

MICHAEL BURAWOY: Good evening! Today is the fourth day of the meetings of the American Sociological Association 2004, the 99th meeting of the association. I find it quite extraordinary that there are so many people here today.

[Laughter]

Normally, the American Sociological Association meetings end with a whimper.

[Laughter]

People trickle away, the place is abandoned. It looks terrible. I am so pleased today to see so many of you. We have a chief goal that is to have a beginning and indeed an ending to the meetings. Well, it's not an accident. We have of course two very, very distinguished guests who will be talking to you, but before they are introduced by Juliet Schor, I just want to make one or two announcements. The first is an announcement I made before, that we will proceed with questions through the method of index cards gathered by Berkeley students, decked out in Marxist t-shirts.

[Laughter]

They are becoming extremely famous. However, they are going to have a real difficult task today because they are supposed to patrol the aisles. I want you to give them space, credit, recognition, and room for maneuver if you possibly can.

[Applause]

Yes, acting they deserve applause, right.

[Applause]

So, the idea is that when you have questions, you write them on index cards or bits of paper and hand them to the aisles. As I understand it, there are, is it, there are people down the middle too, right? Yes. Well, there's one person down the middle and there are people on the left and right. And then they will get funneled to the front. The next announcement is that after this meeting which will end at the latest, 7 o'clock, there will be a reception, a reception for the members of the American Sociological Association. This will be held in Continental Room 67 and President Cardoso will come to that reception at around 8 o'clock and will tell us what it's like to be a sociologist and a president at the same time.

[Laughter]

A president of a country.

[Laughter]

[Applause]

A big country. A great country.

[Applause]

We are very lucky tonight, not only to have these two very distinguished guests, Professor Krugman and President Cardoso, but also to moderate the discussion between them is Juliet Schor, professor of sociology, once or perhaps still is economist from Boston College and she will introduce our two distinguished guests and as I say, moderate the discussion, Juliet Schor.

[Applause]

JULIET SCHOR: Good afternoon! It's a great pleasure and honor to preside at this closing session of what has been an invigorating few days for many of us. I want to begin by thanking Michael Burawoy for giving us this gift.

[Applause]

[Cheering]

A critical, political, and intellectual challenge in the unlikely vehicle of an annual meeting.

[Laughter]

Our topic this afternoon is the future of neoliberalism. Although it is a cliché to say we are at a crossroads, I believe that characterization is an accurate description of the state of the global economic system and its dominant ideology. Twenty years of neoliberal policies have led to a significant citizen backlash, a new found [inaudible], a stalling out of the current trade round and a breakup of the formerly solid Washington Consensus. At the same time, inertia and powerful economic, political, and institutional pressures to stay the course remain. We are truly in a moment in which the future path is not easily predicted. We could not have two better guests with whom to discuss these questions, two men who from the point of view of sociology also represent an intriguing example of cross-border trade. President Fernando Henrique Cardoso whom--sociologist most successful if not spectacular export from a sociology professor to the two-time president of one of the world's most important countries and Professor Paul Krugman, Princeton economist and editorial columnist who public sociologists are eager to import into their ranks.

[Laughter]

Surely, the cross-border movement of these two individuals reminds us of why John Maynard Keynes, a brilliant, although now unfashionable theorist of internal economic relations felt so strongly that international trade in people and ideas was so vital to a country's health and well-being, even as he believed a kind of, had a nationalist view on trade in goods and capital. And so it is with sociology, our need for cross-border trade in people and ideas. I'm going to begin by introducing our two panelists and then I'll say a few words to set the stage and then turn it over to President Cardoso. Let me begin by introducing Professor Krugman, one of the world's most distinguished economists and a penetrating

editorial columnist now at the New York Times. Professor Krugman's early work revolutionized economists thinking about international trade, teaching that strategic interventions could raise rather than reduce welfare, and was part of earned him the John Bates Clark Medal in 1991 biennial award given to the best economist under the age--American economist under the age of 40. Beginning in 1990 with Professor Krugman's first book for a lay audience, he's become the nation's most influential public economist arresting that mantle for Milton Friedman, I think.

[Applause]

[Cheering]

Analyzing domestic macro policy, trends in the distributions of income and wealth, and increasingly politics and foreign policy. He has a clear and accessible writing style which has contributed greatly to his influence. Since becoming a columnist for the Times, Professor Krugman has had the courage to speak up about the corruptions and deceptions which characterize contemporary US politics. He's taken on not only the policies of the Bush administration but also its lies and spin and in doing this--

[Applause]

For this, he has become a hero to millions of Americans including myself. President Fernando Henrique Cardoso is an example of public sociology at its most effective. Then Professor Cardoso emerged as one of Latin America's leading sociologists and intellectuals in the 1960s working on issues of dependency, democracy, and development; author of a number of influential books including the classic *Development--Dependency and Development in Latin America*; and a major figure in the struggle against the authoritarian military regime in Brazil.

President Cardoso's influence led to his arrest, interrogation, and exile by the military government, the bombing of his research institute and I think this is an important moment, those of us who inhabit North America, to remember how dangerous being a public intellectual in most parts of the world and the luxury that we have to be public intellectuals with relative safety. Many other intellectuals might have dropped out of public life after this experience taking the safe course but President Cardoso displayed extraordinary courage and commitment returning to Brazil, founding the Brazilian Social Democratic Party. Eventually, in the early 1980s being elected a federal senator serving in a number of [inaudible] posts and in 1994 was elected to the first of his two terms as president. He remains the only democratically reelected president in Brazilian history.

[Applause]

While in office, President Cardoso worked to increase the political participation of marginalized groups, opening up a democratic process which continues today. His policies boosted school enrollments.

[Pause]

[Laughter]

Did I do something?

[Laughter]

Hello!

Is that one--is that one working?

No.

Okay.

Okay.

Did I step on something?

MICHAEL BURAWOY: Don't worry. These things are bound to happen, relax. It's not terrorism.

[Laughter]

JULIET SCHOR: The other mics did too?

Here I come.

No. Online security [inaudible].

I don't think I did anything.

No, you didn't do anything.

Okay.

What?

It's on.

It's alright. Oh we're on. Are you up there?

Is that it? Okay. It's back, okay, thank you. Yeah. His policies boosted school enrollments [applause], reduced racial inequalities and infant mortality, and slowed the spread of HIV/AIDS. His legacy has been recognized by many, many awards and appointments and by the receipt, I'll just mention one or two, the receipt of the first Mahbub ul Haq Award for Human Development and his recent appointment by Kofi Annan to the Chair of the High-Level Panel of Eminent Persons on United Nation's Civil Society Relations. We are honored to have this inspiring public sociologist in our midst.

[Applause]

Before I relinquish the podium, let me set the stage for our discussion by recalling an experience I had eight years ago at the annual meeting of the World Economic Forum in Davos, Switzerland. As those of you who followed global economics are aware, the World Economic Forum is a gathering of about 3,000 representatives of corporations and governments plus a contingent of academics. It has been described as a week-long party for the global ruling class. The World Economic Forum was an early and vociferous proponent of what has been called corporate-led globalization. 1997 was an interesting year to be in Davos because it was the year of triumphalism. I will never forget sitting at a dinner of top US officials and political figures, people such as Larry Summers, then number two man of Treasury, Laura Tyson, Clinton's chief economic adviser, Haley Barbour, head of the Republican National Committee and many others. One after the next, they stood up to proclaim that the consensus vision of globalization had prevailed vanquishing its critics on the left and the right. Only fringe elements, coops, remained critical, Summers proclaimed. When Chicago economists described the painful years of wandering in the desert and how they too were thought of--intellectual occurrence but the Chicago economists continued. Vindication had finally arrived. The whole world had come over to their point of view. The famous [inaudible] formulation, there is no alternative, had conquered all respectable opinion. I listened with a smug sense of satisfaction. As a left wing critic of globalization, I saw a different handwriting on the wall. Six weeks earlier, I had been in Paris where a potent general strike called specifically against globalization had paralyzed the city. It was the first major sign of trouble for the neoliberal vision and had even worried the organizers of the World Economic Forum enough to invite labor leaders for the first time to their meeting to conduct under the radar secret sessions. I laughed silently because I believe that the moment of triumphalism is often symbolic of the beginning of the end for a particular ideology or regime. Sub--[applause] subsequent events might be interpreted in that way. The Asian financial crisis erupted followed by the Battle of Seattle in '99, the Argentine disaster, the collapse of the Doha Round, and the official end to the Washington consensus. Where does that leave us today? Has the poor performance of the 25-year neoliberal period as compared to the so called golden age of the '50s through '70s on growth rates and poverty alleviation undermined elite support? Will the apparent gains on agriculture subsidies made by the nations of the south in talks concluded a few weeks ago, sure up southern governments' commitment to move forward on the same path? Can northern governments take the political heat which will be necessary to make good on those commitments? If so, how will the neoliberal regime's failures of poverty alleviation, one of its most vulnerable points as even its most ardent supporters acknowledge be addressed? As sociologists, we are also interested in other sets of questions about the current moment. One of the most powerful critiques made by opponents of the Bretton Woods Institutions and the WTO has been that they operate secretly without transparency or accountability to democratic forces and institutions. Does the future of neoliberalism, if it has one, entail a political opening up to popular and democratic forces? If so, how much of that change will take place through civil society organizations, how much through increased accountability from representative bodies of liberal democracies? I will end by taking the prerogative of the chairship to raise the issue I am personally most preoccupied with today which is that it seems increasingly clear that the most urgent and serious problems in humanity is the ecological destruction of our planet and in particular, the growing problem of climate change. [Applause] With every passing year, the evidence for this--speed in devastation of global warming grows. Well typically thought of in environmental terms, global warming will be and already is a human catastrophe, especially for the world's poor who are disproportionately

bearing the brunt of its effects. In contrast to the experience with the Montreal Protocol which has largely solved the problem of CFCs, we've seen an utter failure to respond to global warming. In some sense, that is not surprising. The problem of CFCs was in the end a technical one arresting global warming calls our economy and consumerist style of life into question. Neoliberal economically has never had a satisfactory approach to natural resources and the global commons preferring mainly to ignore it. That may have been a defensible position in a world with a small population, a small scale of economic activity, and nontoxic production processes. Today, we face a very different world. Will neoliberalism survive in a world in which our most pressing problem is not insufficient productivity or inefficient economic enterprises and institutions, but rather our present inability to cooperate, to use common resources in a sustainable manner. Thank you.

[Applause]

[Inaudible Conversation]

And now let me turn the podium first to President Cardoso who will speak to us on the future of neoliberalism. Thank you.

[Applause]

FERNANDO HENRIQUE CARDOSO: Well, thank you very much. Good evening. You know, for me it is a pleasure to be here but I must say to you that I'm not, I'm feeling very comfortable. First of all, I'm not properly dressed. I'm still dressed as a president. I would prefer to be much more at ease. You know, sport dressing but anyhow. On the other hand, I never expected so enormous crowd and you know, a political man when he look at this amount of people, immediately the concept of demagogue. [Laughter] And to avoid demagoguery, I will try to read a paper, I prepared it beforehand. On the other hand, you know, I'm no more used to how to speak in English fluently. I have to say that I have been to this place several times and the first time I met my Michael Burawoy, we have been both professors at Berkeley. This was in '82, long time ago.

MICHAEL BURAWOY: And now we're both presidents.

FERNANDO HENRIQUE CARDOSO: And now we're both presidents, again with a difference. He can be reelected, I can't. Anyhow, thank you very much Michael for inviting me, as well as Peter Evans. I know that Peter was always all the time also working to take me here once again and I'm real pleased to be at the Bay Area. I said I have been in '82 teaching at Berkeley but before in '71, I was a professor at, shall I say, Stanford. And--but it is a very long time ago so now I have no more the enough fluency to address to you without readings, so sorry. Anyhow, I have to also to--I would like to acknowledge the presence of the Consul General of Brazil in San Francisco, Ambassador Georges Lamaziere who used to be my spokesman. Now, he keeps silent.

[Laughter]

[Applause]

And I know that members of the Brazilian community around the Bay Area threw a procession for the former president. Thank you very much. And I was asked to join Professor Krugman and Professor Juliet Schor in sharing some thoughts with you on the future of neoliberalism. In fact, I will speak about the past of the neoliberalism not the future. I think neoliberalism has no future.

[Laughter]

[Applause]

I once wrote that when I am asked to speak about controversial issues, I usually search the writings of my old friend Albert Hirschman for inspiration. So, I did again before I come in to this talk. This time I revisited the Hirschman celebrated essays on Rival Views of Market Society. As you may recall, Hirschman's main message is very candid. Views about the market and its effects on social issue are all but proof, but fine proof, they change overtime and they do so for obvious reasons. Changing realities require a constant abating rich in concepts if these are to bear any hermeneutical or practical value. As you know, Montesquieu and the Scottish Enlightenment coordinated to discuss of the doux commerce market once freed of constraints would help temper our passions and contend the arbitrary use of authority. That was the idea in 18th century and in Montesquieu this is quite clear. He was praising the good benefits of the le doux commerce, the soft commerce. I don't know how to translate them to English. [Inaudible] cause of industrial relations became evident, market was then portrayed as being a locus of violence and oppression. The emergence of imperialism made things worse as not only individuals but entire nations could be argued to be under the yolk of capital. The state was then appraised as the necessary cultivating force to market excesses. The welfare state was set along those premises providing a safety net for those unattended by the invisible hand of the market. The financial collapse of welfare systems in the '80s led to the discovery of market virtues. Multilateral institutions took the lead in spreading the new recipes like those produced by John Williamson and now everyone sees as the Washington Consensus. As explained to you, when I was in the presidency, some people talk by saying that I was becoming neoliberal. So, and I was following the Washington Consensus. I never read the Washington Consensus. I tried then I discovered that Williamson was married to a Brazilian woman and he speaks Portuguese. He is a very good guy, but I never read the Washington Consensus and by reading the newspapers, it appears to me that Washington Consensus was very influential in Latin America. Maybe it was not that much. Now, it's the International Monetary Fund itself that has been preaching against market dogmatism and calling for sound public policies. Now, it's very curious to hear and/or to read papers by the World Bank or the IMF because they are always insisting on the importance of social policies. The World Bank becomes a kind of hospital for the poor. Instead of giving money in order to invest in infrastructure, they turn to be much more trying to give recipes about how to solve the poverty problems. When we look what is happening with the World Bank, the World Bank has maybe 12 billion dollars every year to invest. The Brazilian Bank for Economic and Social Development has between 13 and 14 billion dollars. Imagine you, what it is, the lack of proportion, the World Bank has 12 and the Brazilian businessmen are always complaining that the Brazilian government sustaining them because they have not enough money. So, the World Bank has become shrinking. If you look what the necessities really are and instead of really promoting development, they believe that it's necessary to promote social development. It is necessary but probably the World Bank is not the best

instrument to promote social development. It will be better to use the World Bank to promote development, to the growth of the economy than the growth and development of society. So, anyhow, now is, the world is changing and the IMF and the World Bank are again trying to, well, trying to encourage some modifications. Well, again, there is nothing wrong about perceptions on market rules changing overtime. I'm not saying the market rules are changing by then there's nothing wrong. As a historical product, ideas cannot be static. What may be wrong is to ignore social truism in pro-mercantilist [phonetic] notions as all time truth. All the more so, social and political ideas are not only by--only time but space bound. They often take up new meanings as they migrate from one setting to another and that they use it to address circumstances. They were not produced to explain. When I held the Simon Bolivar share at Cambridge in UK in the mid '70s, I had the chance of writing a paper about the intellectual legacy of the United Nations Economic Commission for Latin America called--normally called in Latin America as a--I don't remember the title used. Anyhow-- CEPAL.

CEPAL, CEPAL, yes. CEPAL. The paper was entitled the Originality of the Copy. The argument then I pursued was that Raul Prebisch, the main, the living figure of CEPAL, had not produced his groundbreaking thesis ex nihilo. He was acquainted with classical and neoclassical economics and with the works by Keynes and Hans Singer who was an economist from Austria, not to mention his familiarity with United Nations' statistics. But Prebisch managed to process all these inputs in a creative manner adjusting them into Latin American circumstances and needs. He demonstrated that trade had not delivered to the region the gains foretold by the theory of comparative advantage of the International Division of Labor. Workers and employees and employers in initialized campus had proved to be sufficiently organized to prevent price of manufactured goods from falling in proportion to rise in productivity. Fruits of technological innovation had thus been mostly appropriated by central economies rather than being transmitted to lower price to trade partners in the south.

As price of primary products had continued to fall, a condition of abandoned and unorganized labor that had been a state of deteriorations of terms of trade. Hence, Prebisch's obsessions with import substitution from industrialization will become his and ECLA's, Economic Commission for Latin America's late motif. Only through industrialization were Latin American supposed to reverse a declining participation in world trade and aspire for higher standards of living. Please do not assume that with these brief remarks, I mean to summarize Prebisch's legacy which is much broader and diversified. I simply wish to restate the message I conveyed in my piece at Cambridge. I see Prebisch's work as a good example of how ideas can serve new and unexpected end as they are transplanted into environments different from the regional ones and combined with other inputs and traditions. Prebisch reported a theory of comparative advantage, shake it against United Nations' statistics resulted to Hans Singer and other scholars and found out that fate had not equalized returns among factors of production with an international scale. Sorry, I make a mistake in repeating here. Yeah. So, excuse me. Well, labor and capital [inaudible] the lion's share of the fruits of technological progress such as finding calls for political action and generate as well know a vast array of development programs all over Latin America. What parallel can be drawn between those years and more contemporary trends? What affinities if any are between ECLA's approach and the recent appropriation of some elements of neoliberal discourse by Latin American countries and particularly by Brazil? Political and economic difference between the '50s

and today's circumstances are certainly used enough to discover comparative exercises. One at a time, populace has very much evoked democracy roots in Brazil and elsewhere in the continent. The Brazilian economy is no longer commodity based but rather diversified competing with European countries and United States in various industrial and services sectors. Nor is the country has a split between illusions and internationalist aspirations as it used to be 40 years ago. Brazil has become a global trader and joined in various integration experiments [inaudible] not the less important of them. Yet, different though, past and current circumstances are from one another. It seemed only fair to argue that the way for inputs are processed and used in the country has not changed dramatically, rather then they can attach value, ideas are assimilated as ever in selective manner. Unlike what some critics say, such a selective mode of incorporating mainstream discourse does not reflect lack of expertise on human resources. On the contrary, the more elaborate the domestic debate about the national challenges and needs is the less inclined the Brazilian society is to adopt the language of one model fits all. It is not a question of counter-hegemonic views for the sake of it. It is simply a matter of adopting policies which are more legitimate and better meets national needs regardless of the extent to which these policies do or do not coincide with conventional wisdom. Let me give you an example out of my experience as a finance minister of Brazil. By the way, I was presented here as a president and a sociologist. The other day, I was giving a talk at the New York University with a friend of mine, former foreign minister from Mexico, Castaneda. And Castaneda was enthusiastic because he has some, you know, maybe aspirations to become once president of Mexico. So, when we start the--or at the end of the talk, some questions have been raised and he himself asked me, tell us how was it possible for a sociologist to become president? I replied, don't forget I was a finance minister before. So, it's a long way. It's not so easy. Okay, anyhow, anyhow, I was referring to the fact that I was finance minister of Brazil and some of you may know that I oversaw the elaboration and implementation of a monetary stabilization program in my country, mainly relevant to curb inflation. But perhaps only a few of you may be aware that this plan, the real plan was not supported by the International Monetary Fund. The way we translated the principles of a sound money into practical measures did not sound convincing to the experts and directors of the IMF. They came to the point of suggesting that our team was too young and inexperienced to tackle the daunting challenges obtaining a hyperinflation of 3000 percent a year. Only the managing director of the fund at the time, Michel Camdessus, had a different and maybe more realistic view. He produced a personal letter to support the plan. This facilitated our contacts within those creditors and US Treasury paving the ground for the re-legalization of foreign debt which was deemed crucial for the success of the real plan. Other obstacles would later be basic such as the argument that a number of political preconditions will be needed to be--to met before the plan was implemented. The process realm acquired different cause. Political support was assembled as a practical measure while being adopted. I insisted on the importance of what I called democratic pedagogy, that is the day-by-day effort to persuade the state bureaucracy, the congress, the academia, white and blue collar unions, and [inaudible] in general about the virtues of the stabilization plan. With benefits of hand sight, I have no doubt that the efficacy of the plan was larger though to its legitimacy but legitimacy concrete along the process out of extensive deliberation. So, why am I referring to the IMF in this context? Because IMF is supposed to be and in fact is, the main pillar for the new ideas and the neoliberal and so on and so forth. And I was surprised myself when the first time being a minister of finance in Brazil. I approached the IMF and I was so sober in their views. At that time, what has been

done in Argentina was so much praised by IMF. I remembered the first time I came as governor of the IMF, before being finance minister I was governor of the IMF but lots of governors were there around. So, I came, I was a little bit ashamed. My colleagues from other countries in Latin America were so popular in IMF and I was a little bit put aside in a corner, corner and at the end I have said, "No, no. You are not ready enough. You don't have the experience." None myself, I had--I hadn't but those who worked with me to implement program and these are not good, you have a very fragile government, it's impossible. We are sorry but we cannot, we cannot support your program. Well, this was the first program after 8 or 10 in the last 20 years to curb inflation that has been successful. And the IMF refused to support the program exactly because they had very strongly preconceived ideas about how to implement a program and we decide in a different way. I said, well, what is important, you can't imagine how difficult it is to manage a country when the inflation is 40 percent per month. And for a long time, since almost ever because there are mechanisms to protect money, so those who are wealthy people even the middle class people, those who have banking accounts can protect themselves through indexation. But the enormous amount of people in the country just don't have banking accounts so they are, every month, they are deprived by the inflation. Inflation is the most powerful instrument to concentrate income ever. So, you can imagine how difficult it is to convince a country that there is some hope. So, it took a decision, a very simple decision. Let's put publicly point by point what our program is, including these very technical points, including those kinds of points that's no economist, nobody suspected can be used to manipulate. It's better not to inform because if we inform, we will be defeated in advance because people react against.

So, the decision was a political decision, not on economic event. Of course, with technical competence, it is not absolutely necessary but on top of that, the idea was let's try to be clear to the population. And let's trust the people who understand and people who support the plan. It is true what has been said by the IMF. The governor at that time was very unstable after processes of impeachment. A new--the vice president became president and the vice president was rather unstable in political terms without the enormous report. Everything was difficult and the decision was let's try democracy. Let's try to convince people. Let's plan to people. So, everyday I had to speak in TV, radio, interviews and when I left the ministry to become candidate for the presidency, those--my--I had two successors and they did the same. And I think this was the way how we had been able to stop inflation, to curb inflation. Up to date, we never more had to be the sources of inflation. And the IMF was just unable, incapable to understand the point because they were, you know, biased by a kind of dogmatic approach to the way how we interpret--of the way how we have to recall, you know interact with inflation. It was as if economics paid tribute to politics or to democratic exercise of politics. In effect, democratic or one model fits all approach would have simply failed to achieve the desired ends. I will just add one more example to reinforce this point. It relates to another pillar of the conventional wisdom, the fiscal reform. A proper understanding of the Brazilian fidelity position was absolutely essential for an attempt to address budget deficits. Due to past malpractices, a significant number of region and states were bankrupt. Later negotiations were presumed to restructure regional debts and to put a ceiling on future expenditures. The treasury could not afford assuming a large part of regional debts which had obvious impact on the union debts and interest rates. But some historical advances were made. The most important one was perhaps the introductions of a law committing group agents at all levels of federation to physical

discipline. One may wish to play the role of the devil advocate and argue that Brazil made reforms in its own and democratic way but at the end, did not escape the conventional wisdom and abide by at least two of its tenets, sound money and physical reform. So, my point is well, we try to curb inflation. We introduced some laws in order to control the budget deficits, so on and so forth, but they used both instruments on a different way from those proposed by the IMF and the noble wisdom in terms of the economic approach to similar cases. Anyhow, these are important tenets in terms of the so-called neoliberal theory I think, I mean, to curb inflation and to control fiscal deficits. Well, okay, this is only partly true as it missed in my view the crux of the matter. Brazil pursued not, I'm sorry. Brazil pursued and achieved its objective of sound money and balance of budget but not in the name of neoliberal designs. Those reforms were not meant to substitute a minimal state for bankrupt welfare states. They were meant to create conditions for a renewed state to effectively deliver social goods. Brazil and Latin American in general never had welfare states. As I'm used to saying the region has a tradition of ill-fare states. So the opposition between state and marketing simplistic terms in our case doesn't apply. It is quite difficult. We never had a welfare state. So, we never had the why to tie it to, you know, to shrink the state. No, we never had. We had an ill-fare state. Over the last decade, for the first time ever, Brazil has moved closer to ensuring universal access to education and health. Not to mention the significant reduction in poverty and income disparity just to give you an example, some figures. Well, the poverty line in Brazil has been since very high, since the labor term, times. This is the 19--when the abolition was implemented in Brazil at the end of 19th century and since then in history they have data. It's quite clear that the number of poor is very considerable, normally, around 40 percent of the population. It depends on how you define the poverty line. Anyhow, taking the international definition it's a little bit less but taking our own definition it was around 40 percent of the population with two sections. First one was in 1986, '87 when an anti-inflationary plan was implemented, the so called Cruzado Plan. But the point is that the Cruzado Plan reduced the poverty line from 42 to 30 percent in one year. But in the coming year, again, the poverty expanded and returned to historical levels, 40 percent. So with the implementation of the Real Plan, reduced from 40 to 32. Well, 42 to 32, that is to say 10 percent of points which means about 18 million people have been able to cross the threshold of poverty. What is important is from that time on, the land is stable. Important in a double sense. First, the anti-inflationary program was able to give better condition for people. Secondly, it's not enough as we have been able to stabilize the poverty line but have not been able to continue to decrease the poverty line with one exception. The number of--those are really in--the worst position among the poor, these are decreasing consistently and they continue to decrease. Anyhow, this is quite clear so that the anti-inflationary plan was good for people. If we look what happens with health--clear or education, it's also clear that social research are having very consistent. I'm not referring to my government. If you look--if you look--let me give you a more ample example to clarify my point. In the '70s, the rate of growth in Brazil was at an average 7 percent per year. That is enormous. In the '80s it was 1.7. In the '90s or between '92 up to 2002, 2.7 and the population growth was 1.5, so it was minimal. Improving but not that much. When we look, social statistics is exactly the opposite. In the '70s every sources of data is bad and becoming worse. I wrote a book in 1975 with other colleagues in Brazil. The book was prepared for the Cardinal Arns. Cardinal Arns was a churchman, a catholic bishop, very influential against you know torture, against authoritarian regime, and at the time was trying to help him in preparing some--you know his discourse and also for convincing people that the situation was bad. And I wrote a book namely Sao

Paulo, my city, growth and poverty and it is quite clear that by the mid of the '70s when economic growth was going up at 7 percent, every social data was just terrible, education, infant mortality, everyone but one, employment. Employment was expanding but education and other social indicator is very bad. When you look now in the '90s, every social data is improving. Education for instance, the illiteracy is coming down very, very--the illiteracy is coming down very, very quickly. If we look at the number of students, of young students between 7 and 14 years old involved in fundamental schools, you'll see that we increased considerably. Now we have between 97 and 98 percent of students attending schools.

And when they are attending schools, they have meals, because everyday at least once a day, they receive meals. So, it is important to note that social progress is going--well, considerable circumstance is making progress. What is more important maybe in '92, the number of white population attending school was already very high about 94 or 95 percent, but blacks were 75, 80 percent and now blacks are 94--attending school. So this was a program very important to integrate the poorest part of Brazilian populace. The same apply to infant mortality. Infant mortality declined from 44 percent to 26 percent. I don't want to bore you with data. Only the argument is that the point is that in practice what happened is with the current inflationary control plus fiscal responsibility, it was possible to implement social policies and social policies had been able to turn a little bit better off the population standard of life--of living. So, well, how was these made possible? A part from the point I stressed, I mean fiscal responsibility and control of inflation, a set of criteria was put in place to guide public expenditure. The basic idea was that the states who spent more and better, despite of the ever present financial constraints, Brazil managed to increase social expending at a steady pace from '95 to 2002. In '94, country allocated 11 percent of GDP to social programs. In the year, 2002, social expending stood at over 14 percent of GDP, the highest level of all times. So the annual gross of social spending from '95 on was of about 7 percent and I said to you that the rate of growth of the economy was 2.7. So that was, how was it possible, you know, to turn life better for the population. What I'm trying to stress, I have to stop because I'm going, maybe I have no more than 5 minutes but what I'm going to stress is the fact that at least in the case of Brazil. It's very simplistic to look as if we have implemented there social reforms, state reforms and economic policies inspired by the Washington Consensus. It was not like that. It was inspired by common sense.

[Laughter]

[Applause]

On the other hand, it is senseless, has no possibility that you know, to measure a situation in Latin American countries in which we could reduce the state expenditure is a contrary. We have to expand state expenditure. In order to expand state expenditure, we have to look from a different point of view. The first, you'd have to increase the cost of expenditure, to reduce, you know, the bad utilization of public money, not just because of corruption but because of bureaucracy, the lack of efficiency. And the second is that we have anyhow to expand, and this is not very popular, taxes. We have to expand taxes. It's not--you know.

[Applause]

In a day-by-day discussion, everyone is saying, well the government has to cut taxes, but cut what, the education. Social security, what to do? So, it's absolutely nonsense to imagine a real neoliberal set of policies able to cope with the situation in poor or Brazil is not poor but in developing countries. I don't want to say additional word because I have no time about other countries in Latin America. In some countries, they tried effectively to utilize the paraphernalia of the dogmatic neoliberal approach. The case in point is Argentina. Argentina has been neoliberal before the Washington Consensus.

[Laughter]

They tried several times to utilize this kind of instruments and the result was not good. The other country was Chile. Chile is much more close to Brazil than to Argentina. They never destroyed the state. They utilized some ideas in terms of fiscal responsibility in monetary control, I mean inflation control not monetary control but not in order to replace the state by the market. This has no past and you have no future. Thank you.

[Applause]

JULIET SCHOR: Thank you so much for that wonderful speech and it's now my pleasure to introduce Professor Paul Krugman.

[Applause]

PAUL KRUGMAN: I do have to I guess in this, addressing this group, here's a line that I've actually used a couple of times and so there's no harm in repeating it. I went to graduate school. I took international trade from Jagdish Bhagwati who explained to his class his personal theory of reincarnation which was that if you are a good economist, they virtuous economist, you are reborn as a physicist. But if you are an evil, wicked economist, you are reborn as a sociologist.

[Applause]

By which he did not mean, by the way, that sociologists are bad people. What he meant is that the subject is even harder than economics to do. So, but this is primarily going to be about economics which doesn't mean that we have all the answers. And I think if there is one thing that we have learned, by the way, pretty hard over the last is that we do not have all the answers and that's a good thing to remember. The term neoliberalism is a--it's actually, it's a problematic term. It lumps together a number of things that really at least don't have to be lumped together. In some cases, actually should be, there should be really strong distinctions between them. It's--well, I could say it's a little bit like weapons of mass destruction but it's a, but the odd thing is that it's lumped together by both sides. That it's lumped together both by people who want these policies and people who bitterly oppose them and let me just say, in my mind, at least, it refers to four things which are not necessarily a package. One of them is opening to international trade. Free trade maybe, but at least a movement towards a relatively liberal trade policy. Another is privatization. Reduction of government role in the economy, maybe also reduction of government spending and I'll say a little bit about that too. Third is financial liberalization,

in particular opening to movements of capital. The allowing free movement of capital and the last is a sort of classical pre-Keynesian view about monetary policy and macroeconomics. These things have in fact often been sold as a package. In Argentina, it would be the prime case and point but they can also be separated and at least part of what was learned is that they should be separated and considered separately on their merits. The part that is strongest in all of these and, but not without problems is the first, is the issue of internal trade and of relatively free trade, of reduced tariff barriers, reduced barriers by import quotas and other kinds of quantitative controls. Generally, it's often what we call globalization though that sometimes moves with the rest and that whole issue involving trade is--it's a practically, intellectually and morally ambiguous issue. If you don't understand that there are--that there are ambiguities, then you're really not paying attention. I'm gonna give you, just for starters on this, I'm gonna give you the pro globalization, pro free trade sermon, which I can still deliver with some fervor and for a reason, you'll see in a minute. And then I'll get into the qualms that I have and along the way, then I'll talk about the, what I think is illegitimate intertwining of that argument with the other pieces of what we sometimes call neoliberalism. Alright, so here is the pro trade sermon. What you really need to do to understand where somebody like myself who's been generally pro trade comes from is you need to think about the way the world looked around 1975--around--which is when--at that time, I actually thought maybe development economics is what I should specialize in 'cause that is, there is nothing more important in economics but I didn't because it was too depressing.

And circa 1975 development economics was in very large part actually just, not the economics. There were no clear success stories out there. There have been no countries that you could say, well this was a third world country that really made its way seriously up the ladder, seriously became a part of what you would now wanna consider the advanced world. We could argue a little bit about southern Europe but basically Japan, Meiji Japan was your last success story. It was looking really as if the club of advanced countries was one that was not accepting new members. It was a very depressing scene. Now, there was some progress being made in developing economies, some of them, but it was--the overall picture was one in which you did not see what you would really want to call a major upward leaps in development anywhere. What we also saw in the mid '70s was that the strategy of development that had been followed in much of the developing or much of the third world which was that of import substituting industrialization, a building up industry by blocking out imports and trying to build an industry that was focused on the domestic market. While it had had some successes, it was also running out of steam or so it appeared. There appear to be increasing limits and also the problems with that approach were piling up. You didn't have to be a theocratic devotee of free trade or a believer in the perfection of markets to go around and notice that there was a lot of absurd protection going on in the third world, that there were industries that were generating negative value added because they were so inefficient that the cost of buying the inputs from abroad, the raw materials or the parts, the components was greater than the value at world market prices of what they were actually producing, that it was just that we used to talk about the horrors of import substitution and I think that's probably--we shouldn't devalue the word horrors. There're enough real horrors out there in the world but it was certainly--there was a feeling that the development strategy that had been pursued in much of the third world since World War II was not working out. It was not leading the way to a national movement into first world status. What happened after that, it had actually started before but we didn't really recognize

it, was that the club of advanced countries was in fact about they started meeting some new members. As far as I know, the term newly industrializing economies actually was these first views then sort of a major international organization documented by the OECD in 1978. At some point, somebody looked around and starts to notice that there were these small Asian economies that were actually achieving very high growth rates, that were actually achieving really major leaps in economic development and these were not countries that had always been well off. One of the kind of depressing things about the Japanese example was if you actually looked, it seemed as if Japan had always been kind of exceptionally well-developed developing country as far back as you could go but South Korea had been very close to subsistence levels in the early '60s then you look around and said, hey they really are doing something spectacular and you started to see--look, originally they are the gang of four, the four small Asian--South Korea isn't that small, but it was South Korea, Taiwan, Hong Kong, Singapore and at first then, people said, well okay these countries have found the recipe for success whatever exactly that recipe is, but you know you couldn't really expect that kind of thing to you know. That can happen to China, for example, and of course later on we started to see at least parts of China experiencing very rapid development as well. This transition, the emergence of rapidly growing third world economies moving towards first world standards of living, moving towards something that looked like equality of status, now of course a decent life for most of their people or many of their people but also something like equality of status, was for me at least and I think a number of other people very important and one thing to say about those of us who still have a lot of sympathy for the view of free trade or at least of relatively open world markets, and I'll get to their role in a moment, is it's easy to think of it as being this westerners who have this hegemonic vision and they want to impose a western thing on the world. Actually, the reason I was so impressed and heartened [inaudible] of the East Asian economies was exactly because it seemed to me to be diluting the hegemony, that it--I don't think it's a good--it's good to have a world in which only western countries plus Japan are advanced and everybody else is sort of permanently hewers of wood and drawers of water for the first world. I was really happy to see that there was something going on. Now, the one thing you saw about all of these success stories, all of the post World War II dramatic success stories was that they were all intimately involved with export-led growth. At that point, all of them involved exports of manufactured goods and we now have the possibility also of some service-driven growth but if they were all export-led growth. So the original, if you go back to the '50s and '60s, such a lot of belief in development through import substitution, through industrialization that was aimed internally at the domestic markets of developing countries, now we were finally seeing the success stories we've been waiting for decades to see but they were export-oriented and that seem to--

[Laughter]

I'm sure that homeland security is behind all of this.

[Laughter]

The--okay, now, where these countries free traders and the answer is well no or at least not. First of all, they weren't all countries and secondly, they weren't all free trades so you can go, yes Hong Kong had something very close to free trade, South Korea did not, Singapore is another kind of strange thing and

so on, but they were all certainly much less inward-oriented, much less protectionist than had been the accepted way that a country should develop in the few decades. So, we all got kind of high on the prospects of globalization, export-led development, wanting to see basically many more South Korea-style development experiences. A little bit about economics here, is this conventional economic theory just raising its head and is this just an economist prejudice in favor of free trade and actually, the funny thing one has to say about all of this is that conventional estimates of the costs of protectionism and the gains from free trade are way too small to explain what we saw. One of the dirty little secrets of international trade theory is that when you actually try and do the numbers on how much according to the conventional models protection, even very high rates of protection like you saw in some Latin American countries a couple of decades ago, how much damage they can do to an economy is very hard to get the numbers above a 10 percent of GDP but here we were looking at countries which were achieving in some case 8 percent growth of GDP year after year after year, so that could not be just the conventional standard gains for free trade, something else was going on and to be honest, we still don't quite know what that is but there appear to be some way in which open into the world market plus other things allows countries to find their inner dynamism. I don't know what you wanna call it. To find a way to do things that inward-looking economies cannot do. Strong suspicion, which have become much stronger with years, that is not just the opening to the world market that does it. It's not that these countries would've succeeded anyway, 'cause we know that South Korea was very nearly common basket case until it began its export-led cline but it's also probably true that the countries that have done very well had other things that made it possible for them to exploit these opportunities and one thing that we do know is that the original set of Asian tigers, they all had much better basic education than you would have--given their level of per capita income right at the beginning. So Korea in 1963 is a desperately poor surprisingly well-educated country and that may be an important part of it. There are other things. One thing that we noticed is these places had had land reform so there are things that were probably preconditions. We don't fully understand what was going on but what we did learn, or I thought we had learned from starting in the '80s when this phenomenon became apparent was that rapid development, the beginnings of an end to the division, permanent division of the world into advanced and less advanced countries is [inaudible] but the only route that we had seen work in generations was one that was heavily driven by export orientation, by growing world trade. So that's a good stuff. Now, the qualms. The first--the biggest thing, my biggest complaint about this thing, whatever neoliberalism if that's what it was that began to happen is that somehow, for reasons that we can partly understand but that this became wrapped in with a rejection of Keynesian economics.

A rejection of the view that the government has an active role to play in fighting recessions with the view that some flexibility which is not to say that you want inflation, certainly don't want hyperinflation but the idea--somehow the lessons of the 1930s were supposed to be rejected in the course of moving towards openness to trade and openness to markets in general and so you had first of all the, really, a resurrection of traditionalist goal standards views about how money should be managed. It's one thing to say that you don't want to have lots of inflation. It's another thing to say that what you should do is should have a very fixed monetary standard which will not be altered at all in response to circumstances and of course that is at the core of the Argentine disaster. The convertibility law, 1 peso is 1 dollar and there should be normal variation was something that was dreamed by up people who thought that

everything we have learned about macroeconomics in the '30s and thereafter was wrong and what we really needed to do was return to the Victorian virtues. The peculiar thing by the way is that advanced countries have never stopped being Keynesian. You know the United States is quite happy to go and print lots of money and run budget deficits when we have a recession but we were telling developing countries oh you don't need to do all of that. In fact, what you need is sound money and that will solve all problems and what actually happened in a number of cases but in Argentina most spectacularly is that by doing that all we did was set the stage for a catastrophic crisis when the peg could no longer be sustained and when many of the institutions and individuals in the society had assets in pesos and debts in dollars and when the peso plunged, all the balance sheets collapsed and the economy with it. So that was a catastrophic association of a very misconceived monetary rule with trade which, at least, which had a much stronger case for being a good idea. Went beyond that with the blurring in times of crisis between the questions of crisis management, financial crisis management and structural issues. If there was--there are a lot of things we can say about, you know, the IMF really did mess up pretty badly in the 1997, '98 and beyond in the case for Argentina. One of the things they did that was really wrong was to take a crisis of confidence brought on and the resulting capital flight to say well, the answer to this is structural reform which whether or not is a good idea has not that much to do with it. We lost discarding of the lesson that microeconomic policy and long run sound or not microeconomic management are not the same thing. So I--the epitome of that was leaning on Indonesia to eliminate the clove monopoly as the solution to the crisis of the rupiah. Well, the clove monopoly was actually a pretty vital thing but this was not relevant and what it did was just create an environment of strife and lack of confidence that was a--just contributed to the crisis. Second area of qualms, capital financial liberalization. The argument, the economic argument for free movement of capital, particularly free movement of short-run loans, free movement of individual investors at an early stage of development has never been very solid. There has never been very good reason to think that this is a good thing. The one thing you can say is that it is hard to maintain capital controls if you are also going to have really liberalized trade policy because it doesn't pose a burden of paperwork to throw the markets wide open. It was something that was never well grounded in theory. Now it turns out in '97, Juliet was mentioning one of the things that almost happened there was that free capital mobility was written into the IMF articles and that was what, can we say luckily the Asian crisis came along? Well, it came along in time to stop that from happening but in any case, one thing has been really clear. Over the past several decades and it was clear even at a time when I was much more confident about these advantages of the globalization strategy that I am now is that capital sloshes around, that there are--that when the capital markets love a country they love it too much and then all of a sudden they have a falling out and that you have terrible crisis. Remember the Latin American debt crisis of the '80s came before much of what we now think of as neoliberal policies but the big trade liberalizations in Mexico are really late '80s. But what happened was that first banks in the early '80s and banks in the '70s lent lots of money and then in the early '80s suddenly decided that it was a bad idea demonstrating even then the risks of capital mobility. Those, some of you may know that my--I took an unorthodox position right in the middle of the Asia financial crisis which was during 1998 to say look, you know, we need to stand still here. Trying to apiece the panicked speculators is not going to work. We just need to have a time out and I actually called for capital controls and other people like Jeff Sachs called for standstills on bank loans which is just controlling one form but the same sort of thing. Malaysia at that time actually about days after I

called for it the Malaysia have actually imposed them though that's not cost ineffective they are going to do it anyway. But didn't hurt that someone has said it but they, and this was regarded at the time as a terrible, terrible thing. Oh, my God, Kuala Lumpur and in fact it worked. They got through the crisis with a lot less harm than many of their neighbors which is not by the way an endorsement to everything that Mahatir has done, right. There's a lot of separability of issues here. The last among the list of things there, privatization deregulation. I actually don't, I have not done a lot of study of all of this but when I hear about the enthusiasm with which a lot of things were privatized in Argentina, I just think to myself this again is going way ahead of what we know. There, in fact it's throwing away some of the things we've learned from the past, which is that market power is real monopoly, is not an issue that was made up by leftists. It's a real problem. [Laughter] The--[applause] Okay, and yeah, I mean, anyone who wants to talk about privatizing particularly utilities, basic services, you don't have to go to Latin America to find out about what can go wrong there, right? You just go right here. Still, alright, where are we now? There's still--there's this wonderful piece of news that we got which is that rapid development is possible, that third world countries can become first world countries. Certainly, of the original gang of four, Singapore is actually richer than a fair number of first world countries. It is. South Korea essentially is--should be--although, sorry. One thing you should never ever do however. The one small sample in empirical regularity is do not actually join the OECD. Mexico joined in 1994 and Korea--I'm losing my--but, anyway it's been a precursor to financial crisis but anyway. But this is very good and the story has not stopped happening, right? We now not--we now don't look at whole countries but we look at parts of countries but step back from all of the concerns about outsourcing and so on and they are very real concerns and you know--in the advanced countries too but look, Guangdong is a good thing. This means that a large numbers of people who were excluded from the possibility of progress are in fact experiencing that possibility. Bangalore is a good thing. We do want to see things like that happening. We want to see rapid development in third world regions. Eight or nine years ago I might have just ended there but we now do have, in addition to the crisis, we do have some serious reasons for doubt at least for concern. The reasons to be chastened if not completely beaten back and the first is just okay, we have now seen the possibility of development, rapid development but if we look across the developing world as a whole, this era of growing trade liberalization and neoliberal policies is not one of success. There are islands of success, some pretty big islands but there are also islands or pretty big islands of failure and the overall growth rate as we know from studies by Dani Rodrik and others has not accelerated.

Now in some ways I think that's a little bit misleading. I think that the growth rates of the pre--the growth rates of the '60s and '70s would not have been sustainable. We could already see those fading out as import substitution run out of room to operate. But the fact is that we have not seen lots of countries join the high growth Asian economies in their success stories. And in particular, now Chile is a good story but it's not actually as spectacular as the Asian examples and there are no other, we know we're waiting for a bunch of Latin jaguars to join the Asian tigers and we have not seen that, obviously. So the development story has not--it looks as if this is harder than it seemed. It's not just a matter of reduce the import barriers, reduce the--liberalize, deregulate the banking system, let market forces work and great things happen. It looks more like there's a bunch of things you have to have right about your society and your resources and the way you run things and then you can take advantage of the

opportunities that these things make available but it's not an easy recipe and it's just there's a lot of other stuff you have to do. Second thing is inequality. And now what was interesting and it turns out very misleading about the original period of East Asian takeoff was that that was also equalizing growth. That at least in the early stages, the takeoff in South Korea and the other pioneering East Asian industrializing economies appeared to have been accompanied by narrowing income disparities. Least to say, there has not been--we don't fully understand. Actually, again, the conventional economic theory would suggest that if you're exporting labor intensive products, that ought to be raising the demand for labor and that you would expect actually, if anything, labor to be gaining at the expense of capital in export-oriented economies. There's--I probably should not go on since we wanna leave some time for question but there's an intellectual puzzle, we're trying to figure it out. Some of my students have been working fairly hard trying to understand what is going on in Mexico. Why we don't see, with all of this labor-intensive export to the United States, why inequality appears to be rising rather than diminishing but that's certainly disturbing. It means that not only has growth overall in this age of relative liberalization not been as--not shown the takeoff that we'd like to see but is not being shared. So we have a real problem with inequality. So what do we wanna do? Well, the first thing we wanna do certainly is have a lot less confidence that we have the answers and the--I hope that it will be awhile before Davos Man goes down and tell these countries, well you have to do it our way and we know it will work because we have a lot more uncertainty about how things actually work. On the other hand, if somebody says well, alright, this whole thing was a mistake and let's go back to the way we did things in the mid-1970s. I think people who said it don't really--have forgotten or too young or just weren't paying attention to the way it was in the mid-1970s. This was not a hopeful scene. There's more hope out there for development now than there was 30 years ago even though the experience has been spotty. And I don't, if you imagine, you know, there is this occasional tendency for people to talk as if before globalization, there was this sort of pastoral idyll in the third world and this was never true, right? And it certainly wasn't true. So I don't think you want to see a return to import substituting industrialization. You want to work on the possibilities of export-led growth. Trying to work on the things that we suspect are preconditions so, again, education certainly, infrastructures certainly. And I think the most important lesson probably is that you should not count on miraculous growth through any set of policies to solve the immediate problems of poverty and inadequate social services and so I end up coming down very close to President Cardoso. If you really want it, by all means, try to find ways to make the economy grow faster but growth and social health are not in a one-to-one relationship. You can have fast growth but deteriorating social indicators. You can have growth that's not as fast as you would like but do a lot on the social indicators. So if you really want to do something about education and healthcare, while working on raising that long-term growth rate, actually do something about education and healthcare.

[Applause]

I think I should probably stop right there.

[Applause]

[Inaudible Conversation]

JULIET SCHOR: Thank you so much. We have and I'm going to just begin by saying thank you all for them and we're only going to be able to, some of them. But I thought I'd grouped a few for each of our panelist and then let them answer in turn. We've had a number of questions about Venezuela, particularly in the aftermath of the victory for Chavez in Venezuela, President Cardoso. So we'd like to hear from you on that and I'm going to read two more. As a harsh, these are for President Cardoso, as a harsh critique of capitalism in your writings on dependent development, how constrained were you as president to enact policies you believe in and what would be your advice for President Lula, and I have a little footnote on that which says, now President Lula is being called by the Brazilians a neoliberal, what do you two have in common?

[Laughter]

[Applause]

And one more, what factors that you didn't know at the time made you change your views about the virtues and conveniences--consequences, I think, of implementing market reforms and what about the structural limitations of your decision making while you were president? For--do it one at a time? Okay, that's fine yeah, better, better.

[Laughter]

[Inaudible Conversation]

FERNANDO HENRIQUE CARDOSO: Well, first of all, about Venezuela. Well, I think that we have just to respect the result because the Venezuelan people took a decision and that's all.

[Applause]

I hope President Chavez will take the benefit of the oil price to implement better social programs in Venezuela. That's what really matter, you see. The point is that sometimes the political struggle is so involving that the rest of the problems are put aside and the population needs more practical decisions to improve concrete situations. But then how? This is what I have to say about Venezuela. With respect to some very simple questions about Brazil, first of all, about capitalism. You know, when I was listening to Professor Krugman speaking about equalities and inequalities, well, you know, I suppose that most of you have read some about the origin of capitalism and how accumulation process exists, so on and so forth. The capitalism, you know, implies unevenness, concentration of wealth. Well looking now, something that has been absolutely unthinkable some years ago is the past from socialism to capitalism in Russia and in China. And again in both case, income has become more and more concentrated because this corresponds to the very nature of the system. It's a system now to accumulate capital, not to distribute capital. So that's why it's important to have contravening forces. That's why he was--he again and again insisting on the importance of the state, of government, of social policies because this is--how will it be passed to, you know, to redistribute some, you see. Of course, it's not so easy and it's not simple to say well the state is able. It's normally, the bureaucracy are not also able to implement better social programs and to implement income distribution. It depends on society much more than on

state, the organization of societies. And I think that what is in our days important is to stress the importance of the public, not the state, the public. The public means another thing. When I was and now I'm trying to respond on another question.

When I was in government I had of course, I don't know I've had full concerns but anyhow. I had some concerns about the structural, you know, difficulties but what I was trying to encourage was not the state intervention. It was the state's regulation plus public, more strong presence. That is what really counts. And this implies democracy. This implies mobilization of society, and this implies tolerance, dialogue. This implies institutionalization, much more complicated element than just how to raise interest rates. To raise interest rates is not that difficult. It's enough that the Central Bank made a meeting, that's it. But how to create institutions, how to turn those institutions able to, you know, to engage people. How--so this is what really changed societies. Let me give you a very simple example. Even in Brazil now, no not now, when I was in--now, I hope it's the same. Before, to send to the congress an important bill, normally, the presidency opens a debate through internet for public audience to touch the public opinion. And then we make some, you know, modifications in the project and then is sent to the congress and again congress has hearings. So, this is a kind of network, putting people with administration. This is really what is necessary to promote a better society and to improve democracy in modern times, not just party democracies on elections are very important but not enough, you see. So, being in government in spite of the fact that I know what the capitalist system is and requires, I also know what society is and what is important to society. So I try to jump or to bridge between some structural constraints and possibilities--to promote change by trying to engage more people. It's not easy because you have the opposition, you have different views. The civil society is not homogeneous. It is also diversified but it's like that. That is really what is important. So now, coming back to President Lula and myself, I know that some people in President Lula's party now are highly critics vis-a-vis President Lula. I'm more sympathetic with him. Why? Because I know that if it is true that President Lula's government is maybe being more orthodox than I am, I was, in terms of you know the production of primary surplus in order to have a more budget control, more strong budget control. If it's true that they are, you know, being well responsible vis-a-vis that problem so on and so forth--discussed a lot with the country. I know that, I don't know. I suppose, I'm convinced that the reason why is not because President Lula is trying to turn the capitalist system still more strong, it is because knowing and recognizing that he has no positive system, he is at least trying to have more room for maneuver by having in the hand of the government more averages to implement social policies. I don't want to do. I don't want to do. I'm not in Brazil. I'm a foreign president. It's not correct to make criticism to a president being abroad. So, if I would be in Brazil and I would like to make criticism, it would be not in the sense that he has become neoliberal because he is not. It is in the sense that [inaudible] is using his capacity to innovate in the social areas and to create more in the social areas. I'm not judging now. I think not to judge a government taking the country's circumstances, world circumstance, globalization, what has been said and correctly said, we cannot go back to the '70s. We're not--so this is not feasible. We have to look ahead and to look ahead in my mind means how to simultaneously with the market, et cetera, how can we in practice, you know, turn the society more able to compel governments to do what is needed. I remember that once President Roosevelt doing research in this country during the New Deal period. Something, some president asked him well, why you are not putting more, you know,

actively your will in implementing such and such measures within the New Deal program and he said, "You have to force me to do that." It is not because he was not willing to do. It's because a president is not strong enough to transform society. What is needed is social support. People have to put pressure and government has to be able to encourage people to put more pressure. Otherwise, it will be impossible because the structure you contain will, you know, will prevent the president to do what he wants to do, you see. So, that's the way I look and that's why I said I would be more sympathetic vis-a-vis the position, not what he is doing but the position of President Lula because I was there. I know the difficulties.

[Applause]

JULIET SCHOR: Ah, oh my. These are--if talks are measured by the number of questions that they raise, these have been two incredible, incredible speeches. Yes. Okay. I'm gonna post three questions for Paul Krugman. Two days ago, Michael Burawoy called economics an example of a paradigmatic discipline but some of us view economics as an example of a pre-paradigmatic science or even of a cargo cult. Is neoclassical economics so drowned in the muck of right-wing thought that we should almost ignore it? And I have two others. You give support to free trade but look at the effect of NAFTA which only resulted in a growing gap between the US and Mexico as well as between the US and Canada. Could you talk a bit about this impact of NAFTA? And the third one, we actually got quite a few on this just so you know it's not me just putting my own point of view here, and there was a--I'll take this version of it. You take for granted the possibility that goodness--the possibility and goodness of third world countries becoming like the first world, but how can the environment sustain it? How could trade liberalization come to terms with the limitations of the planetary ecology?

[Applause]

PAUL KRUGMAN: Okay, about neoclassical economics. First--if you identify neoclassical whatever standard economics with what is currently going on right now, it's--that's completely wrong. It's actually amazing how few, how little input there has been from anybody who knows any economics into the policies they're actually being pursued. How, actually, this is actually, this is not just that I was--it certainly is the devaluation of expertise of all kinds, scientific, environmental, you know. The current chairman of the Council of Economic Advisers are pretty good economists. It worked quite a lot and much better than they deserve to have and the first thing they did when they got Greg Mankiw to go down there was to move the Council of Economic Advisers out of the old executive office building. I'm not sure exactly where it is. Somebody told me upstairs from a Starbucks on G-Street but it's something like that. And it's just there's nothing--standard economic--much more flexible doctrine than people think. It's, really, it's a set of tools for trying to model things and there are some inherent biases in it which probably lead to ignore some things but this--it's just--it's a view about thinking about how people try to act in their interest, how those things interact. There are a lot of perfectly--it's actually worth looking. You know, actually, looking at principles of economics textbook and seeing how much space many of them devote to environmental protection and the importance of that in economic considerations. How much they devote to the fact that efficiency is not necessarily the same thing as achieving desire. Efficiency is how you get things. It doesn't tell you what you want to get and so, it's

just--it's a bit of a [inaudible] and there are plenty of people who are good solid neoclassical economists and also quite liberal and social in their views on social policy and on helping those who are hurt and unlucky. So, it's a--that this is not fair and certainly, we do not blame neoclassical economics for what Mayberry, Mackie and Ellis [phonetic] are doing, okay.

NAFTA, let me just say, NAFTA is not responsible for the widening gap. Now, what happened in Mexico, Mexico had this terrible crisis in '95 which is back to these things I was talking about during the talk about mingling trade policy with these orthodox monetary things and just in general the problem of capital flows. It's also been disappointing, not bad but disappointing in subsequent growth and there are a lot of things. There are a lot of reasons for that and I don't think you wanna blame NAFTA for the problems of education, infrastructure, and a fair bit of problem which is not a criticism of everybody whose tried to run Mexico but corruption is a lack of enforceability of contracts, things like that take a toll. The one piece of NAFTA where I'd feel I should have paid much more attention and the whole issue of agricultural trade has been one of those things where something needs to be done because it's turned out that the general principles of gains from trade have also imposed a serious burden on some of the poorest people in Mexico. So, but the way--it don't want to shut off. I mean the biggest advantage Mexico has, the oil will run out, the biggest advantage it has is that it's next to a very large market and you do want a treaty that guarantees access to that market. You just try to fix the parts of the treaty that haven't worked so well. Environment, the relation--economic growth and environmental burden are not, it's like economic growth and social indicators that there is not a one-to-one relationship. There is nothing that says that a dollar of real GDP has to have the same environmental impact regardless of what other policies you follow. If it is true that if we--if China were to achieve an American level of consumption in exactly the way that America now consumes that's--the world can't support that. There isn't enough oil. There isn't enough air for that. But that's telling you that we have the incentives wrong and that the incentives will be increasingly wrong. It is possible. I mean, you know, energy consumption per dollar of real GDP. There is very widely across advanced countries. It's much lower in European countries than it is in the US not because they are especially virtuous people but because the prices are different, because gasoline is 4 dollar a gallon, because there'll be incentives there. If we have and it will become increasingly important. Any good textbook, you know, like Krugman-Wells Microeconomics coming out on October will tell you that environmental impacts are properly considered part of the cost of what you do and then a proper economic policy would include the cost of the environmental impacts in what you do. So we should have lots of pollution taxes and pollution licenses and all these things that would go in there and it would make a tremendous amount of difference if those were there. We've had had successes. We've had had CFCS. Sulfur dioxide regulation has gone seemingly well with a very economic program, tradable licenses. So, and if the world, if we have global development, we have the world I want which is one where there's widespread development then those environmental costs are gonna become a very large part of the world economy. The pollution licenses are gonna become very, very valuable assets. I actually wrote a piece back in 1996, the Times Magazine asked people to write essays as if written in the year 2096 looking back at the past century and one of, you know, it's a chance to be silly and crazy and one of them I had was that in the year 2096, most of the government's revenue comes from auctioning of pollution licenses rather than from conventional taxes. I think that's entirely possible. We have a long way to get there. What we have right now is we talk about free

markets but then we actually prefer to ignore costs that everyone knows is real. If you were to make a serious, you know, what should the tolls be on the New Jersey turnpike during rush hour taking into account the indirect impact of your decision to drive an SUV up to New York from Central New Jersey, and it's not--it's very hard to come up with a number less than, you know, 30 or 40 dollars, and if we had proper incentives in there, it would be a very different world.

[Applause]

JULIET SCHOR: My next three questions are actually addressed to both speakers and you can address as you like. The first is the simplest, what should we do about the WTO? Second is, please discuss the relationship between neoliberalism, militarism, and militarization, and the long-term impacts of those relations. And third, what are the most important things public scholars and active citizens can do to influence the future of globalization into more democratic channels that respect cultures and the environment.

[Inaudible Conversation]

[Laughter]

Should I repeat?

FERNANDO HENRIQUE CARDOSO: Yes.

Yes, the first is the W--

The WTO, I know, I know, it's alright.

WTO.

FERNANDO HENRIQUE CARDOSO: WTO. Let's put very clearly what I think about not just WTO but the basic [inaudible] institutions. As I try to explain with respect to IMF, IMF was created after the Second World War under the influence of Lord Keynes and White from America. It was conceived as an institution to solve problems of liquidity, provided the trade flows will increase in the world with one problem. The IMF has never had at the moment of foundation the right to have the proper currency, money. This was Keynes' idea at the beginning but opposed by White and then some years later on, some special drawing rights have been conceived to transform the IMF into a more efficient institution in order to cope and to cope, you know, liquidity crisis in the world. But the IMF is becoming more and more, first of all, very concentrated in the hands of bureaucracies. There's no transparent institution. Secondly, there's no democratic institution in the sense that those components of the IMF have different rights of votes. Give you a simple example. Brazil has less votes than Belgium and Brazil, I don't know how many times is bigger in terms of economy, population, so on and so forth, but it's not just Brazil. It's like that since the beginning. So it's non-democratic institution and no transparent institution and is lacking of prestige and money. And I'll give you additional examples about that. I said to you that when it was thought they were implementing the real plan in Brazil, the IMF not to opposed but was not very trustful in our capacity to implement it. After that, we had twice to ask the IMF for support. In

1999, because of a crisis in Brazil, because of speculation, and we never had like the Argentina's peg to the dollar. We never had 1 real equal to 1 dollar. We never came back to gold standard times but anyhow, we are moving very slowly, the devaluation of the real and we face a crisis. And then again, now in the year 2002, in the year 2002, we had a very difficult situation, why, because President Lula and Lula's Party in the last 20 years preached against not just IMF but against the payment of external debt. I'm going to say to you that the external debt in Brazil is rather limited. Our main problem is internal debt, domestic debt. And domestic debt in Brazil is in local currency. There is more part of, more proportion of the debt is composed by foreign money or related to foreign not composed, related to foreign money but owned by Brazilians anyhow. The external debt is not that big but there could be, probably the state, the debt is about 100 billion dollars and the GDP is 500 or 600 billion so it's nothing and there is additional 100 percent in the hands of the business sector so it's not, anyhow. In spite of debt, in spite of size, it's very important because we have to pay in one real, while the market has some suspicions that the country cannot pay. Well, immediately the market producer, a kind of earthquake and destroy the national capacity to take decisions. So in the year 2002, the market became nervous and why, because of democracy, because President Lula and party, they said again and again that they were not ready to pay the debt so they market believed that the party could not support policy more responsible vis-a-vis the extent of that.

This produced a tremendous disaster in national finances in Brazil in the year 2002. At one point in time, I entered in contact with people from the oppositional party, the PT, and I informed them, look what is happening now. Every speech by your leaders, the Brazilian bonds are declining and we cannot--ruling over the internal debt is a disaster. We have to moderate because otherwise, maybe explode in my hands but you'd be after all, if you win, it will be the errs of the disaster. Well, and they did. At one point in time, I asked the four candidates in Brazil if they believed it could be feasible to sign an agreement with the IMF, an agreement not because of my government, but because of future government to stabilize the situation and with some resistance and reluctance, they said, yes, okay. I did. I did in a very difficult moment in August of 2002 and the head of IMF called me by phone asking me, are you sure that the new president will pay the debt. I don't know. I hope. I would like to have your word. I can say to you--what I can say to you is that I'm trustful in the Brazilian institutions, the market, so on and so forth, so probably, they will pay. Well, the point is IMF granted us 40 billion dollar. Forty billion dollars is a lot of money, even now. Okay. What happened? Nothing, speculation continues to go up on and on and on and stopped only when President Lula year 2003 show very clearly because of the way he managed it. Not just the debt but the budget that Brazil will be able to pay. So, the fact that the IMF said "yes" was not enough to stop speculation. The markets are much more stronger today than IMF. The point with the IMF is not the fact that IMF is strong. It's the opposite. The IMF because of globalization, because of the amount of capital floating in the world is not strong enough to stop speculation in some circumstances. The same applies to WTO. The point with WTO is that you have--I believe that for developing countries, it is important to have an organization able to assure that free trade will really exist. Now in Brazil, we are very happy because the WTO finally recognized that they have some reason in our dispute with United States in cotton. Now, again in sugar. This has been started in my government. We started by presenting, you know, our case at WTO. Our skepticism now is to look well, this is true, the WTO says yes but what the consequence will be. The US government will stop, subsist or

not. So I think the anti-globalization movement has some mistakes in looking at institutions. The point is not to destroy this kind of institution, it's how to turn more trustful with this kind of institution, how to democratize this kind of institution, how to turn more transparent this kind of institution. The same applies to the World Bank. I said to you, I gave you some figures about the World Bank. The World Bank is, well, is a small institution to face, you know, what is going on in Africa or in Asia or in some part of--or in some parts of Latin America because they don't have any resource to implement any program in terms of infrastructure, or sanitation, or housing and the IMF is not strong enough. So, we need a profound transformation at the world--global order. Not just United Nations but the base, you know, that the institutions have to be remolded, not destroyed but remolded. Aspiring to in the sense of having a much more efficient and democratic institutions, that's the point and I think this is what I think about this. I spoke too much, sorry.

[Inaudible Remark]

[Applause]

JULIET SCHOR: So, why don't you take one of the other? Do you wanna answer one of the other questions? I think that'll be our last ah--

PAUL KRUGMAN: Gosh, neoliberalism and militarism. Now, this is not--I mean, it's actually bad for bus--you know, this stuff is bad for business. Actually, think about, just think about the fact that the US financial markets had a huge rally yesterday because Chavez won. Think about that. It was a huge relief to everybody because they were, you know, whatever else might be going on, it means that the oil supply is disrupted. Public intellectuals, let me just say, I think there are lots of things, there are many different ways to be a good public intellectual. One of them is actually to just do the thinking, the thinking in a language that the public can understand. Public intellectuals if they have the temperament for it should go into public life and run countries, I'm all in favor of that, for other people.

[Applause]

And just--and just the last stage, just--I missed this--and make noise. You know, just keep--try to keep the politicians honest if it's at all possible which usually isn't.

[Laughter]

[Applause]

FERNANDO HENRIQUE CARDOSO: Well, two simple words, first on militarism. I remember some decades ago when we had in Latin America and not just in Latin America, military regimes. It was almost common sense but wrong to say in academia that this, it was a kind of inevitable relationship between authoritarianism and roles of capitalism and militarism and roles of cap--nothing of these is true. It's completely wrong, you see? It's true that because we--the military rise in power in the '70s and the '80s and neoliberalism was there too, so they took some ideas of neoliberalism but basically, at least in the Brazilian regime, the military were against markets, not in favor of it. They're in favor of state. They're much more, you know, the kind of people believing that what's important is state control than market.

They never were liberal in any sense, you see? I have to say that we now discuss--you have to add, and we did, an important element, the element of democracy. Because one thing is to grow fast under dictatorship, another thing is to grow under democracy. Because democracy is a demanding, you know, process, you see? And people believe that it's very--maybe more important for people to have a house than to have investment. We have to balance, we have to compensate. If we have--under dictatorship it's different. We can--you take the decision, that's it. And the data, the illustration I gave to you comparing the '70s with the '90s in Brazil is quite clear. The difference is democracy. In the '90s, it wasn't possible in Brazil not to take care--take into account people's demand. In the '70s, the government was not just looking at people so they could concentrate. Government could concentrate in investment. So, to my mind, democracy is a value as important as economic growth, more important than economic growth. So what is important is democracy. So, that's why I think it's important to stress the role of public intellectuals because intellectuals have to explain to the people the difference between the democracy and growth, militarism, neoliberalism, so on and so forth, in simple, you said and it's correct. It depends on each one. Some people can do it, other no. Well, I have a problem. I was obliged because I was in exile and because I lived abroad several years in my life to give classes in three different languages, Spanish, French and English. And I'm not able to speak correctly, maybe a little bit French and Spanish but not English, anyhow, with some difficulties, so I was obliged to be more clear, to go straight, to go straight. This helped me a lot in Brazilian politics because it was a simple. I was able to talk to people, you see? Simple people, I have to summarize, to synthesize and not to be very intellectual in some sense. But that's not the case. What I think is important is to make real noise. I'm not so sure that intellectuals are good people in government because we have too many doubts all the time, all the time, okay.

[Applause]

And the logic of politics requires quick decisions. You have to meet a kind of some violence to take quick decisions and sometimes very hard decisions and intellectuals are always wondering. So, I don't know if this is good or bad. In personal terms, it's not good. May be for the nation, it could be bad or not, it depends. It depends on people. If people supports all right, if not intellectuals will be a disaster. They, normally, they have more plan to impose ideas than to accept the dialogue. We have to, maybe to reeducate ourselves to be more open to other people's views. Thank you.

[Applause]

[Inaudible Conversation]

PAUL KRUGMAN: I don't know if I have a last word after that. Just, now look, the one thing--just back to the public intellectuals. I think the thing to do is to say you should be a public intellectual. By all means in your first 15 years of your academic career, work on deep things written in hermetic language that only a selected few can--but later on get out there and may I say, trying to teach in a foreign language may be one way to do this. I would also offer some recommendation that trying to say whatever it is you have to say in 700 words is kind of an interesting experience too.

[Laughter]

[Applause]

[Inaudible Conversation]

JULIET SCHOR: Let me thank Michael for--this panel together.

[Applause]

And also to thank Professor Paul Krugman and President Cardoso, not only for stimulating intellectual experience but for bringing us together for a collective and social experience as well. Thank you.

[Applause]