The Future of Neo-liberalism

Reunião Annual da American Sociologial Association

San Francisco (USA), 17th August, 2004.

I would like, first of all, to thank the American Sociological Association, in particular, its President Michael Burawoy and my friend Peter Evans, for the invitation to be here today. It is always a pleasure to return to the San Francisco Bay Area and renew contact with dear colleagues of mine, some of them honoring us with their presence. I acknowledge the presence of the Consul General of Brazil in San Francisco, Ambassador Georges Lamaziere, who used to be my spokesman. I am also very pleased to confirm that many members of the Brazilian community in the Bay Area still appreciate listening to their former President.

I was asked to join Professor Paul Krugman and Professor Juliet Schor in sharing some thoughts with you on the future of neo-liberalism. I once wrote that, when I am asked to speak about controversial issues, I usually search the writings of my friend Albert Hirschman for inspiration. So did I again before coming to this talk. This time I revisited Hirschman's celebrated essay 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 the social tissue are all but time-proof. They change over time. And they do so for obvious reasons. Changing realities require a constant updating of theories and concepts, if these are to bear any hermeneutical or practical value.

Montesquieu and the Scottish Enlightenment coined the discourse of doux commerce. Market, once freed of constraints, would help temper passions and contain the arbitrary use of authority. As the social cost of the Industrial Revolution 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 yoke of capital. The state was then praised as the necessary countervailing 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 eighties led to the rediscovery of market virtues. Multilateral institutions took the lead in spreading the news through recipes like those produced by John Williamson and known ever since as the Washington Consensus. Now it is the International Monetary Fund itself that has been preaching against market dogmatism and calling for sound public policies. Again, there is nothing wrong about perceptions on market rules changing over time. As a historical product, ideas cannot be static. What may be wrong is to ignore such a truism and approach contingent notions as all-time truths. All the more so as social and political ideas are not only time but space-bound. They often take up new meanings as they migrate from one setting to another and are used to address circumstances they were not produced to explain.

When I held the Simon Bolivar Chair at Cambridge in the mid-seventies, I had the chance of writing a paper about the intellectual legacy of the United Nations Economic Commission for Latin America. That paper was entitled "The Originality of the Copy". The argument I then pursued was that Raúl Prebisch had not produced his ground-breaking theses ex nihilo. He was well acquainted with classical and neoclassical economics and with the works by Keynes and Hans Singer. Not to mention his familiarity with the 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 advantages of the international division of labor. Workers and employers in industrialized countries had proved to be sufficiently organized to prevent prices of manufactured goods from falling in proportion to rises in productivity. Fruits of technical innovation had thus been mostly appropriated by central economies, rather than being transmitted through lower prices to trade partners in the South. As prices of primary products had continued to fall in conditions of abundant and unorganized labor, there had been a steady deterioration of terms of trade. Hence Prebisch's obsession with import-substitution through industrialization, which became his and ECLA's leit motif.

Only through industrialization were Latin Americans 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 Raúl 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 ends as they are transplanted into environments different from original ones and combined with other inputs and traditions. Prebisch reported to the theory of comparative advantages, checked it against UN statistics, resorted to Hans Singer and other scholars and found out that trade had not equalized returns among factors of production on an international scale, but rather the opposite.

Labor and capital from central economies had scooped the lion's share of the fruits of technological progress. Such a finding called for political action and generated, as we all 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 there between ECLA's approach and the recent appropriation of some elements of the neo-liberal discourse by Latin American countries, particularly by Brazil?

Political and economic differences between the fifties and today's circumstances are certainly huge enough to discourage comparative exercises. While, at that time, populism was very much in vogue, democracy has by now gained roots in Brazil and elsewhere in the continent. The Brazilian economy is no longer commodity-based, but rather diversified, competing with European countries and the United States in various industrial and services sectors. Nor is the country as split between autarchic chimeras and internationalist aspirations as it used to be forty years ago. Brazil has become a global trader and joined various integration experiments, being Mercosul not the least important of them.

Yet, different though past and current circumstances are from one another, it seems only fair to argue that the way foreign inputs are processed and used in the country has not changed dramatically. Rather than

taken at face value, ideas are assimilated as ever in a selective manner. Unlike what some critics say, such a selective mode of incorporating "mainstream" discourses does not reflect lack of expertise or human resources. On the contrary, the more elaborate the domestic debate about 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 confronting hegemonic views for the sake of it. It is simply a matter of adopting policies which are more legitimate and better meet 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 Finance Minister of Brazil. Some of you may know that I oversaw the elaboration and implementation of a monetary stabilization program called Real Plan. But perhaps only a few of you may be aware that the Real Plan was not supported by the International Monetary Fund. The way we translated the principle of "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 challenge of taming a hyper-inflation of 3.000% a year. Only the Managing Director of the Fund at the time, Michel Camdessus, had a different and, as it turned out to be, more realistic view. He produced a personal letter of support to the Plan. This facilitated our contacts with individual creditors and the US Treasury, paving the ground for the renegotiation of our foreign debt, which we deemed crucial for the success of the Real Plan.

Other obstacles would later be faced, such as the argument that a number of political pre-conditions would need to be met before the Plan was implemented. The process ran a different course. Political support was assembled as practical measures were 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 public opinion in general about the virtues of the stabilization Plan.

With the benefit of hindsight, I have no doubt that the efficacy of the Plan was largely due to its legitimacy, but legitimacy conquered along the process, out of extensive deliberation. It was as if economics paid tribute to politics, or to a democratic exercise of politics. Any technocratic 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. It relates to another pillar of the conventional wisdom: fiscal reform. A proper understanding of the Brazilian federative system was absolutely essential for any attempt to redress budget deficits. Due to past malpractices, a significant number of regional states were bankrupt. Lengthy negotiations were pursued to restructure regional debts and put a ceiling on future expenditures. The Treasury could not avoid assuming a large part of regional debts, which had obvious impact on the Union deficit and interest rates.

But some historical advances were made. The most important one was perhaps the introduction of a law committing public agents at all levels of the Federation to fiscal discipline. One may wish to play the role of the devil's advocate and argue that Brazil made reforms in its own and democratic way, but, at the end of the day, did not escape the conventional wisdom and abide by at least two of its tenets: sound money and fiscal reform. This is only partly true as it misses, in my view, the crux of the matter. Brazil pursued and achieved

the objectives of sound money and balanced budgets, but not in the name of neo-liberal 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 America, in general, never had welfare states. As I am used to saying, the region has a tradition of ill-fare states. 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. How has that been made possible? Stable currency and fiscal responsibility account for only part of the story. A set of criteria was put in place to guide public expenditures. The basic idea was that the State should spend more and better. Despite the ever-present financial constraints, Brazil managed to increase social spending at a steady pace from 1995 to 2002. In 1994, the country allocated 11.3% of GDP to social programs. In 2002, social spending stood at over 14% of GDP, the highest level of all times. The annual growth rate of the Federal Government social spending from 1995 onwards was around 7%, significantly higher than the growth rate of GDP.

What matters most, however, is that social spending was focused on the neediest among the needy. Public resources were put to the service of the misery-ridden segments, rather than being diverted to middle-income strata or channeled to special groups or interests. No less important was the directive that money effectively reached those it was meant to. This entailed breaking with long imbedded vices such as clientelism, money-squandering and corruption. New practices were introduced, improving the quality or productivity of social spending. First, services and resources were decentralized through objective criteria. The dramatic improvement in health services in Brazil testifies to the importance of empowering Municipalities to act as actual stewards of the State. Second, low-income families were ensured direct access to benefits, without intermediaries, bureaucracy or exchange of favors. Third, emphasis was put on enhancing social control over the implementation of the various programs, to the benefit of accountability and transparency.

No effort was spared to foster the value of social responsibility, which produced positive results. Initiatives like the Solidarity Community only throve because of the general disposition on the part of business circles and society as a whole to share with the State the task of mitigating social problems in Brazil. Therefore, if I were to sum up the Brazilian experience in the nineties, I would speak of a combination of economic responsibility with social innovation. Liberal measures were adopted as tools for the reconstruction of the state and not for their own sake. In its crudest version, neo-liberalism has no past in Brazil. I doubt it will have any future. It is true the current government has perhaps been more orthodox in its monetary and fiscal policies that it needed to be. But, again, the overall objective seems to be the generation of resources for a broader state action in the social field.

Elsewhere in Latin America I do not see much room for neo-liberal adventures either. Infrastructure and social needs are huge enough to discourage such attempts. What I am not sure is whether the countries of the region are equally entitled to achieve good results. Let us hope the Andean region overcomes the current social and political instability. The South Cone is sailing through less troubled waters, regardless of the electoral uncertainties in Uruguay and of the ups and downs in the Argentinian conjuncture. Public debate

about the future may get heated in Mexico, as election time approaches. Central America and the Caribbean are betting on the continued recovery of the US economy.

I will pass the floor to Professor Paul Krugman so that he can comment on the economic prospects of this country and of the world at large. But before doing that, let me add a final point of relevance to our discussion. It seems only high time for the international community to rethink the structure set up fifty years ago in Bretton Woods to ensure a more liberal and stable world economic order. The crisis of the nineties speak for themselves as to the ineptitude of the IMF in preventing or alerting against financial instability.

Unlike what the left used to say, I am convinced that a weak IMF does no good. Be it through the expansion of its drawing rights or through more regulatory powers, the Fund should be enabled to better act as a lender of last resort. Procedural changes would also be welcome. Voting rights can be rendered more consistent with the economic importance of Member States. Nor to speak about the lack of transparency in the Fund's decision-making process. With regard to the successor of GATT, the World Trade Organization, hopes are that the recent agreement reached in Geneva allows for the elimination in due course of export subsidies and other impediments to a fairer farm trade. Equally encouraging is the possibility that a breakthrough at the WTO reignites interest in the construction of a balanced and comprehensive free trade area in the Americas.

These are the initial remarks I wished to make. Let us now listen to Professor Krugman.

Thank you very much.