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From *The West and the Rest* to the East and the Beast?<sup>1</sup>Jorge Braga de Macedo<sup>2</sup>

This text is based on remarks at a panel on “The Paths of Uncertainty”, a side event of the 13th French Cinema Feast moderated by Jean-Chretien Sibertin-Blanc, director of *Institut Français du Portugal* on 13 October. Other participants who addressed the topic of a 52 minute documentary with the same title were the director François Manceaux, music composer António Pinho Vargas, historian Irene Pimentel and economist Ricardo Paes Mamede, who participated in the film.

In closing I quoted approvingly a statement made in Fatima on the same day by cardinal Jose Policarpo, distancing the church from the idea that street protests could solve social problems better than rule of law processes. The other economist in the panel, who spoke right after, retorted that the cardinal’s advice played upon the docility of the Portuguese people in a way that reminded him of Salazar’s regime, toppled by the 1974 revolution. The audience applauded this view and, in the subsequent Q&A, Inês de Medeiros, socialist MP (also featured in the film) confused the current cardinal, enthroned in 1998, with Manuel Cerejeira, who was cardinal from 1929 until 1971 and a personal friend of Salazar. When I pointed out the confusion, the audience burst out laughing and she graciously acknowledged the slip as possibly Freudian.

Another example, from the film itself, is Daniel Oliveira, an active blogger from the Left Bloc, caliming that Portugal is a “perfect dictatorship” because it preserves the appearance of democracy! Such anachronisms have become widespread in the media and in social networks that they may be serving as rationalizations of the current conjuncture.

### **From a Franco Portuguese look at the republican revolution to an idea of Europe**

A Franco Portuguese look at the first successful regime changes in the 20<sup>th</sup> century, illustrates how slow the change in political culture has been since the fourth, almost 40 years ago. Indeed, confusing government unpopularity with regime illegitimacy went along conflicting political and financial freedom during most of the constitutional monarchy which ended on 5 October 1910.

*The Paths of Uncertainty* evokes the current Portuguese predicament through testimonies bearing on historical, economic, social and cultural dimensions. It is constructed around the celebrations of the Republican revolution with a flashback from the 101<sup>st</sup> anniversary which was thought to be the last observed on a national holiday.

The government elected in June 2011, shortly after the request for a bailout from the European Commission, Central Bank and IMF (aka the troika), accepted to cancel two civil and two religious holidays. As the Holy See had not communicated the required agreement in time for implementation to start in 2012, the measure was postponed until

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<sup>1</sup> This text was revised during a brief stay in Waterloo, Canada on the occasion of CIGI’12: *5 years after the fall; the governance legacies of the global financial crisis*, November 9-11. I am grateful for the hospitality of the Center for International Governance Innovation which allowed me to flag the international dimension along the lines of Haley (2012), Hampson and Heinbecker (2012) and other discussion papers debated at the conference. This broadens “the paths of uncertainty” described in the film and also inserts a note of caution referring to “the demise of the rest” (Sharma, 2012), a reference I owe to Colin Bradford.

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2013. Thus the 102<sup>nd</sup> anniversary was still observed on a national holiday, but the celebration was marred by protests and the national flag was hoisted upside down. This added to the sense of foreboding which followed the surprise announcement of additional austerity measures on September 7, just before the conclusion of the fifth regular troika review. More so than on 15 May when the film had been premiered at *Institut Français du Portugal* the message was that, in Portugal like elsewhere in the periphery of the Euro Zone (EZ), the cure was worse than the disease acquired greater relevance of the.

Indeed, most of the testimonies recorded in this multidisciplinary endeavour refer to the world financial crisis in ways reminiscent of the Occupy Wall Street movement. Rather than dealing with the EZ crisis as a mix of sovereign and banking crisis made unusual because of the absence of exchange rate risk, the narrative ignores perception of creditors and international investors. Therefore, in spite of the presentation of economic indicators such as national income and debt, no insight on differentiating responses of countries from Greece to Spain to Ireland can be gained from the film. For example, it neglects not only how risks differ across EZ countries, independently of whether they are under bailout or not, but also how they spread from and to the periphery.

My objective to bring economic and financial differentiation into the picture includes looking for historical roots that are more remote than the republican revolution, including notably the Napoleonic invasions. It also entails the broader geographical domain of the Community of Portuguese speaking countries (CPLP) and migrant communities scattered across the globe, both of which are mentioned in the film.

National differentiation which cuts across history and geography can be grounded on culture-based multilateralism. As an example consider the Bissau declaration on Millennium Development Goals (MDGs), put forward in 2006 by the eight members of CPLP. This declaration explicitly mentions “mutual knowledge” as a lever, alongside political will and financial clout, for the management of culture-based multilateralism, attempting “silo busting” (Tett, 2012) within organizations and nations.

Challenging the neglect of culture in multilateral affairs and engaging the economics of happiness helps implement the MDGs and reinforces the global common good (Macedo and Macedo, 2011).

Daniel Cohen (2012) has a convincing perspective on happiness, stemming from his earlier demonstration that rather than too much globalization, there is not enough of it. This is both cause and effect of lack of trust within and between nations: the pursuit of happiness and the gain in trust stem from mutual knowledge.

The ongoing world re-distribution of wealth from West to East could revive long forgotten philosophical traditions as we move from the ideal of equality to that of wisdom, according to Chantal del Sol (2011). As she says in the introduction to her *Age du Renoncement*, when we are between paradigms we believe the old one will be replaced by chaos,.

The question in the title underscores the uncertainty surrounding a transition brought about by the ongoing world re-distribution of wealth. If it exacerbates concerns over the deteriorating quality of economic growth brought about by the spread of western patterns of mass consumption to masses in the South and the East, it may well accelerate a new paradigm of renunciation.

The implicit dilemma feed/starve the beast, common in references to the mounting public debt in the UK and the US as justifications to cut spending and taxes, is here of lesser import than the need for industrial democracies to manage the deficit bias of budgetary institutions as a way of holding on to their credit ratings.

Nevertheless it reinforces the relevance of the adverse effects of improved terms of trade when the tax base is appropriated by a small number of interest groups<sup>3</sup>. This paradox is present in the global redistribution of wealth from the North to the South, from the West to the East, beginning with Marx's fear in his *Grundrisse der Kritik der Politischen Ökonomie* (written from 1857-61 as a rough draft for *Das Kapital* but not published in German until 1939-41) that in future capitalist China and India would exert pressure on socialist Britain (Macedo and Macedo, 2011) recall in connection with shifting world wealth.

Before discussing the ongoing world distribution of wealth, however, I present a specific historical perspective on the past supporting an "idea of Europe": the national Portuguese song, called *fado* (from fate) appears in the very beginning of the documentary. In her song, Mízia sees herself as "a statue forgotten on the beaches of the end of the world" (*sou uma estátua esquecida nas praias do fim do mundo*). As it turns out, I saw this "fate" as reflecting the multiple allegiances of the Portuguese, between Europe and the Ocean in a 1995 paper titled *Multiple allegiances as fate: Portugal's idea of Europe*. This reflects a balance between political and financial freedom, where the latter is seen as a condition for future political liberties. The Portuguese experience of successive vicious and virtuous political and economic cycles over the last two centuries cycle supports this argument.

Until the Peninsular wars, the crown preserved financial reputation (one bankruptcy is registered since 1300 vs seven in Spain). Complementary European and Atlantic allegiances of the population following the prominent role of the crown in the first globalization allowed higher tax collection than in most other European countries, but when those levied on foreign trade monopolies and Brazilian gold mines disappeared, financial reputation was compromised. The subsequent clash between political and financial freedom survived several redistributive revolutions thanks to an opaque fiscal constitution: the 1975 nationalizations were not reversed until the two major parties agreed on a constitutional amendment – more than 2 centuries after the 14 Juillet 1789 (Bastille day).

In comparison to the negative Greek view of European integration and the positive Irish or Spanish perspectives, an ambiguous response was the distinguishing Portuguese feature - until a bailout from the EU and the IMF was sought in Spring 2011. It may be that some 5 million non residents claim Portuguese descent and this represents about half of the resident population. A Paris-based representative of these communities (known in French as *lusodescendants*) mentioned in the documentary that their contribution to national identity is still neglected.

The balance between political and financial freedom has reflected the multiple allegiances of residents and non residents alike: banking services were provided during the 17<sup>th</sup> and 18<sup>th</sup> century by the so-called "Portuguese merchants" scattered throughout Europe and during the 1960s, migrants' remittances allowed the negative consequences of currency inconvertibility to be less felt in lower income families than among the middle class, where the propensity to migrate was lower.

### **The West, the East and the beast**

*The West and the rest* was the title of the late Angus Maddison's contribution to the 40<sup>th</sup> anniversary volume of the OECD Development Centre's (Macedo et al 2004):

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<sup>3</sup> Macedo (2003 a, b) adapted the literature on the so called "voracity effects" to Portugal's European integration arguing that the campaign slogan of the Socialist Party in 1976 "Europe is an insurance against dictatorship" should be replaced by making Europe an insurance against voracity. The difficulty of the change in mindset in Portugal (and France) has already been pointed out in the introduction.

according to his “millennial perspective on the world economy”, the divergence in income levels between Western Europe and its offshoots on the one hand and the rest of the world on the other started well before 1820 (Maddison, 2001).

The same expression is used in the subtitle to Niall Ferguson (2011) to motivate the same questions, (phrased as: How did the West overtake its Eastern rivals? And has the zenith of Western power now passed?) and offering the same answer. “beginning in the fifteenth century, the West developed six powerful new concepts that the Rest lacked: competition, science, the rule of law, modern medicine, consumerism, and the work ethic. These were the ‘killer applications’ that allowed the West to leap ahead of the Rest; opening global trade routes, exploiting new scientific knowledge, evolving representative government, more than doubling life expectancy, unleashing the industrial revolution, and hugely increasing human productivity”. Differently from Maddison, Ferguson argues that the days of Western predominance are numbered because the Rest have finally downloaded the six killer apps the West once monopolized – while the West has literally lost faith in itself.

The projections to 2030 contained in Maddison (2007), his macroeconomic history of the world, were updated in the table taken from Mold (2010) to take into account the upsurge in economic growth in much of the developing world up to the crisis: Maddison arrived at an income per capita over \$8K per capita in 2030 for the rest, compared to \$37K for the rich countries – meaning that the developed economies would remain more than four times richer. Mold (2010) also notes that, if the World Bank 2009 purchasing power parity figures were used, the income gap would be larger still and adds “Absolute economic size matters on many levels – in terms of market potential, resource requirements, energy consumption, etc. However, in the final resort, what matters for economic development is the level of per capita income. The developing world may be on the verge of a ‘golden age’ in terms of its economic clout in the global economy, but aspirations of achieving standards of living comparable to those in high-income OECD countries are still a long way from being fulfilled. “According to these modifications to Maddison’s forecasts, in the global economy of 2030, the “Rest” accounts for nearly 70% of the global economy, compared to just 45% in the base year of 1990.

| 1990 | 2008 |       | 2030 M | 2030 ver |
|------|------|-------|--------|----------|
| 15   | 23   | west  | 35     | 33       |
| 12   | 28   | rest  | 61     | 76       |
| 27   | 51   | world | 96     | 109      |

It is worth remembering that a few years earlier the BRICS acronym presented the opposite view which is the emergence of a global middle class deepening and widening the appetite for western mass consumption patterns, from food to cars.

Along the same lines as the film, James Galbraith recently argued in *Le Monde* that the austerity moment is passing and adds that fashionable opinion offers the growth alternative. As he points out, though, “growth is only a *goal*. It is not a *policy*. And every lobbyist, political hack and ten-cent crank has a strategy to make growth happen. The details consist of whatever it was they most wanted beforehand”. He goes on to say that this “is nonsense and most people see that clearly. If austerity was a deceit, growth is a chimera”. His neither austerity nor growth rallying cry reminds me of *La Force du Vertige*, the 1983 book by *nouveau philosophe* André Glucksman built around the cold war dictum “ni rouges ni morts”.

Quoting Galbraith (2012) again: “In truth the protestors of Greece and Spain and Italy, the voters of France and the Occupy Movement in America, who oppose austerity, do not clamor for growth. They do not care about profits or even all that much about wages. What they want, mainly, is to protect the institutions that make their lives tolerable, safe and attractive. These are health care, education, local public services, culture, the environment and the right to retire in modest comfort at a reasonable age. These citizens know where their interests lie. In modern life schools, universities, clinics, hospitals, clean and safe streets and secure future are not expendable. They have become the central features of life, the sum-and-substance of desire and happiness. Cars, computers, booze, and tobacco, these are the extras now. The companies who make them seek profits, and therefore growth. But the people would take solidarity instead, if they could.”

For him, in the US solidarity and social progress rose from slavery, and the great struggle over the limits of solidarity has always been racial, while in Europe it arose from war. He acknowledges that “the idea that solidarity must extend across nations has not yet taken hold. Germans never promised to pay Spanish pensions; they took it as a European principle that they would never have to. But today Spain is in debt trouble, and the practical issue is whether Spaniards – or the Portuguese, or the Greeks – can have any social protections at all, if they stay in Europe”.

Roberto Mangabeira Unger, freshly returned to Harvard from a position in the Lula administration in Brazil, chose to open and close his keynote address at the Center for International Governance Innovation with striking book ends that could provide a basis for the solidarity view expressed by Galbraith: “The world is bent under the yoke of a dictatorship of no alternatives” and “The task of the imagination is to do the work of crisis without crisis. Imagination, imagination, imagination to the rescue”.

Rather than the apparent chaos in Delsol (2011), Unger (2009) says “The world is ready and united as never before. The great secular projects of emancipation, the liberal and socialist projects and the world popular romantic culture, have prepared all of humanity for the idea that it can be lifted up; that the objective is not simply a marginal advance in the quality, but the empowerment, the greatness of the ordinary person. And the method is not the humanization of the established framework through social policy, but the reinvention of the framework through cumulative institutional experimentalism. The world is ready and any fragmentary advance in part of the world, if correctly interpreted through a discourse that reveals its larger meaning would resonate sensationally though out the world”. Probably we will never know whether and how this cumulative institutional experimentalism would converge because “the transformative opportunity presented by the crisis (...) has already been largely wasted and in general there is a vicious circle, a paradox. We want institutions that would diminish the dependence of change on crises but the induction of such institutions in turn seems to depend on crises. We should not depend on crisis. It is so as not to depend on crises that we possess the faculty of imagination”.

As it turns out, the philosophical underpinnings in Unger (2009) involve fate rather than *a deus ex machina* imagination. He claims that the “two most powerful impulses at work in the world today are the desire for socially inclusive growth and the struggle to affirm collective originality to develop distinct forms of life. Both these impulse are in the service of a larger ideal. Not the humanization of society but the divinization of humanity, the enhancement of the basic capabilities of men and women and the lifting up of ordinary life to a higher plane of intensity”. Yet, “a very restricted repertory of living options for the organization of different domains of social life (...) is the fate of

contemporary societies. To rebel against that fate, through the alliance of theory and politics, it would be necessary to enlarge that repertory.”

Sadly, many “countries in the world now are governed by people who would like to be Franklyn Roosevelt and do not know how. The progressives throughout the world in general lack a program. Their program is the program of their conservative adversaries, with a humanizing discount and a falling discount, at that. The world financial and economic crisis, would supply an enormous opportunity to overthrow this dictatorship of no alternatives, but this opportunity has already been largely squandered”. Rather than discussing this financial and economic crisis, it is preferable in his view to address “the use or misuse of the crisis as an occasion, to form the global new deal, which on my understanding means to overturn this dictatorship of no alternatives”.

To do so, he denies the prevailing “position of the progressives (...) that the orthodoxy is universal but the heresies can only be local. And these local heresies would be combined elements of the universal orthodoxy with local adaptation” Instead, a “universal orthodoxy can be combated successfully only by a universal heresy, as liberalism and socialism were in the last two centuries. A universalizing heresy, constituted by these constitutional innovations that paradoxically would provide the instruments through which contemporary societies could become not more like but different, inventing differences rather than clinging to remembering differences”.

The economic and financial differentiation which motivated this text goes well beyond remembering differences but differences to be invented connote governance innovation and are certainly part of positive responses to globalization. Nevertheless, negative responses were the norm and this can be explained by the “together alone” paradox. Flores (2011) summarizes the argument: “The crisis has drawn attention to the fact that not only emerging powers but other regions of the world as well may be offering different development models and may constitute into alternative, in some dimensions more positive agents, in the conduct of the present stage of globalisation. Notwithstanding, the traditional western powers have not lost a large amount of control of the world economy. And the crisis proceeds, reallocating world power as in a Hobbesian anarchy. It is difficult to foresee smooth developments in the near future. On the contrary, multilateralism seems to be losing ground to unilateral action or bilateral arrangements (...).As economic policy becomes even more involved with defence and security affairs, the feedbacks from each side to the other seem likely to keep dissent and animosity high, rather than contributing to peaceful and constructive approaches”. Macedo (2011) finds the roots of the “together alone” paradox in the question asked by Queen Elizabeth on 5 November 2008 while visiting the London School of Economics. Inspired by the response of the British Academy in the form of a letter where the relevant actors are the UK, the US (footnoting the contribution of savings from China and India) and no insights are drawn from the natural sciences, the Lisbon Academy of Science launched a multidisciplinary debate on the global financial crisis incorporating new perspectives from Brazil as well as from evolutionary biology.

As Paul Krugman contributed to one of the debates, he recognized that no economic theory can perform the feats its users have come to expect of it, especially because too much of what happens in an economy depends on what people expect to happen. In this regard Krugman (2012) concludes with a severe indictment of the profession. “In normal times, when things are going pretty well, the world can function reasonably well without professional economic advice. It’s in times of crisis, when practical experience suddenly proves useless and events are beyond anyone’s normal experience, that we need professors with their models to light the path forward. And when the moment came, we failed”.

According to evolutionary economics, organisms' evolution occurs locally and takes place over time, maximizing reproductive success, often taking advantages from crises in detriment of equilibria. If economics is done with the right spirit, some biological models cannot be applied. Some aspects in economics can be modelled by physics<sup>4</sup>.

Thus, for Krugman (2012), the Queen's question is a wrong question. Financial crises are not new, they happen all the time and are recognizable. This time is different, but it is never different. At the surface it looks different, but on the basis there is always the same pattern. While more evidence is available from the past, people have a short memory regarding crises. In the immediate times people will save, but then they will forget and so will the regulators. People's perception of bank functions has been misjudged. Lots of banks and products were unsupervised and unguaranteed.

Through multiple perspectives, sights, networking and capacity of transmission between groups, a new attitude to face and overcome crises arises. The diversity of CPLP perspectives could contribute to put multidisciplinary work in the agenda and to trigger public debate by academies and research universities. As argued in Macedo (2011) Portuguese-speaking economists might transcend the silo curse "in a world that is both highly connected and tribal" (Gillian Tett, *Financial Times*, 9 October, 2009).

By design this text places the paths of uncertainty in the "together alone paradox" which goes well beyond the Euro Zone crisis and the unsustainable policies followed in Portugal after qualifying for the single currency. In this regard the focus on the celebration of 5 October is especially misguided in a country where multiple allegiances are fate. The same can be said about focusing on the world shifting of wealth from the West leaving out the difference in political cultures in the East especially about the welfare state!

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<sup>4</sup> According to Kahneman (2011), we have two minds - a shallow and a slow and lazy. Since the 2nd is lazy we tend to use too much of the 1st, what limits rationality. It's easier to see the balances on others than in ourselves.

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