

Harry Oppenheimer Memorial Lecture

África do Sul, 28 de outubro de 2008.

Introduction

Bobby Godsell, on behalf of the Oppenheimer Memorial Trust

Today's lecture commemorates the lives of two great sons of Africa.

Sir Ernest Oppenheimer established one South African company and transformed another, making Anglo American and De Beers absolute world leaders in their fields.

His son, Harry Oppenheimer, in turn transformed the world diamond industry and built Anglo American and De Beers into the African continent's most successful multi-national corporations. Both Ernest and Harry were business statesmen, each spending more than a decade of their lives in elected public office. Each understood that just as it was impossible to have a good society without successful business, so too was it impossible to have a successful business without a good society.

How appropriate then that our guest speaker today is a great son of Latin America and Brazil. A sociologist by training, the leading exponent of dependency theory, a key figure in Brazil's return to democracy, President Cardoso led his country's fight against the surge of four digit inflation and economic, social and political instability which are its inevitable consequence. He built an architecture of macro economic stability that has not only endured his own two terms as President (1995 to 2002), but which has continued to serve his country into the second term of his successor, Labour Party leader, President Luiz Inacio Lula da Silva.

What better person, then, to continue the Oppenheimer tradition of patriotic enterprise than President Cardoso?

Former Brazilian President, Fernando Henrique Cardoso

When I accepted this invitation, the idea was to share something of my own experience as a President facing an inflation crisis, and then subsequently preparing for a major political transition. However, the current global economic crisis is so overwhelming that it is probably more interesting and inescapable to talk about present-day conditions.

I have more questions than answers. We face an unprecedented situation. South Africa and Brazil have much to share and much to contribute in terms of this crisis. We face plenty of risks, much uncertainty and hard decisions ahead, but depending on how we react not all is negative. Unusual circumstances tend to create rare opportunities.

I wish therefore to focus this presentation on the challenges facing emerging countries like ours in the new era of globalization that is upon us.

Each day reinforces the notion that we are confronted with more than a financial collapse.

The “boom, bubble and burst” of reckless lending have evolved into a systemic crisis. George Soros, in a book published last May, insisted that we are approaching the end of an era. The political consequences of this crisis are unpredictable. Will it lead to a resurgence of nationalism and xenophobia, like in the 1930s? Or will the multilateral institutions of global cooperation be reinforced or reinvented?

This is one of the questions to be raised.

The political consequences of the depression of 1929 were terrible. Fascism was the long-term consequence. Yet this is not the necessary consequence of today’s crisis. It will depend on how you and I react. We could as well reinforce the multinational institutions that try to enhance global cooperation. Perhaps reinvent these institutions to enable them to deal with the global situation we now face.

We should humbly admit that we do not have an answer to this question yet. The crisis is still unfolding. Its ripple effects in the real economy, in peoples’ lives, are still expanding. Who can tell how far the downward spiral will go? We can see what is occurring in the United States in terms of unemployment and this is becoming a tremendous problem. I suspect that in the coming months we will face difficult situations in Brazil. Given the interconnectedness of the global economy, nobody can predict the intensity and duration of the recession.

In the beginning we tried to avoid the use of the term crisis. Then we said it is a crisis but not a recession. Now we agree a recession is here. I hope that we will not be forced to speak about a depression.

We have seen the evolution from a crisis of liquidity to a crisis of trust. When nobody trusts anybody, investment and lending freeze. Fear replaces greed. Credit evaporates. The collapse of virtual capital markets has drained money from the real economy making it much more difficult for companies to invest and consumers to spend.

In 1995 and 1996 Brazil reorganized its banking system. 30 banks, mostly state banks, were closed. By executive order I established the rules in terms of which banks could be supported by the Central Bank. The then owners and executive management had their personal belongings frozen until we were clear to what extent they were responsible for the banks’ failures. In my case this was dramatic as my son was married to the daughter of the owner of one of these banks. But we did it! Today the banking system of Brazil is very healthy.

Yet suddenly there is no credit. US\$ 1.7 trillion has already been pumped into the world’s banking system. And still the banks are saying: “Can we trust them?” “Will you pay me back?” To make liquidity available is

one thing; to restore trust is much more difficult. And so the productive economy is being hit everywhere by the restrictions of credit and the contraction of demand. The crisis of the unregulated and opaque global financial markets seems irreversible.

One positive sign is that for the first time – and this may well go down in history as a landmark event – a global crisis is being dealt with through global concerted action. The Americans started by focusing on a national solution to their predicament. Soon enough they were forced to take into account what the Europeans were proposing. Initially in Europe, each country's government decided on a course of action. In the end they realized that it would be impossible to go it alone and that they would need some form of cooperation.

Other key countries – like China, India, Russia, Brazil, South Africa and Mexico and so on and so forth – have still to play their hand.

The way forward in terms of global collaboration will be erratic. To build a new global financial architecture will take time. It will require leadership. But, constrained by the global nature of the crisis, the issue has come to stay. And the crisis may well provide the leadership that normal times were not able to provide.

This is a crucial question. Do we need more active leadership? And when I refer to leadership I am not just looking north. Countries like South Africa, Russia, Brazil, China, Indonesia and Mexico have to ask for participation in the decision-making process. I remember that when President Clinton was in office he used to speak about a new financial architecture for the world. This is not a novelty. Every time we faced a crisis in Brazil, I sent letters to Heads of States, calling for concerted action.

Brazil has suffered several crises. In 1994, we had the so-called Mexican crisis, nicknamed “the Tequila crisis”. I was elected President in October 1994 after first serving as Foreign Minister and then Finance Minister. When I was about to go into the Presidency, the Brazilian currency Real was trading at .82 to the dollar. That was disastrous for our exports.

We had lost control of interest rates. When the Mexican crisis occurred it was impossible for us to take any dramatic action. When the first G7 meeting took place, I wrote to the Heads of States. Before I went to Chile I gave a speech about the economic situation in Latin America. I argued that we have to devote ourselves to the new realities of globalization, and to the new regulation this globalization made necessary. We needed to re-consider the roles of the both the IMF and the World Bank. My letters were answered very politely but absolutely no action was forthcoming.

In 1997 the global economy experienced the Asian crisis. Brazil's US\$ 70 billion in reserves evaporated in three weeks. Again I wrote some letters. In 1998 came the Russian crisis. This was followed by the crisis of American financial institutions (savings and loans). In 1999 we had our own crisis. The market attacked the Real and we decided to abandon a floating currency. The Real started floating as a consequence of this crisis. By April of that year everything had been solved.

Then came Argentina's crisis – one of their many. And then the year 2000 was just wonderful: nobody had a crisis. GDP rose by around 4 or 5%. Wonderful! Blue skies!

2001 saw 9/11 and the global economic crisis it precipitated. In 2002 President Lula was a candidate and the Workers' Party supported him. They proposed a dramatic rupture with both Brazilian and global economic policies. Politicians do not pay much attention to the markets but the markets pay attention to politicians. The markets believed that Lula was going to change everything. The value of the Real against the US\$ declined from 1.8 to 3. A tragedy, so again, we had to resort to the IMF.

Through all of these crises, not just myself, but several Presidents tried to convince the rulers of the world that something was wrong. Global markets needed global rules. Political decision-making stood outside global economic markets. As a consequence, globalized financial markets evolved rapidly and radically. Nation-based financial regulation could not keep pace.

During my tenure as President, people cried that the IMF was imposing rules on Brazil. Poor IMF! They had no money to impose any rules on anybody. They are very good at preparing statements and giving advice to others, but when it came to taking decisions, they had neither the power, nor the funds to act decisively. We had to turn to the President and Secretary of the Treasury of the United States for decisive action. Together with President Lagos from Chile, I later appealed to President Bush to assist Argentina. There was no response and Argentina collapsed. Our Bretton Woods institutions are too weak to take care of a globalized world. They have neither the will, nor the power, nor the money to act effectively.

This applies equally to the World Bank. The Brazilian Bank for Development has twice the resources of the World Bank. The Bank for International Settlements is good at giving advice, but has no power to act effectively.

Countries like Brazil and South Africa need to be part of the reform of the present global financial architecture.

In the same way that globalization did not herald the "end of history" as some feared and others anticipated, the present crisis will not mean the end of globalization. In my view, it will lead to a new age of globalization driven by a stronger interplay between politics, economics and culture. This is a challenge of great magnitude given the absence of appropriate institutions and the lack of serious debate about viable alternatives.

A new world is emerging where the United States will be one great power among others, all of them seeking to shape an uncertain future. I believe that the United States will remain the leading global player but its influence will be felt in a radically new political landscape.

Profound changes in the production process and the investment of capital in emerging countries are reshaping the international economic scene. From 1990 to 2005, China was responsible for 28% of global

growth, Latin America for 7% (which is equal to the total of Asian countries, except Korea and Japan) and India for 9%. So these emerging market countries produced 44 % of global growth. We are fast reaching a turning point where about one-half of global GDP, measured in terms of purchasing power parity, comes from emerging countries.

This power shift from the North to the East and the South represents a sweeping rearrangement of the economic world order. Will it translate into a new political world order? This depends on our actions. In my view the economic crisis will accelerate the transition to a multi-polar and multicultural world.

The age of American unilateralism has come to an end. The strength of Obama's candidacy is a clear sign of this. Europe is well positioned, together with emerging countries, to bring a new, more flexible approach to deal with a whole array of global threats, ranging from climate change, nuclear proliferation, to fighting epidemics, terrorism and transnational crime.

The experience of emerging market countries, with the addition of European experience, can provide the world with a better approach to these different issues. A more peaceful world. A more responsive world. I am not just referring to the epidemics, but also to climate change, the problems of energy, and of water. These are the real problems that the world faces.

Look at the problem of energy and Brazil's experience. In Brazil, every car is run on a blend of gasoline and ethanol. Some have been concerned at the possible damage ethanol production would do to the Amazon. However ethanol production is not profitable beyond the 17th parallel. There is therefore no possibility of using the Amazon to produce sugar cane.

Here in Africa – in Angola, Mozambique and in South Africa for example – you have lots of good soil for sugar cane. Just recently the Brazilian company, Petrobras, in association with a Portuguese and a Spanish company, found oil in the sea at a depth of 6000 meters. It seems as if this will at least double the Brazilian reserves. Worldwide there is an enormous effort to discover new energy resources. These efforts must take into account the environment.

All of these changes point towards the rise of an international order driven by regulatory mechanisms and a decision-making process that will be more broadly shared. That is the key question. We need new regulatory instruments. The debate between the roles of state and markets is ridiculous. History shows that markets need regulation. Well-regulated markets support an efficient and equitable state.

But who should make the rules? That is the political question. It is not a technical issue. Global markets need global regulation. In such a context, the correction of economic and financial asymmetries will hopefully gain prominence in the global agenda. This may finally lead to concerted action to fight extreme poverty in long neglected areas such as Sub-Saharan Africa.

All of this can be summed-up in the vision of a new global contract that cannot be imposed by force. It can

only be negotiated by a variety of states and non-state actors and must be based both on the safeguard of human rights as universal value and on the respect for diversity. Countries like Brazil and South Africa are well positioned to participate in and influence this process that includes the reform of the global financial architecture but also goes beyond it. Both are multi-ethnic societies, with an immensely rich history and culture. Both have dynamic private sectors and vibrant civil societies.

Much has been accomplished in Brazil since the restoration of democracy, as in South Africa since the end of apartheid. Given, however, the magnitude of repressed needs and expectations, the pressure on our governments for delivering quick, far-reaching change is enormous. Many of our young people live in despair, with no sense of future. We all know that no one lives forever on unfulfilled promises. This perception is compounded by problems like corruption and the rising levels of criminal violence, especially in our large cities.

Impunity and insecurity combined with the persistence of poverty and inequality explain the disconnection between peoples' aspirations and the capacity of political institutions to respond to the demands of society. Democracy must be made to work or apathy, cynicism and disaffection will prevail.

Our common challenge is combine economic stability and better quality of life for all. If we do not reinforce the values of democracy we can prepare for a disaster.

Democracy is not just a set of institutions. Democracy must also shape the lives of ordinary citizens. Both Brazil and South Africa have very high levels of inequality. Brazil and other Latin American countries are now making an enormous effort to address this inequality. In Mexico between 1994 to 2008 poverty has reduced from 40% around 22%. In contrast, in Peru, rapid economic growth of 5% has seen no poverty reduction.

There can be no separation between economics and politics. World leaders need to engage in a joint effort to have better markets, and to build better societies.

The way forward lies in strengthening the partnerships between government, the private sector and civil society. Over the last thirty years, the primacy of the market has prevailed in most countries over the need for government regulation. With the onslaught of the crisis the pendulum is shifting in the opposite direction. A new balance is needed among the three sectors of society.

An interesting experience to be shared from Brazil is the growing commitment by major corporations to participate in and influence the improvement of public policies in crucial areas such as education, health care and public safety. In some cases, more important than financial support, is the mobilization of the core assets of the corporations – their human resources and management expertise – in partnership with local governments and civic organizations. Private action for the public good complements and sustains government's responsibility in the provision of public services.

This is an area in which Brazil and South Africa have much to share and learn from each other. My wife made an enormous effort in Brazil to remold the idea of how to go ahead with social policies. The key question is to provoke the participation of civil society. Business can often do this more effectively than government.

I think it is time to conclude.

We live in momentous times, fraught with risks but also with great opportunities. One of the most far-reaching consequences of the financial crisis will be a major shift from the virtual to the real economy. Willing or unwilling, we may well be forced to go back to the age-old ethics of hard work and saving, transparency and trust as the foundation of economy and prosperity. In reaction to out-of-control borrowing and spending, it is high time to revisit the notion that innovation, productivity and competitiveness are the pathways to wealth and job creation.

We may be at the threshold of what some have called “a new age of frugality” in contrast with the follies of recent years. We may be driven by less consumption due to the shortage of credit, more hard work and innovation to increase earnings and productivity, more efficient control of the market by the state and society.

I wish to conclude with one last comment. The crisis has demonstrated the overwhelming cost of greed. The hour is now for re-opening the debate about a number of questions about the kind of societies we want to live in – questions that have been side-stepped in the times of easy money. The reckless pursuit of profit has brought us to a dead-end. Financial laissez-faire has imploded. The days of risk-taking and high living are over. Real needs and the public good are bound to take precedence over outright consumerism.

It is time to ask ourselves what are the real foundations of our societies. What is “quality of life” and what are the values that should orient our collective behaviour.

The future is not a point in time waiting for us to get there. It depends on and is shaped by the decisions that we take today. I trust that our two societies, Brazil and South Africa, countries that have achieved so much in such a short period of time, often against tremendous odds, and which have amazing reserves of cultural and social wealth, can play a leading role in the global reshaping of the world we live in.

Even at the heart of the nightmare, let us not forsake the dreams that inspired our countries in the quest for freedom and dignity.

Thank you very much.