NEW IDEAS IN DEVELOPMENT AFTER THE FINANCIAL CRISIS

PANEL III:
INTERPRETATIONS AND IMPLICATIONS OF THE GLOBAL FINANCIAL CRISIS: AN AFRICAN, EUROPEAN AND LATIN AMERICAN PERSPECTIVE

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THURSDAY, APRIL 23, 2009

Transcript by
Federal News Service
Washington, D.C.

TODD MOSS: Okay. Good morning, everyone. I think we'll try and get started to reward those of us that were able to get here nice and early today. I want to thank you and welcome you to the opening of the second day of this joint conference between SAIS and the Center for Global Development. I'm Todd Moss. I'm a senior fellow at the center. It's a great pleasure to be here. We've got a terrific panel to kick off the morning.

I think that we had some great sessions yesterday and I think the issues that are on the minds of those of us at the center certainly are about how the impact is going to be felt over the long term in the developing world. My own work is thinking about Africa and looking at some of the trends that we had started to see develop. We started to see growth get up over 6 percent. We started to see countries that had gone through the HIPC process turn to the private bond market. We started to see private equity start to really grow in some of these markets and I think there's quite a lot of concern that all of that is not just stopped in the short term, but might be affected in the long term, particularly how countries in the developing world that had started to really make significant progress might be under pressure to change policy direction again.

So we've got a great panel to help us think through some of these issues from – we're going to try and squeeze in three – at least three regional perspectives, looking at the European, African and Latin American perspectives. I think we'd like to ask folks to try and think particularly about some of the commodity-exporting economies, the effects on those economies, and also about the direction particularly of the financial sector, and whether we're likely to see a reversal of some of the reforms, whether we're seeing this kind of big question whether there's a crisis of confidence among policy-makers in the liberalization path, in the path toward continued economic reform.

So without saying too much, why don't we turn now – I think you all have bios, so I'm going to just be very, very quick. I think most of you are familiar with our panelists. I'm going to ask Santiago Levy to speak first. He's the vice president for sectors and knowledge at the IDB. He's worked in various positions in the Mexican government and I think he's familiar to many of you.

Next, I'll ask Benno Ndulu, who's the governor of the Bank of Tanzania, to speak. Many of you know he was at the World Bank for many years and also served as executive director of the AERC, the African Economic Research Consortium.

Then I'll turn to Jose-Antonio Ocampo from Columbia University. He's worked in the UN system, also in the government of Columbia. And then finally, Mitchell Orenstein, who's a professor here at SAIS in European Studies and he's taught at various universities around the United States and in Russia.

So with that, why don't we turn now – I think everybody can see. If you want to stay right where you are, that seems find. Thank you.

SANTIAGO LEVY: Thank you. Good morning. Let me begin by thanking SAIS and CGD, particularly Nancy and Francis Fukuyama for inviting me here this morning. It's a real pleasure.

As I was reading the letter of invitation, I was trying to be very strict about what the letter said and the letter said 10 minutes and try to think a little bit about sort of the –what this crisis will mean for thinking about the development, rather than a description about the crisis. So it's a very interesting exercise actually and I'm glad you're doing it. It's not an easy exercise, but – it's difficult, but more interesting.

Let me just one minute on the crisis and from the landmark and perspective, my reading so far is actually good news. The good news is that there's been no meltdown so far. And this has to be seen as good news because under previous circumstances you would have expected that a shock, not even a strong as the one that the region is suffering, would have derailed economies and would have had by now your usual currency crisis and, you know, financial meltdowns and banking crises. And six months, seven months since Lehman that hasn't happened.

Certainly – I don't want to minimize the pain – certainly this is going to be an extremely difficult year for the region and probably the next year is going to be extremely difficult year for the region. But the good news is that the response of countries has been remarkable, I would say. Policy has been very sensible, very carefully thought out in most countries. And I would even venture to say that so far, the political reaction of the polities, of the congresses, of the societies has been actually very mature reaction to the crisis so far. So I'd say that's the good news.

That said, when thinking about Latin America, one always has to bring in the heterogeneity of the region and the fact that it's increasingly difficult to speak about a region as a whole. There are very important differences between the region – I don't have time to speak about them – the nuances. So first caveat is the heterogeneity of the region needs to be taken into account, and second caveat is that this diagnostic clearly is a function of the length of crisis. And if this is a much more prolonged downturn, we might not be sitting here, you know, a year from today with such a positive outcome.

So the point is we can't declare victory, but we can say, given what has happened and without minimizing the pain, so far so good. So that's the prelude to sort of the thinking about how people in the region in my perspective interpreting the crisis and they're thinking about development for the future which is more the object of the talk here.

I think – and again, these are broad generalizations – I think people are very clear that this crisis is important. And there's a very clear sense in the region that we did not create this problem. These were not our policies, clearly this was, you know, started in the United States, then the rest of the financial world, Europe and what-not, but we did not create this crisis and therefore I don't sense – I don't sense as yet anyway – a ideological reaction and – (inaudible) – development policy that this implies a linear return to the past. The word "linear" I underline in the sense that this could be interpreted by people saying, look, you know, this crisis proves that, you know, the Washington consensus globalization and all that stuff is broken and we have to kind of return to the past of the – you know, ’60s, ’70s, mid-’80s kind of development policies of the region. I don’t see that happening at all. There’s a clear diagnosis. It’s four important crises, and I don’t see a deep ideological trend against protectionism – I mean, more protectionism, or against globalization.

That said, it is clear to most people in the region that financial markets are deeply flawed, that the functioning of financial markets was deeply flawed worldwide, and that perhaps even some of the financial measures taken in the region of broad opening to financial capital markets were also flawed as well, and that after the crisis is over – and you know we go through the storm and hopefully without a fiscal crisis and the usual stuff. After the crisis is over, attention needs to be put clearly into how financial flaws are going to be regulated. There’s going to be a rethinking of the role of development banks and the weight of depending on commercial banks versus development banks and the important roles for the development banks in finance, the regulation of financial flaws in general, and more broadly the regulation of economic activity.

But I don’t see a return to the producing state with the big nationalizations and the big things of the past and the closed economy. I don’t see that. And perhaps it’s in a way good news because it’s a mature response to a very complex crisis that is certainly hurting the region. And as I speak and I travel to region, people understand that, you know, the rules of the game in the world financial markets are going to change and there’s not going to be a return to normalcy – whatever that means – two, three years from now even if the world is growing, the access to international capital markets and the whole mechanism that sustained savings and world savings is going to be very, very different from the past. And Latin America clearly understands that it has to change those rules to avoid being able hurt like this.

This interpretation, of course, is endogenous to the outcomes. It’s endogenous to the outcomes in the sense that a long stagnant world situation in which Japan-style 10 years of no growth or very small growth in the United States and Europe will change what the political dynamics of the region and will change the ideological balance of what this crisis is. So I’m giving you sort of the relatively optimistic outcome in the world that is growing two years hence and people are sort of looking back and trying to think – rethink about development policy. Those will be my focus. If that happens, and that will be a good outcome, I think Latin America can probably come out strengthened from this crisis.

Let me make one more remark which, I think, is deeper and more important for Latin America. If I think about Latin America before June 2008 and before this world crisis and you sort of try to make a balance, the balance at that point was – I would put on the plus side, three major achievements of the region. One was clearly a trend towards democracy and perhaps will be the deepest long-run change. That’ll be the first. The second is the societal consensus towards macroeconomic stability. We can discuss the techniques, but the societal consensus towards macroeconomic stability and the fact that absolute poverty was reduced. Those 300-plus.

I put two on the negative. I put two on the negative which are still an extremely (unequal ?) region and the second one in the negative is despite the fact that the region experiences very favorable international circumstances. Economic performance was lackluster, particularly growth and particularly for activity growth and sort of formal employment creation and beyond eliminating absolute poverty, a sustained path of – (inaudible) – in the world economy.

If I think now what is the agenda for Latin America, we still have those two negatives. One of the pluses is hanging by little threads and what we need to do is to ensure that the crisis does not relate and makes you lose one of the pluses which was the market economic instability that was so much gained and allows you to turn back to the two negatives which are the big (agenda ?) of the region: fighting inequality and understanding the reasons why productivity growth, employment growth in the region has been lackluster compared to the rest of the world.

My particular fear is that the short-run reaction to the crisis will probably aggravate the negatives if particularly a whole bunch of transitory measures to palliate the crisis are permanent and we further distort the functioning of labor markets, we further distort the functioning of firms, we further distort things in a way that doesn't enhance productivity.

We have a saying in Mexico that there's nothing more permanent than a transitory measure. (Laughter.) And these very short-run transitory reactions, the political economy of removing them are extremely difficult to do. So the sad story would be a Latin America that comes out weighed even more in 2011, 2012 with even further distortions that it is today in a fiscally unstable path. The good story would be a society, a region that has been matured enough, not only to have the response to the crisis that so far has been seen, but that also the polity processes a change that allows the region not only to come out unscratched in the micro side, but to tackle the two negatives that are left out there.

I'll stop here.

MR. MOSS: Thank you, Santiago.

Benno?

BENNO NDULU: Thank you. The impact of the crisis arrived on the African shores a little later than in most of the rest of the world. But still, different from the past. There is a view that African economies in this case are a victim of a crisis started elsewhere and propagated via the contagion effect. The direct impact on the financial sector was muted partly because of the weak linkages that the financial sector in Africa countries have. Still predominantly a cash economy, so credit is limited and also limited in exposure to toxic assets. But the second round effect emanating from the global recession hitting the region quite hard and going by the projections we have so far, growth will probably half in most countries. Export revenues already have dropped by almost 40 percent, and from current account surplus of almost 3 percent in the region, we are now looking at an overall deficit of 4.3 percent of GDP. So this is quite huge.

But even worse, we think the potential impact now from the real sector to the financial sector, because of the distress for non-performing loans from exporters that have suddenly not been able to repay loans. This is something that, I think, will be a major challenge, particularly for some of us that managed the financial sectors in our countries. It's a distrust that we have a chance to try and divert now if we can arrange for some cushioning of that sector, so that we don't get back into a spiral.

So this is the nature of the challenge and it's a big one. But as in Latin America it's fairly heterogeneous in terms of impact. Large financially developed economies –South Africa, Nigeria, Egypt, Algeria have been hit more. Now, the significance is that these also are growth – (inaudible) – around sub regions. So there would be a propagated effect from those. The others are resource-rich countries most severely hit oil producers, gem stones, base metals and also those depending on agriculture, particularly when commodity prices have tumbled and (cut flour ?), for example, also has declined.

Now, as far as the nature of the challenges are concerned, our short term preoccupation is with weathering the storm. We don't want to have a repeat of the 1980s after the second oil shock and the global recession of early '80s when, because we didn't take the right measures, we had lost growth for nearly two decades after that. So it's very important that we actually contain these.

And second short term is safety nets. You know, the whole political stability that we have been building now and social stability has really ridden on some of the successes that we have had. And unless we are able to protect jobs in the sectors that are exporting, unless we are able to guarantee food security coming out of this food crisis not too long ago, and unless we are able to protect lifesaving programs like HIV/AIDS, malaria, tuberculosis, we could easily find ourselves back into very unstable waters politically and that is a major challenge that we need.

And finally, in terms of this concern, we have to avoid interruption in the investment for capacity for growth. Typically, under these circumstances the first victim has tended to be the development budget and cut in infrastructure investment. It will be a big mistake if we did the same. So again, in terms of our medium term prioritizations, it's clear that we need to give emphasis on this.

Now, it's not only on the home front that we need to think about action. We know that resolution of this to a large extent will depend on what's happening in the systematically important economies such as United States and elsewhere. So we are keenly looking at all the stimulus packages and the bailout schemes as being important for reviving demand for commodities that we depend upon, but at the same time, we are worried there shouldn't be protectionist inbuilt mechanisms from these schemes, particularly to the extent that they'll start closing doors that have been opened earlier and had been helpful in terms of our export growth.

We think we should also join in the call for preemptive measures. That should focus on correcting regulatory failures and here in particular effective surveillance which is needed and even-handed, not afraid of the big guys, so to speak, and also strengthening the regulatory institutions capable of overseeing systemically important counties and players, including hedge funds and rating agencies that have tended to fail pretty badly in terms of fair information.

Finally, I think we have learned from this that although African countries cannot be insulated from the global interdependence, it is important that we rethink our strategies, particularly in terms of building a greater degree of resilience to shocks, and this, of course, revives exactly the old strategic discussions about diversification of our economies and a reduced reliance on primary commodities, better integration of our production and consumption processes, including adding value, reduction in aid dependence and maybe more on domestic savings mobilization, as well as looking, I think, more closely at some of the regional initiatives to boost a regional integration as a defensive mechanisms across regional blocs have turned it in – (inaudible).

So more or less, the agenda, the development agenda is shifting back to greater degree of resilience to shocks.

Thank you.

MR. MOSS: Thank you, Benno.

Jose-Antonio?

JOSE-ANTONIO OCAMPO: Thank you very much. I'd like to thank Francis and Nancy for inviting me to this very interesting conference. I enjoyed very much discussions we had yesterday.

Let me actually build on some of the issues that we started to discuss yesterday. And I'll start by saying again that in Latin America, things were changing in terms of this classical debate between the state and markets before the crisis. It had been changing for several years, because there is in many places – and I'll say most places – a dissatisfaction with the resource or reforms. So I mean, they had many governments in place which are leftist governments and the others which are center-left governments, and I think there are more to come. So I think that trend is actually going to be a stronger in Latin America.

Now, what happens? Well, as Santiago already said and Larry pointed our very strongly yesterday, well, this depends on what is this crisis about. I think many of the presentation that I've heard are assuming that this is a short crisis. I don't think so. It looks like a long one. Now, how deep and long, et cetera, et cetera? We don't know. And how – you know, what are the reactions are going to be? We'll see.

I mean, as a student of the Great Depression, which I wrote about in the Great Depression in Latin America, I think the change in policies came more as a matter of the imposition of facts rather than theories. So I mean – (inaudible) – situation protectionism, you know, state intervention came because in a sense it was forced by the circumstances. And it was also forced on many other countries, including this one – not to say Europe. I mean, Britain did not abandon the gold standard, you know, because it wanted to because it thought it had better alternatives. It was forced to leave the gold standard in September 1931, you know, significant effects on the world.

So you know, we don't – I mean, I think the dynamics of this crisis (comes along ?) is going to be a dynamics of facts, of reactions of politicians to things that are going on. And I may say they're not likely to be market-friendly necessarily. They're probably likely to be the opposite. They are trying to be more interventionist.

Now, I think if we have a long crisis, look at what has happened. As I said yesterday, I think in Latin America actually the strongest effect is the fact of trade, the collapse of international trade. I mean, the downgrading of Latin American growth projections for this year over the last four to five months have been massive – actually, probably the worst in the developing world. It had been downgraded by 4 percentage points in over – you know, almost 1 percentage point per month. So now, there are many, you know, talking about a 2 percent recession in Latin America. You know, all projections for the moderate growth in just four or five months ago.

So now, that doesn't come through finance. I agree with Santiago. We don't see meltdowns, financial meltdowns. But we see significant trade shock going on and I think that's a similar story of East Asia. It's a huge trade shock that is going on and I think that's what matters. A different story from Central and Eastern Europe where finance is what matters, and probably Africa is also trade that matters. So that, I think, is quite important.

Second, the effect of migration. So let's say, up to now, you know, the story was, you know, Latin America is going to ride on international trade. Now, that had been the story, you know, (explore the ?) growth of some sort. And now, you know, what are going politicians to say? I mean, how are they going to act in the face of an international economy that doesn't move? Okay, that's one point. But – (inaudible) – you know, people had the alternative to leave countries, migration was a big alternative for many people. Now, there's going to be shot down.

I think that has a significant effect. I mean, think. I mean, if let's say if the 10 percentage of the labor force of Mexico that is in the United States had not been able to come, or if Columbia and Ecuador had not been able to send the unemployed people to Spain during the crisis of the late 19th or early 20th century, you know, those countries will have significantly more problems.

Now, I mean, so there are alternatives left. It's not a question of remittances. It's a question of job opportunities that are lost also. I mean, there are loss at home, but the greatest expectation of migration is gone. Finance too, of course, and finance, I think, because of the macroeconomic changes, you know, there is much less an important factor today.

Now, what are the critical issues that I think are likely to be underscored? I live outside the macro, although it is my field, but you know, I don't want to – you know, I tend to agree with Santiago with perhaps, you know, a point I think Latin American countries were more procyclical in the macroeconomic policies. I think the – actually the IDB said that very clearly last year, you know, in a major report. I mean, there's fiction that Latin America was countercyclical is not correct.

You know, it did accumulate huge amounts of international reserves and it reduced public sector external debts. I think those were the two things that, you know, that really changed during the past month and made a difference because I think the – well, and I think financial regulations has been improving for some time, so you know, those – combination of that is what has led to some room for countercyclical monetary policies now – less room for countercyclical fiscal policies, in my view, with a major exception being Chile.

But let me concentrate on the two additional points which I – (inaudible). The institutions of equality, that's the real issue in Latin America. I mean, are they going to be, you know, a stronger social movement as – and I think is this leftist trend going to make a difference from the point of view of the institutions of equality? Well, I think it makes sense to think that, you know, that we're – (inaudible) – starting a debate on this issue in which some of the more – I would say more marginal reforms are going to be, you know, rethought about. I mean, you know, cash transfer – you know, great idea, particularly because you can do a lot with significantly small amounts of money, let's say. But you know, our – we're thinking about big changes in the welfare states, building a welfare state which we're – in my view, are way behind in doing in Latin America. I think that's a debate that I struggle to arise and will include, you know, uncomfortable questions, such as the levels of taxation of Latin America, which are extremely low.

And the other point is the agents of growth. I mean – (inaudible) – growth is gone – I mean, for some time at least, maybe for a long time – I don't know. So what is – you know, how are economies going to grow? I think this is a significant point and I think, well, they're saying the greater pressures Latin America countries look inward because they have no alternative. They have nowhere else to look. (Chuckles.) And I think this is going to happen. You know, they're going to look inward, but with significant differences in – (inaudible) – country. I think Brazil is looking inward now more than in the past and many others.

Now, of course, in the stage of development in which we are that – you know, we have to think what that means and with a significant (amount of terrible ?) recession that has already taken place. So my first answer is it will make a lot of sense to go towards regional – a sort of regional blocs, you know, the integration processes. But that is a mess now. It's in political mess essentially. So I don't see that coming out so that, you know, I see more national than sub-regional or regional responses of the sort, although, you know, I am on the – I mean, (frankly ?), is for the regional responses.

So that – the other thing is maybe we are for a new phase of industrial policies, or more in production sector policies and governments are going to look increasingly at that issue. I think they – you know, faced with no alternatives, no growth alternative that is and that, you know, in a sense the hardcore of the Washington consensus in this area or that the best industrial policy was to have no industrial policy. That element of the Washington consensus, I think, is going to die. And I think for good. I mean, I think there are many good alternatives and the Asians have shown that it is possible to do, you know, sensible industrial policies.

I'll just say a final comment on democracy, you know, how it is going to affect democracy, and just to – I think Larry's comments yesterday were, you know, great. I think the strangulation of democracy or decline in the state capacities to manage conflict are some of the thing – you know, big issues in the region in the years to come. But I will – something – one that came out in many discussions about the report that UNDP did on democracy in Latin America, which is the sense by citizens that democracy is irrelevant. And I think this is one of the great dangers of democracy that, you know, people will start thinking this simply doesn't deliver.

Thank you.

MR. MOSS: Okay, thank you.

Mitchell?

MITCHELL ORENSTEIN: So thanks so much for the organizers, the organizers of this conference for including me on this distinguished panel today and in the conference in general which has been really fascinating.

I've been asked today to speak about the European social model, which as John Williamson pointed out yesterday, used to be considered the main alternative to free market capitalism. And in the period of dominance of the free market model worldwide, there are two sort of narratives, I would say, about the European social model. One that I'll call the European decline, and the other that I'll call the European dream – echoing the title of a book by, I think, Jeremy Rifkin, 2004.

The idea of the European decline is very – I'm sure we've all heard it a lot, this idea of eurosclerosis: lower growth rates, high rates of taxation, labor market inflexibility, demographic decline, governance structure at the EU level which is throttled by indecision, too many countries at the table, somewhat pacifist and dependent relations in foreign affairs.

However, there was always a second vision of European dream that emphasized some of the real accomplishments, I think, that Europeans felt that they had made – a very strong social welfare state, much stronger regulation of the economy than in free market capitalist countries – the Anglo-Saxon models, they call it. Post-materials values, much more emphasis on the environment, environmental standards, quality of life, sometimes mixed together, a secular cosmopolitan approach to world affairs and diplomacy over force, and a view of systemic performance rather than – a systemic dream rather than an individual level dream.

My question that I want to address today is how will the crisis, the current crisis affect the European social model and the extent to which the European social model might be seen as an alternative to free market capitalist model around the world and elevate the soft power of the European Union. But first, I'd like to offer a somewhat expanded definition of the European social model.

The standard definition of the European social model has emphasized several points. One is that Europe is dependent on a developed and interventionists state – and here I'm borrowing from Anthony Giddens. One could look at other sources, but I think he's always very good at summarizing things like this. So developed and interventionists state is measured in terms of the level of GDP taken up by taxation – it's a key part of the model – a robust welfare system, limitation of inequality in other means other than the welfare system; and a key role played by social partners in decision-making. This means largely trade unions, but also employer associations and a sort of tripartite model that reaches its apogee, I suppose, in Sweden and Germany, but is also practiced to certain extents in other countries.

In the context of overall economic prosperity – in other words, the market is not killed so much so that it's not continuing to lay the golden eggs – so to speak, and I guess sort of Douglass North sort of parable here. I think that that definition though needs to be expanded a little bit. There are at least three other elements of the European social model that deserve to be mentioned. And one is democracy that we've talked about a couple – (inaudible) – mentioned a couple of times here already – the political regime. In a way, this hasn't been mentioned because, I suppose, European social model was always weighed off against the free market Anglo-Saxon model and they were both democratic so it didn't seem sensible to mention the fact that the European social model is dependent on democracy. It's dependent in a number of different ways. The existence of the European welfare state is probably there in large parts because of democracy. And its impact as an international model is certainly higher because of its legitimacy of being associated with democratic political regime.

The other area that's not been usually put into this definition, but I think is important is the issue of ownership – ownership concentration and state ownership. One of the main things that distinguishes the European social market economies from the free market economies is much higher ownership concentration, so there is relatively small number of banks or state owners that own a lot of the economy in these countries as it composed through a very, very dispersed share ownership in the Anglo-Saxon capitalism and as I've associated with that relative high levels of state ownership.

A study by Shleifer (sp) and a number of his co-authors about corporate governance worldwide showed that in most European and the modal European states – and here I include France, Germany, Italy – 30 or 35 percent of the top 20 enterprises in the country are owned by the state in the definition of meaning having a 20 percent or more share or 10 percent or more share – however you want to measure controlling share. And that's a big distinguishing feature.

So with the help of these expanded definitions, I think we can identify three major models right now of capitalism. The first being free market capitalism which I think is defined by a moderate level of state regulation, moderate level of taxation, a moderate level of welfare state development, low union power, a democratic political system, and low levels of ownership concentration and state ownership. The level of state ownership until recently in the United States has been nil – and in the U.K. is nil – of major enterprises.

The European social model has been distinguished by high levels of taxation – we all know about – high levels of state regulation of economic activity, high levels of welfare state expenditure, a democratic polity, moderate to high state ownership and concentration of ownership.

The third model, which I think has been in the background of these discussions here in the conference, is what I would term authoritarian state capitalism. It's been called state capitalism by a number of authors – and I'm in the group of people who thinks that that's relevant. And this model is one of relatively low taxation, low welfare state expenditures, but yet very high state intervention in the economy, an authoritarian political regime and very high ownership concentration and also state ownership of leading enterprises.

And what I want to concentrate on is: Where does the European social model stand today in this kind of competition of models? So a couple of propositions. One is that countries, developing countries probably more so but really all countries emulate – tend to emulate the models that appear to be working at any point in time. Okay? That's why one way in which I think ideas are important – and I appreciate the focus of this conference – the crisis – second proposition is the crisis weaken the influence of the dominant model on other countries. Okay?

Third proposition is that the crisis forces countries that have the crisis model, the model in crisis to emulate others in their search for solutions to their economic problems.

And finally, change between models. For a country to move from one model to another model is really not that frequent an occurrence. More likely what happens is a country stays within its own sort of model and moves marginally towards one of the other models, if it feels like it. But there are plenty of instances of countries just jumping models and moving models and the countries I've studied most closely, the communist countries of Central and Eastern Europe – former communist countries of Central and Eastern Europe really did move systematically from a communist-type model to, I guess, some other type model – pretty free market model or to a European social model, pretty dramatically. And I believe a lot of developing countries we're speaking about today have also really moved enormously from a more authoritarian and more status model development to a more free market and more democratic model development and have taken some pretty substantial changes on board.

So what's going on now with the European social model? First of all, I would say that the crisis has clearly enhanced the salience of the European social model and it's done this by increasing the salience of certain issues which are directly addressed by the European social model, namely, regulation which is really at the core of the model; the emphasis on inequality – we've seen a lot of discussions about executive pay and about safety nets in many countries; issues about the environment which has been a big plus, I think, for European social model; the emphasis on multilateralism as a method of international decision-making; and diplomacy.

So all these issues, which have come to higher international salience, are ones that really accord with the key tenets of the European social model. Europe can exert leadership and has exert leadership on these issues, and I believe its soft power, to some extent, has increased dramatically in the international arena. Domestically, what you've seen in Europe is a return to social market beliefs. Among leaders, many of which have departed from social market beliefs in the past – and I just mention that the leaders of the big three in Europe – Merkel, Brown, Sarkozy – it reads like a list of heretics, I supposed, if – (chuckles) – if one is thinking about adherence to the European social model. Right?

Merkel is a well-known reformer who was pushing for big changes in the German welfare system. Gordon Brown was apparently fighting against, strenuously against international financial regulation until recently. And Sarkozy initiated his presidency by canceling the 35-hour work week that was probably the biggest achievement of the European social model in France. All three of these leaders, of course, notably have changed their tune in response to the crisis. And Merkel has played a large role, as have Sarkozy and Brown in their own ways, in rearticulating elements of the European social model which is something, I think, a big change that is in the realm of ideas, yes, but nonetheless quite significant.

I think that this presages a possible reversal of the longstanding trend towards free market capitalism in the European Union, perhaps not rolling back, but certainly not rolling forward anymore the Lisbon agenda. I agree with the previous speaker that there is a possibility of – a serious possibility of that in the second phase of this crisis having leaders that are sort of committed to European social model or newly recommitted to a European social model may not be enough for voters, that there may well be a return to leftist – more leftist parties and through elections and social turmoil which appears to be possibly break – seems to be breaking out in France to some extent – and Sarkozy's ratings have dropped a lot. Again, it depends on how long the crisis goes.

On the other hand, I think there is some evident limits – I'm running out of time here – so I'm going to cut this short. I would end by saying I think there are certain limits however to the European social model (there noted ?). We haven't heard about the European social model at all, I would point out, during this conference – (chuckles) – and I think there are three questions I would ask, one, for determining whether the European social model is going to be relevant here. First is we don't know if growth is going to return to the European social model countries. That's the big question mark here.

Secondly, we don't know – even if it were to return in Europe, we don't know what the relevance of the European social model is really to developing countries. They lack a developed and interventionist state in particular, which is so central to the European social model. So this may be a model which is particularly relevant in Europe and may not be as universally applicable. And there's further questions, as I mentioned, of whether the European social model can restore confidence at home.

In conclusion, I would argue that the European social model is a relative winner in the crisis, that it has enhanced its soft power, to some extent, and will continue to do so. However, my belief – and this is for another time – is that authoritarian state capitalism is the much bigger winner in this crisis. In the transition of power from the G-7 to the G-20, it's brought to the top table of international decision-making a number of countries which are following authoritarian state capitalist model that were not there before.

These countries in my view are likely to pull out of the crisis quicker and with more of their integrity intact, and this will have an effect on development worldwide. It may not – we may be entering an area in which there's no one dominant model, but certainly the free market model has taken hit. It's unclear whether the European social model will – has really risen up so high on the agenda and the other model that seems to have increased more also has its limitations.

Thanks.

MR. MOSS: Okay. Thank you to all the panelists. I think we got a well-engineered diversity of views here. And I think, in particular, getting a difference of views that Jose-Antonio suggested that, if I understood correctly, that we're going to see much more of a reaction to facts rather than a kind of ideological change, and then we heard from Mitchell that actually maybe we are going to see a different kind of view of the model.

Benno talked about a return to resilience. I hope some of the questions will push him a little bit more on what that means. And particularly, in light of Santiago's point that there's no linear return to the past given the very, very deep failures particularly in Africa of industrial policy, what that means going forward and taking into account that Africa is incredibly more democratic now than when the time that those industrial policies were initially put in place in the 1970s.

So with that, I'm going to turn to – first, to our other panelists who want to ask questions. I'll ask that they please be concise. Roger?

MR. LEEDS: I do have a question –

MR. MOSS: Can you just hit the microphone?

MR. LEEDS: I do have a question, but first, I just want to congratulate Santiago for his courage in saying something that we don't hear enough. The one thing we have a great surplus of are critics of what's been going on and to say what one of the successes of this crisis is what has not happened is a result of some pretty good policy responses that have happened maybe not the way we would like to see them, but it is true that it is – we don't talk enough about what did not happen and we have not had a meltdown. I think it's important to keep that in mind.

My question is about something we haven't talked very much about. Santiago also talked about one of the negatives in Latin America – and presumably elsewhere – is the lag in productivity growth and lag in employment. Jose-Antonio asked about where the engine of growth is going to come in the aftermath of the crisis. And although each country may approach this in the different ways, to be sure, in terms of the balance between the state and the private sector – to be sure the engine of growth is going to have to be, to a large extent, in the private sector, and to be more specific in the indigenous private sector, the local private sector.

And what has not been discussed at this conference virtually at all is what I would posit – and I'd like your comments on this – is notwithstanding the successes of any countries, the lagging sector in most of Latin America and elsewhere has been the indigenous financial sector, even where it's been stable it has been very inadequate and even the more developed of the developing countries in Latin America and elsewhere in providing medium and long-term capital to the indigenous private sector which is absolutely necessary if the private sector is going to continue to grow and be competitive.

Even in a country like Brazil – and I was in Brazil last week and everybody was lauding the stability and the strength of the Brazilian banking system in the wake of this crisis. But the Brazilian banking system doesn't bank, it doesn't provide credit to worthy companies beyond a year and the interest rates are very, very high. There's no access to either credit or equity by Brazilian companies in the stock market or through the banking system. And I think the same is true in even the best of the rest of Latin America.

And so this is a huge constraint that is going to require a collaborative effort by both the state and the private sector to ensure that this indigenous private sector is provided with the medium and long-term capital it needs to grow and be competitive.

And so I just thought I would throw that out as a hypothesis and a question that certainly Santiago and Jose-Antonio might respond to, and also Benno.

MR. MOSS: Santiago?

MR. LEVY: Thank you, Roger. Two issues are sometimes mentioned separately, but I think they're really two sides of the same coin. In the language of Jose-Antonio just now the institutions of equality and then the engine of growth domestic market kind of thing. I think they are the same side of the same coin because a distinguishing feature of Latin America is a very, very high formal sector, a social policy that is broken because it's constructed around the categories of salaried employment and non-salaried employment which by now are completely irrelevant in this modern world, but institutions are there and therefore a segmentation of the instruments with which social policy operates which are ineffective and don't really get equality.

There are deep reasons for that – it has to do with fiscal. But then it also has the mirror image on productivity of workers and productivity of firms. And part of the reason why you have these financial circuits, in my view, broken within the region is because there are a lot of firms that are behaving legally, there are a lot of firms that are not have property right, there a lot of firms in which, you know, going through collaterals under normal mechanisms that are required for commercial credit to work. It's not that they're not exercising credit, but they are, but they are exercising through mechanisms that are – the intermediation is extremely inefficient and extremely costly.

Now, I said there are two sides of the same coin because you can't fix one without fixing the other. And the deep social transformation that I think Latin America needs which is a European-style of social rights regardless of labor status is paradoxically, but in my way, in my view, good news, a mechanism for trying to incorporate more workers and more firms into – I don't want to use the word "formal sector" – the legality, the ambience in which, you know, the rightful workers or rightful firms and which I think credit will flow more.

Otherwise, you'll see, you know, 10 percent of all firms – maybe 20,000 firms, 30,000 firms accessing maybe commercial bank credit and then the largest majority of firms, two, three-worker firms, four-worker firms – which, by the way, employ the largest share of the labor force – never really accessing commercial bank credit and banks never really interested in channeling credit to them. And I don't think the microcredit and I don't think the micro institutions are really going to solve the problem.

MR. OCAMPO: Well, I thought that was an elegant response. Aside from endorsing it, let me point out that many of these indigenous institutions, entrepreneurs work largely on the domestic market. So I think there are many opportunities – I think that Brazilians are being – the Lula administration in its plans had this idea of the massive domestic consumption as the engine of growth, you know, which in part I – you know, maybe an idea that has a future.

I mean, in a sense it has been coming – you know, the Brazilians have not been doing it through a mechanism that is not very much in the news, et cetera, et cetera, but is part of – or the leftist agenda of the Lula administration which people – I mean, in some – let's say, New York or Washington circles only the rightwing part of Lula is very well-known, but the left part is not, like the improvement of union rights and the increasing minimum wages that has been going on.

And I think there is a sense in which, you know, that maybe one of the reasons why actually income distribution has been improving in Brazil for some time and there is maybe something around, you know, domestic market that will be much more important and we have not been talking about that for some time.

MR. MOSS: Okay. Santiago wants to make one additional point.

MR. LEVY: Just 30 seconds. I fully agree and I think the domestic markets could be source of growth, but that's only sustainable if real wages increase and that's only sustainable if labor productivity increases, and there are deep reasons why labor productivity has stagnated for the less 10 years and a sort of artificial stimulation of domestic market will not do. You really have to increase real wages and labor productivity – and that could be – (inaudible) – domestic engine of growth.

MR. MOSS: Benno, can I ask – you know, Tanzania went through very significant banking sector reform – you see in the entry of foreign banks, particularly large South African banks. How is the crisis changing your thinking on the future of the banking sector in Tanzania?

MR. NDULU: Well, we have seen a development of fairly large indigenous banking initiatives, not only in Tanzania, but in Nigeria and a number of African banks are also doing cross-border, within Africa, business right now. But I think the main challenge is absence of development finance, longer term type finance. All countries have gone through that experience of failed development finance institutions, but there is a rethinking now, not only in terms of revival of some of these institutions on different footing, more sustainable footing, and not in Tanzania for sure. We are now in the process of looking setting up again development finance institutions, particularly for the agricultural sector.

But we will also see a lot more use of credit guarantee schemes in order to reach portions of indigenous entrepreneurs that could not have access to such finance. We might also see a lot more of the PPP arrangements where the government also provides some blend of finance if you want at lower cost and sharing some of the risks in order to start up some of the activities that wouldn't have taken off in the absence of that. And we're really pushing more and more towards those interventions.

MR. MOSS: Okay. Thank you. Frank, then we'll go to Pieter.

FRANK FUKUYAMA: Well, I have one question on Latin America and then one question on Europe. The question on Latin America is, all right, there's going to be a whole series of important elections coming up in the next couple of years. In likelihood, as you've, suggested is that you'll get more either leftist or populist leaders elected as a result of this crisis.

Do you see anybody, Santiago, that has your – (chuckles) – understanding of what the basic problem with regard to informality is that actually has an agenda for incorporating that whole sector? You know, because I don't think anybody would object to a genuine welfare state in Latin America that did income redistribution, if they did on a universal, you know, equitable basis, but most of the populists there use it in a completely discretionary way to reward people that support them and – or else they'll just feed the formal sector and exacerbate the problem that you're talking. So this is one question.

For Mitchell, you didn't really say anything about all these Eastern European countries that are in big trouble. It seems to me a lot of them are in trouble actually because they followed what Arvind labeled the – you know, the "high finance fetish," open themselves up to capital flows, and now it seems to me that you've got a real crisis of democracy in the new parts of the EU and you know, pretty strongly expressed unwillingness of the biggest country there, Germany, to really help them. And do you see this as a potential, you know, really big problem for that region that could undermine the democratic gains that have occurred?

MR. MOSS: Mitchell, why don't you take that first?

MR. ORENSTEIN: Yeah, thank you for that question. I guess to directly answer it, I think there is – there's more of a problem with the economic model, I think, the legitimacy of the economic model than there is with democracy, in my view. In my view, in the countries that have joined the Central and Eastern European countries that have joined the European Union, democracy is fundamentally anchored in European Union membership and in this very tight transnational relationships that they have with the rest of Europe.

So I'm not worried about democracy at all in Central and Eastern Europe in those particular countries, except in so far as I'm worried a little bit about democracy in Western European and I think there are some concerning trends in Italy and other places. So – but I think those are the bellwether states and one shouldn't necessarily be concerned as – I know that there's a lot in the media about this, but I don't share those concerns.

If you go outside the boundaries of the European Union, yes, there has clearly been a trend towards turning back of democracy and democratizations, been going on for quite a long time and that's anchored, in my view, in the Russian sphere of influence and that's been going on since the Putin administration came into power and has been recently exercised in Moldavia. Moldavia wasn't in danger of being declared a democracy in the first place, but their protest after the elections recently have not, you know, put them in good stead.

I think that – I think what's more concerning in a sense is again having to deal with the fact that Central and Eastern European countries have mostly been great students of free market liberal capitalism and really made this wrenching transition from a communist model of economic development to a free market capitalist model, embracing things that many countries around the world who are free market capitalist countries wouldn't even embrace, such as foreign ownership of the entire banking sector. Banking sector ownership in Central and Eastern Europe is between 70 to 90 percent foreign-owned and that's really very exceptional.

And I put – I guess I'd put this Central and Eastern European countries in a similar category to the Latin American countries, who are also great students of neoliberal economic reform and to some extent achieved pretty remarkable advances on those basis. I think the crisis does threaten popular perceptions and possibly elite perceptions about how successful those reforms really were. Those reforms –Santiago Levy had a nice phrase; he said that the growth was one of the disappointments – I forget exactly how you phrased it – that the growth has been underwhelming in some respects in Latin America, but also in Central and Eastern Europe just as these countries were beginning to achieve relatively high growth rates, they are hit by this crisis.

So I suspect that the Central and Eastern European countries are going to be a little bit in this boat of where Latin American countries are, if not perhaps fully rejecting the model, but beginning to rethink the great promises that were associated with free market capitalist model. Did they really pan out? And, I think, that the crisis will really change the way that we've been looking at these countries as a sort of success stories of the liberal economic model.

MR. MOSS: Okay. Santiago, do you want to take Frank's question?

MR. LEVY: Difficult question. (Chuckles.) On the upcoming elections, and I think that what we've seen in the region is that the mapping of populist leftist or leftist president, the mapping to that into economic policy is, fortunately, a much richer and nuanced mapping than we have thought and arguably from this perspective the best thing that has happened in Latin American has been Lula, you know, which has a real demonstration that you can have, you know, somebody that everybody would, or most people would label leftist, but still coming in and having very sensible macro policies and to the extent that more of that happens in Latin America, it's kind of a normalcy that is gained by experience and we escape this very cornered categories of leftist, you know, populist macro and maybe that more – more of those elections will happen in the years ahead. So that's sort of one part of your question.

The other part of your question is, in general, my sense would be that there will be less ideological resistance in Latin America to a model of European social rights that are universal and that would go a long way to eliminating this formal/informal dichotomy and the segmentations of firms and workers. I don't think the central issue is ideological in the region as opposed to, say, the United States which would be much more difficult.

The real issue is, at the end of the day, a fiscal one, because the reason that you have this to begin with is because you can't tax households and you can't tax higher-income, so you tax firms. Of course, the incidence of that is in labor and that's how you finance your social stuff and that's where you're trapped. If you want to go the universal route, you can't do it by taxing salaried labor, you've got to do it by taxing somebody else. So the real obstacle is a fiscal one.

And then the question is different: Can you construct a political coalition that is sufficiently strong to tax higher income households in a mechanism that bypasses labor taxes and firms? And I think it's doable actually.

MR. MOSS: Okay. Pieter?

PIETER BOTTELIER: Thank you. I would like to raise a fairly fundamental question about economic development and especially direct my comments to Mr. Ocampo and Mr. Ndulu. Both of you, I think, have expressed enormous uncertainty that is now hanging over the development perspectives in Latin America and Africa, and you have stressed that part of the reasons for that uncertainty is that the old model is no longer working, we no longer have a sort of consumer of last resorts in the world. The whole idea that you can base a development standard, you know, selling things somewhere else, I think is now up in the air.

So the question is: What else can Africa, what else can Latin America do? What can developing countries do in the absence of a U.S. consumption-based economic model? And I – since the purpose of this question is new ideas and development, I'd like to challenge you, ask you: Is it really so important to raise the question where can I sell things? Shouldn't we really redirect in our thinking, rephrase the question as how can we make things more efficiently? Ultimately, all growth, all sustainable growth comes from productivity growth, even if you have no markets, you can make things more efficiently and earn additional income that way.

Could I ask you to reflect on the question: What is there that Latin America and Africa can do to get growth again based on domestic internal productivity growth rather than selling somewhere – somewhere else?

MR. MOSS: Okay. Before you answer that, I'm going to ask Nancy to ask a question so we have time to kick it back and then get out to the general audience.

NANCY BIRDSALL: Well, before Benno elaborated on development banks, I wanted to ask anyone on the panel, especially Santiago, Benno or Jose-Antonio, to say whether the free capitalist model will persist, but development banks will emerge as the sort of incremental reform. And I think it's still an interesting question. The problem that I see with that approach might be the one that Larry raised indirectly yesterday which is that in states that are still relatively weak, will we have another round, as happened in the '70s and '80s, where there's capture by the powerful, the elite, the top 10 percent of households – whatever – the landowners of the development banks?

And then I also wanted to suggest – I'm confused a little bit, but looking for something from this panel, because it's been so interesting – should we start thinking about the Lula model and what is the Lula model? Is it – what mixture is it what Mitchell called the free capitalist model and the European social? It's not either and I'm not sure it's even a mix. I thought maybe Jose-Antonio and Santiago could comment on that. You know, it came up yesterday in the context of good macro plus conditional cash transfers. But conditional cash transfers, as Santiago has pointed out in a very good book, don't really address that fairness issue, the inequality issue that you have both stressed. So it's still – sort of incremental.

I don't think – and that goes back to Frank's question. I mean, what happens? Are we going to have more of Venezuelas, Ecuadors, Argentinas, Bolivias, in terms of moving to a leftist approach that is not the Lula model? Should we extract from this conference some idea of a Lula-plus model or Lula – (chuckles) – modified? Thank you.

MR. MOSS: Okay. Jose-Antonio, do you want to answer either of those? (Laughter.) And I'll just ask all of the panelists to try and be as brief as possible so we have time for more questions.

MR. OCAMPO: No. It's – let me start with the – what is the Lula model? By the way, I don't think it's only Lula. I will add, you know – (inaudible) – left, division within the left in Latin America. You also have Uruguay and actually Chile. Chile has been turning more leftist, you know, through the – I don't know what is going to happen in elections this year, but you know, actually the prospects of the – (inaudible) – would win again are increasing. You know, President Bachelet, which is the most leftist of all the presidents after the return to democracy, is actually, you know, more than 60 percent popularity now after being very top-down in the – so I think there is a model there.

And actually, in terms of building a new sort of welfare state, maybe actually more universal kind, maybe Chile is actually the one that, you know, through the reform done by the pension system and the health system, you know, the pension system by Bachelet, the pension system by – excuse me – the health system by Lagos has actually been trying to develop a sort of welfare state with many new characteristics of course, much more private sector participation with –

But at the same time – at the same time you have the – by the way, in the case of Lula, I would say, the left side of Lula, I think, has at least, you know, a strong support to labor unions and a fairly aggressive minimum wage policy, you know, as part of this polity, but also and very importantly, the most ambitious industrial policy that has been put in the agenda of Latin America in a long time, which came from where? From the development bank. Okay?

So I actually think the development banks are going to be back. Unfortunately, weakened many in this – you know, Enrique Iglesias talks about this bank – (inaudible) –which I don't know how to translate into English. You know –

MR. LEVY (?): Bank suicide.

MR. OCAMPO: (Chuckles.) Yeah, the bank suicide, the development bank suicides. I mean, the destruction of development banks as one of the big mistakes that were done during the reform period. I mean, unfortunately, weakened many of them. (Chuckles.) I mean, there are quite alive. They are quite alive in Brazil. They are actually quite alive in Chile. Even the Chicago – (inaudible) – does not dismantle the development bank, and it's becoming also a very interesting agent in, for instance, in technology policy in Chile.

And Colombia also kept all of its development banks. Mexico, with – (inaudible). So actually more development banks were kept despite this bank – (inaudible) – that Enrique Iglesias talks about. So I do think that – and perhaps my points about, you know, the – I think we're going – we're starting to move and there's discussion going on about, you know, building something like a social European system of welfare which with our own characteristic because of this deep division between informality and formality that we came from. So it has to be a different set of institution and I totally agree that a major constraint is fiscal, you know, how much governments are willing to tax is going to be the critical determinant of how much you can improve in that direction.

But at the same time, I do feel that there is a deep return and it will be a much more ambitious return of some form of industrial policy. I think that is back and the development banks are likely to be the managers of that and I think – actually, it's amazing how much interest in building, rebuilding back development banks, you know, when you go throughout the region. Maybe – since the World Bank and the Inter-American Development Bank were the two institutions that helped to develop the Latin American development banks, maybe they should be back in that business.

MR. MOSS: Okay. Benno, do you want to comment?

MR. NDULU: Yeah, I know the return of development banks on a more sustainable basis is a big challenge. There's no doubt about it. But there are two or three possible ways in which some of the previous capture could be avoided. One is – and some of the banks that are being set up now is the ownership structure – it shouldn't be 100 percent government, but to have a combination in the ownership structure that puts some discipline and rigor.

And second, the management framework for these development banks that has some level of autonomy and this is now happening in a context where there are much more sets of constructs for accountability than there had been in the past, including more of the democratization of views.

But most importantly, I think those that have survived have tended to be either sub-regional or regional, so that there is some level of agency of restraint in growing across border, whereas most of the politics is national in character and if those institutions, you know, have multinational constructs, they will tend to have probably better chance of survival and avoiding that capture. So I think we have a better chance this time to make it work.

I think the toughest question was on what options on the African side, for example, towards less dependence on purely outside markets. Now, I say "tough" partly because we know Africa's comparative advantage lies in its natural resource endowment. In essence, whether you're looking at minerals, you're looking at land, tourism-based natural resources, and from that perspective, there is very little scope for not being part of the global framework, so to speak, in terms of its production and consumption system. But I think we can do better over time, with adding value and this is not totally inward, but there is much more pressure now in terms of establishing better linkage between domestic demand and domestic production.

Value chains are being looked at from quarter to textile in the context that would raise not just productivity, but also enhance the value addition. Food is an important component where definitive demand is highly within, but also we know demand elsewhere can never wane because of its necessity. And so agriculture, that also tends to push more in that direction.

And, by the way, most – even on the African side, the bulk of agricultural production actually is food. It's not even the export crops per se. So tracks of land now are also being leased out for production of food. Amazingly, some Middle East countries, including some, you know, whether it is Saudi Arabia, et cetera, they come and lease land in order to produce their own food. It's being done in Mozambique, it's done elsewhere.

So we're looking at the whole set of new ways in which we could actually exploit our comparative advantage in ways that tend to much more resilient, so to speak, to shocks.

MR. MOSS: Okay. Thank you. We've only got a few minutes left, so I'm going to take one round of questions from the audience. I'm going to ask people to please identify yourself and be very, very brief. Got one right next to Heather. I've got one here and one at the back.

Q: Thank you. My name is Adam Agey (ph). I'm a fellow here in the Africa Department. I'm from Senegal. My question is for Mr. Ndulu. In his presentation, I have the feeling that he's talking of an Africa that could be linked to this crisis because the technical aspects is clearly presented.

But I don't know, but I have the feeling that Africa is maybe most likely going to be hurt further by what I call the "political bubble" in Africa. If you look at what is happening across Africa at this moment, you take South Africa, with the emergence of populist leadership in the person of Jacob Zuma, you take the leadership of the African Union where Gaddafi could advocate the lifetime presidency across Africa, has been made chairman of the African Union, the return of military coup in many countries whether Guinea – (inaudible) – or Mauritania and other places, and overall, poor governance and the collapse of all the reform efforts that have been made by some leaders, like Thabo Mbeki talking about African renaissance and others.

Don't you see really that it's at the political level that Africa's problem should be addressed first in order to move forward, instead of looking at what is, in my mind, just a technical approach? And I think that is a bigger problem that I have not heard in your presentation. Thank you.

MR. MOSS: Okay. Good question. The woman in the black there and then to Tawny (?) here on the aisle – right there.

Q: Hi. Thanks very much. My name is Francesca. I'm with the United Nations Foundation around the corner. I just want to ask a question briefly related to the European – the European social model and perhaps pertinence to developing regions. I'll try and be brief.

I mean, I think this model is sometimes a little bit crippling just because of the generalizations engendered or the polarization. You look at the major growth periods in rich European countries, they often happen sometimes nationally, but often you get these growth poles that some other unit of organization so such in the – (inaudible) – level, Belgium or the Netherlands, sometimes research networks are kind of municipal, or kind of local levels of organization and it's almost like it's something sometimes social and intellectual that happens and it's not always – I mean, it doesn't necessarily last forever. So definitely at the state level, macroeconomics are really important, but these other units of organization are also really important.

So I was just wondering if the European expert would want to elaborate on that and what potential for that might be in other regions. Thank you.

MR. MOSS: We've got Tawny here on the aisle. And let me just apologize. I know there are a lot of hands, but I'm going to encourage you to save those questions for the next panel. So Tawny?

Q: Thanks. I have a question for Benno. Africa has many Libyan influence by the capitalist model of free market model and the European social model over decades. But now you're being exposed to the state capitalist model more recently. Where does that lead Africa in the future in economics and also on political governance?

MR. MOSS: Okay. Mitchell, did you want to take the European question? Then I'll kick it back to Benno and Jose-Antonio, and Santiago, if you have a very quick final comment, or if you want to pass. I'll leave that to you.

Mitchell?

MR. ORENSTEIN: If I understand correctly, the question is about sub-units and can you really generalize nationally in Europe and are there things going on at sub-units that will enhance growth.

Q: (Off mike.)

MR. ORENSTEIN: Yeah, right. I mean, obviously when you're talking about models – I'll take the broader point that when you're talking about models, you're making big generalizations that apply to certain number of countries and certain number of features and don't imply to a lot of others.

I think the European social model is (coherent ?) with a set of collective action approaches that are more consensual and more based on engendering certain types of consensus-type politics at the local level as well, but they're not focused on usually as part of the central models. So I think there is a lot there. But I would still adhere to the idea that there are these broad models even if nobody – they're not fully perfect as a description of any one place.

MR. MOSS: Benno, I think you had two very good questions directed to you, so I'll leave you with the last word for the panel.

MR. NDULU: Yeah. Would Africa be hurting more from "political bubble"? Well, definitely the political challenge in Africa has been there, continues to be there. It's only that we were speaking mostly in relation to what can we get from the unfolding financial crisis and its implications. So it's not to belittle the importance of the political constraints.

We know that the region has definitely improved, has definitely seen improvement over time. Look at Afrobarometer in terms of opinions across from the grassroots level. Look at the world survey, more or less we are on a learning curve. There will be stumbling along the way, but definitely in terms of opening up polities and democratic processes, there has been an improvement. The dangers remain. And I'm not going to comment on the individual cases that you actually mentioned. We all have our own readings on each of one of this. So this is just by the way of saying, yes, it is important that we also focus on the political issues. It's only the topic at hand.

State capitalist model. Well, actually there is a lot of pressure now which is clearly coming out of reactions from the public and the population at large, saying, look, America has started owning banks, and is buying shares as what – is buying shares in their large auto companies. Why should we stay away from doing exactly that? Now, fortunately, we have had experience and this is not – it's not something new. You know, we have gone through a phase where market failure was the main concern and government intervention in the '60s, the '70s up to mid-'80s was tried and is still fresh in our minds in terms of what were the consequences.

So on that score, we have plenty to learn from our own history, and that's probably going to be the main content of the debate as we try to see whether one is going back. And, secondly, I think the second phase where government failure was really the emphasis and therefore market liberalization. That, again, we went through that as a model. And my hunch is that the pendulum is settling in a position where both of the market and state will be trying to work in ways that are complementary and that's probably going to be the model that will settle rather than go back exactly to what have already been experienced.

MR. MOSS: Okay. Well, thank you very much. I want to thank all the panelists and all of the participants here. We're going to take a brief coffee break and the next panel will start promptly at 11:00.

Thank you.

(Applause.)

(END)