but your ability to act autonomously certainly gets curtailed by many different forces and economic just being one of them.

But I still feel — in early writings about globalization, there — correct me if I'm wrong here, Joe, but there seemed to be a school that said, you know, the state is going to wither away. It wasn't a Marxist term but that somehow states were going to wither away. And I was never in that school. Because it seemed to me always that at least for the near future the state was going to remain, for a lot of reasons. One is olive tree reasons — that it was a real anchoring source of national and cultural identity in many cases. But also the state was like the plug with which you plugged into that system. And if the plug was corroded and corrupted, the flow between you and the globalization system was going to be interrupted and not very efficient. And so for all those reasons, I'm — as far as I can see, which is not very far down the road — I see states still being very important organizing institutions in this globalized world.

STIGLITZ. I agree with the important — that they ought to be playing. But I worry that globalization and some other forces are undermining their ability to do the things that nation states need to do. They're being attacked on two sides. On the one hand, globalization is restricting what they can do in a couple of different ways: international agreements circumscribe national sovereignty in a whole variety of ways. You can't design . . . regime that is appropriate for your stage of development because the Uruguay round, the TRIPS agreement, says you

have to have an American-style . . . you can't — NAFTA basically imposed certain conditions on environmental regulations made it very difficult for countries to try to protect their environment — for Mexico to protect its environment in the fact of a foreign investor if it . . . restrict, say you can't put a toxic waste in the middle of a village, it would have to pay compensation for the companies . . . So there are a whole set of restrictions that international agreements have imposed on what the nation-state can do.

At the same time there are strong forces going on for what are called — in Europe they refer to it as devolution of power, decentralization, strong arguments, I think, that you can strengthen democracy at a local level.

But the problem then is trying to figure out what are the minimal set of restrictions that globalization needs to impose in order to make a globalized system work. Unfortunately we've gone well beyond that. What has often happened is that, I would argue, special corporate interests — financial interests — have seized upon the Democratic deficit in the way decisions get made in the international arena. And have used that as a way of getting a particular set of rules and regulations that affect all countries, that they would not have been able to get, had to go through national legislatures. So I think the problem that you raised is a very serious one. And I think it is one of, you might call, the speed bumps. One of the problems in globalization — I think people are going to become worried that there is a loss of national sovereignty in areas which are extremely important.

KOPPEL. Ladies and gentlemen, I thank you and in behalf of our panelists for the very intelligent questions you have asked. Now please join me in thanking our panel.