



**High Level Forum
Globalization and Global Crisis:
The Role of Official Statistics**

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**UN High-Level Forum on Globalization and Global Crisis:
The Role of Official Statistics
- Opening Remarks -**

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UN High-Level Forum on Globalization
Opening Remarks
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“Globalization” is an economic process that has been going on since the earliest days of trade and investment across regions and countries. It has moved in waves, supported by advances in technology and policies conducive to trade. Over time, as well as the most recent wave, globalization has significantly improved standards of living, health, and the environment by raising world-wide production and incomes.

However, globalization is largely driven by economic gain. It results in a larger global economic pie, but globalization may have undesirable social ramifications in terms of the distribution of that larger pie and the un-priced environmental and social costs associated with producing that larger pie. Also, as we have seen in the current financial crisis, while markets are good at pricing marginal risks to achieve short-term economic gains, they are not good in evaluating bubbles and long-term systemic risk

This should be no surprise, even the free-market icon, Adam Smith recognized that markets and the invisible hand did not always produce socially-desirable outcomes and that there was a role for governments in monitoring and channeling the workings of markets. Today’s seminar will address how we as statisticians can contribute in providing better information to individual and public decision-makers to monitor, assess, and channel globalization.

Benefits from the Globalization of Trade and Investment: Specialization, pursuit of comparative advantage, and trade between countries has been one of the most important sources of growth and standards of living in the post-WWII era and through the history of the civilized world. And despite the discontents of globalization, the most recent wave has also significantly raised standards of living:

- **Real GDP:** Real GDP per capita in developing nations has more than doubled over the last two decades. According to the United Nation’s Human Development Indicators, real GDP per capita has risen from \$1,970 in 1987 to \$5,282 in 2005.
- **Poverty:** According to the World Bank, from 1981-2001, the number living in extreme poverty (\$1 a day) declined from 1.5 billion to 1.1 billion, reducing the percentage of the population in extreme poverty in developing nations from 40 to 20 percent.
- **Health and Education:** Rising incomes in the developing world have helped fund social investments. For example, according to the UNDP’s Human Development Indicators, the percentage of population with access to safe water in developing countries rose from 55% in 1985 to 79% in 2004 and world literacy rates have increased 35 percent over the last 35 years.
- **Life Expectancy:** According to the World Bank, world life expectancy has increased by almost 20 years over the last 45 years.

- **Reduced Volatility**: Finally, international trade has contributed to a reduction in the volatility in world economic growth. Over business cycles, regions and countries with stronger growth have helped moderate the effects of slower growth in weaker regions and countries.

Unintended Consequences of Globalization of Trade and Investment: As beneficial as globalization has been, it also has its costs. Globalization and trade are economic phenomena and hence respond to private economic incentives, which may come into conflict with social goals. Indeed, economists from Adam Smith to Milton Friedman have recognized the necessity of government in addressing inequities in the distribution of income, the provision of public goods, regulation of monopolies and other business anti-competitive practices; and in addressing externalities (unpriced costs imposed by business on others).

Distribution of Income: While countries that participate in globalization experience net gains from this trade and investment, economic growth often produces winners and losers. Improvements in technology and communications allow workers in lower-wage countries to compete with workers in higher wage countries. And while in pursuing their comparative each country wins, some workers will either lose their jobs or experience slower growth in their wages. This is particularly an issue when those displaced individuals represent politically important groups such as agriculture or unionized workers. From an economic and social perspective, it is far better that government's provide training, redistribute income, and have businesses pay the full-costs associated with their products, rather than to impose trade and investment sanctions that slow economic private sector growth. In short, it is easier to redistribute a growing than a shrinking pie.

Another source of inequality associated with globalization relates to countries that have largely been bypassed by the growth in global markets. While there have large declines in poverty in countries where globalization has taken a strong foothold such as in China, where the share of the population living on less than \$1.25 a day has dropped from 84 percent in 1981 to 16 percent in 2005); in areas such as Sub-Saharan Africa the share of the population living on less than \$1.25 a day has declined from 63 percent in 1981 to only 51 percent in 2005.

Finally, while incomes and standards of living may be rising around the world, to the extent that some countries are growing faster than others, the distribution of income across countries becomes more unequal. Also, while absolute poverty may be shrinking, poverty – as measured on a relative basis – will rise as the distribution of income becomes more skewed.

Externalities, Public Goods: Where market prices fail to capture the full costs of goods and services, such as the social costs of child labor or the pollution associated with production, markets will produce and export too many of these goods and services. Markets also fail to provide for public goods, such as forests and goods and services associated with

national culture, which are of large value, but because they cannot be fully captured through markets prices, will be under produced.

Transmission of Instability in Case of Systemic Failure: In general, diversification of economic activity through trade and investment reduces volatility. However, markets are not good at pricing systemic risk and we have seen in the current crisis they can serve to spread market failure; hence the need for greater regulation and oversight. The need for such oversight requires, in part, transparent and complete information for monitoring emerging risks.

Role of Information: Although, it is clear that better information can help in channeling the benefits of globalization, how specifically can we statisticians help? As an economist, my focus is on economic statistics, and the following are just a few of the areas where from my perspective better statistics would help policy makers and public understanding. Today's panel members will cover these and a broad range of data needs associated with globalization.

- **Financial Crisis:** The current financial crisis has highlighted the need for up-to-date and transparent information by type of instrument, currency, creditors, and debtors. Emerging macro-prudential supervisors will need such information to identify emerging risks. There may also be a role for collaborative work by statistical agencies and regulators in developing alternative estimates of security values through indirect methods.
- **Distribution of Income:** More-up-to-date, better and more consistent measures of relative and absolute poverty and wealth that could complement existing national accounts would be helpful to decision makers and the public. Continuation and support for the multilateral work on purchasing power parities will be critical.
- **Sustainability and Broader Economic Welfare:** There are many measures that can be better highlighted, or new measures that can be derived from, existing national accounts that would provide the public and policymakers a better assessment of economic welfare. In addition to distribution of income, these include net measures, such as of net investment, which measures how much of gross investment is to simply replace depreciated assets and how much is to, on net, increase the nation's productive capital stock.
- **Pollution:** Given the global issues relating to global warming, better and more consistent measures of GDP and PPP's for modeling and policy will be key. Better data on pollution, its sources, and its relation to GDP will also be important.
- **MNC's and Sovereign Wealth Funds:** Better tracking to identify trends and ownership would provide a much improved basis for assessing the effects of foreign investors and in putting the role of foreign investment in perspective.

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