

John Templeton Foundation

A Big Questions Conversation:

*Does the free market corrode moral character?*

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Gary Rosen:

I'd like to welcome you to tonight's Big Questions conversation. My name is Gary Rosen and I'm the Chief External Affairs Officer of the John Templeton Foundation. We're delighted that you could join us, whether you're here in London or watching our live webcast back in the States or elsewhere. For those of you who are here in person I would ask that you now take a moment to turn off your cell phones or other devices that ring or beep.

Tonight's Big Question may seem like an unusual subject for the Templeton Foundation. Most people in the UK know us best I think because of our efforts to bring some calm and reason to the dialogue between science and religion which too often turns into a shouting match. You may have seen as you were walking in those two angry protestors out front. They were a little difficult to recognise but that was Richard Dawkins and AC Grayling.

Some may also know of our substantial academic grants here in the UK. We are very proud to support the excellent work of the Faraday Institute at Cambridge, the Ian Ramsey Centre at Oxford and the Darwin Correspondence Project which will receive a great deal of well deserved attention in the upcoming Darwin anniversary year.

But none of this is why we are here tonight. We are here instead to explore a different part of the Foundations mandate. The late Sir John Templeton whose long eventful life came to an end this past summer was of course an astonishing success on Wall Street. But he saw the free market as far more than an engine of material progress. He considered it a teacher of core human values, of ethics. As he put it in writing about entrepreneurship - Through risk and challenge we grow both in worldly wisdom and in spiritual strength.

The Foundation that Sir John established shares this view but we also recognise that modern economies are enormously complicated things and that their far-reaching moral effects are hardly always benign. If the free market is to be defended its failings and vulnerabilities must be candidly acknowledged and energetically discussed.

Our particular interest especially at this time of financial crisis and self doubt is the relationship between market economics and moral character in the broadest sense. In what ways does the market build or undermine certain qualities of character including our concern for others?

The booklet you hold in your hands that you found in your seats tonight with essays by a range of distinguished public intellectuals and public figures is our effort to answer this big question and so to is our discussion tonight. To guide us through these difficult matters we are very fortunate to have Stephanie Flanders. Stephanie's brilliant and still young career has included stints as a writer and columnist at the Financial Times and as an advisor to two US Treasury Secretaries, Robert Rubin and Lawrence Summers, both of whom are much in the news these days.

Since 2002 she has been at the BBC where she is now economics editor and she is a new mother. Indeed she cleverly timed her leave of absence and has managed up until now to avoid the confounding financial mess that has turned her beat into the world's preoccupation, Stephanie Flanders.

Stephanie Flanders:

Thank you very much, I think most journalists would consider it a mixed blessing to have missed the biggest global financial crisis, I hope of my lifetime, I hope we don't see another one, but I do

have the great consolation of my daughter, so all well on that front.

It's an intriguing time to be discussing this subject. I suspect when it was first mooted - certainly had we been here a year ago the focus might well have been more - we certainly might have been more worried about the effect that the markets and that great wealth that it has produced for some anyway, were having on our souls. Now we're much more focussed on the affect the market has had on our wallets and the fact that it's not even delivering on the economic front.

I mean you've had a debate for years now, what you might call the traditional debate about the market has been. For example the anti globalisation activists worried about child labour and the affect on developing countries of multinational corporations.

Slightly more philosophically and certainly more subtly you've had critics like that of Michael Walzer who has been involved in this project talking about the affect of the encroachment of the markets and market competition on areas that might previously not have been economically determined and indeed the affect on all of us as moral agent of competing for economic and political power.

So all of those debates had always happened. Now you sense there's a feeling in the air this dark night of the global capitalist's soul - that people are saying not only is it doing all of these terrible things it's not even making us rich, it's not even delivering on its own terms. And this certainly feels to me as someone who has spent most of their economic thinking life thinking about the rise in the markets and being part of this era of pro market policy around the world, it feels like something like a high watermark and a turning point for that.

I don't know there may be others who disagree. But in that context, obviously this debate becomes I think a lot more interesting, certainly more subtle.

I would say at the start that we are discussing this in the shadow of the global financial crisis; I hope that won't prevent us from also talking about the more sort of enduring philosophical issues around this debate. But I suspect we won't have too much trouble with that because our speakers will keep us firmly rooted in the philosophical.

We have John Gray, the emeritus professor of London School of Economics who is a prominent and prolific political philosopher, reviewer and author. I think he's a thorn in the side also of people who like to put people in neat boxes of left and right because he is always refusing to in them. Among his recent books are False Dawn, The Delusions of Global Capitalism but also Black Mass: Apocalyptic Religion and the Death of Utopia.

We have Jagdish Bhagwati who is a highly respected economics and law at Columbia University and the author of In Defence of Globalisation and I would say one of the most prominent if not the most prominent defender of globalisation today and incidentally the multilateral trading system, although despite your efforts Jagdish I don't think the multilateral trading system is doing too well at the moment.

And on my left we have Bernard-Henri Lévy, who is so important he's an acronym, he's BHL in his own country, ubiquitous philosopher, public intellectual and author, leader of course of the New Philosophy movement in the 1970s and author of more than 30 books, including the New York Times bestseller

American Vertigo and Left in Dark Times: A stand Against the New Barbarism.

So none of these people tend to hide their intellectual light under a bushel. I think my biggest challenge will be right now when I ask them each to just talk for five minutes to summarise what they have also contributed to the pamphlet that have as part of this session, in answer to the question of whether the free market corrodes moral character? John your answer to that or your headline answer was, it depends. So what does it depend on?

John Gray:

Well I start with a kind of axiom which is that all humanly acceptable economic systems make use of human motives that are morally questionable. And this actually comes from classical economic and liberal theory because if you read back to the 19th century economists they say in economic systems we must make use of the strongest human impulses and not merely the best. If you rely on the best, if you rely on altruism and so forth you won't get as productive an economy, as useful, as beneficial an economy as you want. So I start with the idea that all humanly acceptable economic systems are morally corrosive to some extent.

Now of course some economic systems I think are universally bad. Central planning and the communist form is one example. I was a militant anti communist in the 1970s and 1980s until communism collapsed. I have no regrets about that it was a monstrous system in many ways, I welcomed the collapse. Partly because I thought that communism was a utopia, attempted to create a situation in the world, the type of economic system which demanded too much in terms of human knowledge and human motivation. No one knew enough to make these systems productive and also it relied on people

being better than they ever are. So the result was a kind of unproductive wasteful parody of laissez-faire capitalism, vast corruption, low standards of living, huge loss of life, ecological devastation that's the central planning.

But when communism collapsed what happened was not a period of pragmatism and moderation but a new utopia, a utopia of a global free market. Now if you forced me to choose between the utopias I'd choose the free market, partly because it's - more productive and less destructive of human life in many, many ways but also because it's more unstable. Communism hung around for a hell of a long time; communism was around for over 70 years and destroyed many generations of human beings. The free market I anticipated in the form in which it was bruited after the collapse of communism wouldn't last very long and in fact it has already ceased to exist. There is not now in the world a major serious economy which is a free market economy in the way that the US and Britain were even a few months ago. Here is where the crisis is relevant.

Now true then they were heavily regulated economies - the pure free market is like pure communism it has never existed and never will. The economies that have ceased to exist in the last few months or even few weeks, were economies which relied more on deregulated markets than the ones which now exist in the world.

What we have in the world now are varieties of state capitalism, outside North Korean and Cuba and the theocratic crypto economies of Iran for example. What we have in the world are mixed economies with the state playing a profoundly important role and an increased role. And I do not expect in my lifetime any reversion to the kind of economies that existed even a few

months ago. It is too large a crisis and will require too much state intervention.

So what's the message in my five minutes that we can take from this? No more utopias. People like utopia, people think it embodies a noble human impulse, in practice in politics and in political economy I think it's been horribly destructive of human life and of human wellbeing and of human freedom. If you want to take up a utopia go and live in some sort of commune, don't impose it on other people.

Be reasonable, and what that means in this context is that among the range of types of capitalism that we have in the world that I think are legitimate in their different ways none of them are morally un-corrosive. They all corrode some important virtues. The one which has recently collapsed essentially I think was a victim of hubris as much as of greed. It promoted a kind of shortsighted snatching after virtual wealth based on pyramids of debt. That has gone, that has ceased to exist. All the ones that remain are morally mixed.

So I find, let's be reasonable any position which says one type of economic system is ethically innocent, ethically pure all the rest are no good is useful. Some economic systems are universally bad, communism, the theocratic ones and so forth that I've mentioned, but all the rest basically depend on time, place and circumstance. That is true generally.

So let's be reasonable we can't have everything.

Stephanie Flanders:

Admirable time keeping there. Jagdish your answer does it corrode moral character was to the contrary.

Jagdish Bhagwati:

Yeah let me start from where you said we should start which was the current crisis. I think it is moved the guide posts a little bit away from freer markets and so on and towards more intervention.

But it is not all the dramatic actually in my view, because I think when you look at what's going on what has happened of course is that the financial sector is really the main problem. The financial sector as you know and many of us have written about it, it is very different from the non-financial sector. And what really is coming out is yet another demonstration of the fact the when you think about the financial sector almost everything changes, because when the downside arrives it's pretty dramatic. And we've had endless numbers of crises where that is a common factor in the whole situation.

The East Asian financial crisis, many of our friends who were mentioned actually pushed for capital count convertibility without actually thinking about the downside which actually overtook the East Asian economies.

We've had financial innovations like derivatives, that produced the LTCM crisis one of my friends at Basel said that they'd have a conference six months after the event - we had just been saved by a hairs breadth actually of intervention by Tim Geithner among other people. And that - the central bankers and the commercial bankers didn't know what a derivative was. Maybe they knew calculus and they knew what  $DX$   $DY$  was and probably were busy cancelling it out the  $Ds$ . But they certainly didn't know what a derivative was. So the innovation had gotten beyond the comprehensive of these new inventions.

The same thing now with the credit default swaps and securitisation mortgages. I don't see these as ideological things,

now certainly Alan Greenspan is an ideologue having been brought up on Ayn Rand. But the guys who actually pushed for a lot of these things including Hank Paulson who was one of the five big guys from the financial sector who went asked for the removal or non-extension of prudential reserve requirements to the five investment banks that was not ideology it was just seeking business. And the usual amount of clout and they didn't understand, I talked with Dr Ackermann once of the Deutsche Bank and he we never thought this would be a like a dagger at our throat. We he thought they were diversifying the risk through the -

So what I want to say is that we are seeing a crisis, you know repeatedly in the financial sector so if Bagehot was alive he would feel perfectly at home. Right, because we've always had intervention.

I think what has happened is that that is something which you're going to have to fix. And there's a cultural factor here also because we normally tend to think of non-financial innovation as basically good, expect perhaps BHL might object to it. But certainly Jacques Attali would raise some cultural issues. But generally if you've got a PC inventor the problem is one of accommodating the steady decline of Schumteterian-wise in terms of after - what's called creative destruction, getting the typewriter people after the waste so they don't turn into Luddites. But with the financial innovation it is not on a par. And I think that is something which we're beginning to learn now because it's happening repeatedly.

So I would say that it is not really an ideological shift that we are facing, it is really finally coming to grips with the fact that financial sector is very different from the non-financial sector. And the bulk of the non-financial thing will continue as is. Right

now Wall Street has turned into Main Street; we're facing a major recession. There of course you're going to have to intervene in all sorts of ways and since we have a distinguished French intellectual with us. I mean when I saw Sarkozy in reaction to the crisis reading Das Kapital, there was a picture of him doing that.

And my reaction was you know not dramatic like this, but my reaction was I thought that every Frenchman who had had a good education has read Marx, Proust and Voltaire at school. And how as this passed Sarkozy by, you know how come he had to read Das Kapital at this stage in the middle of his presidency.

Stephanie Flanders:

I think he was brushing up.

Jagdish Bhagwati:

But the American's who don't have an ideological position there's where I disagree with John a little bit. The American ideology is lack of ideology. There they all settled down essentially to fixing the problem basically. If you don't Paulson or Bernanke that you are a socialist they would say maybe but get lost we've got to fix the problem. And I think is the difference that you have.

So even when you talk with the US and the UK being essentially different and market oriented compared to other regimes I'm not quite sure the proportion of the budgetary expenditure of GNP has never really changed dramatically and nothing very much has happened in terms of - well privatisation of course is not a big issue in the US.

But it is very difficult to identify things. There is only one place where you could actually say that the Republicans have really done something crazy which is to say that we should be able to

run prisons, the army and so on, you know Guantanamo Bay by having private contractors. Because a profit motive cannot be extended there because the downsides are quite enormous. And it was that part not the economics part which I think is really the defining issue over there.

So I would say - there are - there really isn't - I don't identify looking at what's been going on in the last 25 years any dramatic shift towards the markets, let the markets rip kind of attitude. I mean people talk like that in the United States but you know I don't see any evidence of that.

Stephanie Flanders:

Away from that - away from the markets?

Jagdish Bhagwati:

Yeah away from that and towards that - you know because they have been very pragmatic about it in my judgement. Except as I said for extending the private sector into areas which we traditionally would never let it get into. And I think that's a very important issue and I think in the developing countries the real problem again is going back to Adam Smith - Adam Smith's Laissez-Faire for instance which is where we you know talk of markets was largely a function of - the way I read it, it was a fact that the governance he was facing in this country was actually very much like the lack of governance, of corruption and so on you know in inverted commas in the developing countries.

And so he - you may not have focussed on this but he and David Hume the two great men of the Scottish establishment and of the Scottish enlightenment they were in fact did not have a vote, because it was basically rotten barons and oligarchic government. And so they were implicitly - Adam Smith was comparing Laissez-Faire with an oligarchic government like the way we would talk about Russia today. And I think that really pushed him in the direction of more Laissez-Faire.

When you take the John Stuart Mill and James Mill they come directly from Bentham who is trying to fix the government and improve it. Once you improve the government then Laissez-Faire in economic matters begins to take a backseat. And I think that is very much the kind of feeling one has in developing countries. Yes we would like a lot of intervention you know that is the first reaction we have, because there are lots of problem.

On the other hand you have to worry about interventions, whether it will produce good things or bad things. And I think this is where the real worry about markets is - about governmental intervention. That many of us after the war did want interventions of one kind or another, it's the logical thing to do. I mean you know when you're behind the curb you say - you know let's try and solve it as best as we can and put all the governmental resources into it. But is the government really going to be able to function if you overload it it will be counterproductive and so on.

So those are I think the defining differences in my opinion on whether markets or government. In the developing countries it is the old Adam Smith versus John Stuart Mill kind of worry. And then in our part of the world it is a fact that the financial sector really needs massive rethinking and two we have to get out of trying to get the governments - like in the US to look at things - to do things which governments cannot hand over to the private sector, because you know the profit motive just isn't the right on for running those things.

Stephanie Flanders:

Well the good thing about what you said is that those of the people who have read what you had contributed already on this subject in the pamphlet won't have had anything repeated. The bad news is you didn't really answer the question, but I will

come back to you on some of the moral implications of what's going on with markets. But Bernard-Henri you had what you might call a continental flavour, your headline for your response was certainly, or does it? Can you just unpack that a little bit?

Bernard-Henri Lévy:

I agree and I disagree with what was just said. I agree in a large extent, number one I read Marx enough and my difference with Sarkozy, one of my differences is that I read him very early; I did not wait until my early or my last fifties to discover Marx. I had the change, I was lucky enough to read it when I was 17, 18, 20 and it took me a little time to understand but I did understand that all the available alternatives to free market especially the Marxist one provided solutions which were worse than they problem they pretended to solve.

This is a clear point, the idea of getting rid of the free market, the idea of attributing to the free market the moral corrosion of our society was an idea of Marx, was an idea of all the fascist regimes of the 20th century and they brought the worst.

I travelled a lot also, not to know, and I travelled in various sorts of places that it is where the free market has not yet introduced its principles and its laws that the misery is the deepest.

I have travelled a lot in Africa in real black holes of the African continent in some parts of this terrible land where the very idea of freedom, of market and of free market does not even whisper to the ear of the people. And believe me it is the biggest and the most utter disaster. And we can of course follow the Anti Globalisation movement on some of their points when they speak about the Tobin Tax for example, some points like this. But when they say that globalisation brings misery it is just false. They are just provincialist, they are just seeing the world through the microscope or the telescope, short sighted of the Western

point of view, they don't know enough of what is the real unfortunate misery of the world.

I agree at the end also because all those, all the philosophers, the thinkers who thought really thoroughly about the relationship between economics and ethics which is a topic you proposed to us tonight with Gary Rosen and the Templeton Foundation. Know that there is a linkage, a link even if it is provocative and shocking it is a fact between morality and money. Thomas Hobbes in *Léviathan*, familiar in this country demonstrates it. He expresses the point that in the so called state of nature which is a state where every man is a wolf or the other man the only way to get out of that is precisely this abstract instrument, this neutral tool, this mediation between the men which is called the money and which agendas create what is called the commerce.

In the French Enlightenment under Voltaire, Diderot and so on, commerce has a double meaning. It meant of course the exchange of merchandises, mediated by money and it meant also, it was a saying the relationship between the souls and minds. So to say that the free market is evil is just turning back to Thomas Hobbes, Tocqueville and even Karl Marx in his most lucid and intelligent text there are some, especially about America. There are texts of Marx about America the grandeur the greatness of America where he says that the speed of the circulation of money engenders some sort of - a sense of orderness, a sense of responsibility, a sense of going out of oneself which is good.

So on all these points I will agree with my partners on this floor. Nevertheless one cannot avoid the point that frankly the capitalism, the free market as it is today, as it has happened to work in the last decades is absolutely unsustainable and is not sustained and will not be sustained.

It is the reign of greediness or the reign to speak like the Greek philosopher of Thumos the absolute sovereignty of Thumos which is greediness, which is expansion of the ego. It is the reign of the hubris big is beautiful, bigger is even better. It is a reign, this free market which was supposed according to Hobbes, according to Levinas which was supposed to create a sense of otherness. It is creating on the contrary terrible and disgusting indifference to the fate of the others and of the poorest.

Free markets bring prosperity, but those who rule the free markets in the last years and decades did not give a damn if it created prosperity, it was in their bag, in spite of themselves, in spite of their intentions. It is the reign of an utter and unbearable egoism.

The way the financial system has been saved, the bailout of Mr Paulson it had to be voted and it was voted probably three days too late. But I understand completely the anger of the average American guy, seeing how these bankers who took for themselves the gains and who decided to socialise the losses, this privatisation of the profit and this communalisation of the losses was a pure scandal. And there was something really shocking in the situation and even in the way that it was solved which Mr Paulson admitted himself by changing his gun from the shoulder as we say in France a few days ago.

And it is a reign; I say in my text that communism was the reign of irresponsibility, that it was a school of propedeutic, of irresponsibility, impossibility to take decisions and so on. That is true, but the capitalism as it works now is also a school of un-responsibility, un-accountability.

Look at these famous toxic products which the bailout was supposed to recover and to package in a whole deal in order to isolate them as the bad parts of Chernobyl, as a sort of bad radiation which has to be closed up and isolated. It could not be done, why? Because nobody knows where they are because these toxic financial products did spread in a completely metastasic, mad, foolish way, nobody knows who has what, this is the proper definition of un-responsibility.

So this is the free market of today, this is the way it works and it worked in the last year and this is what is dying, exploding and dying under our eyes.

So I would not say that free market corrodes the moral character. I would say the reverse, the moral character, the decline of the moral values of the democratic society, the decline of the ideal which was expressed so well by great American, English and French thinkers through ages this decline has corroded and is still corroding the system of the free market. That's why I would like to plead tonight, to propose at least this plea to your discussion. I would recommend, I would like to plead for as the French Ernest Renan said an intellectual and moral reform, une réforme intellectuelle et morale which is the first step toward the rebuilding of our free market, which is of course the only available solution.

Stephanie Flanders:

Thank you. I suspect - the thing I'm most fascinated by is I think actually everyone here to a greater or lesser extent - agrees with one another that the free market system is the only available one and even perhaps does not think it corrodes moral character or at least not so much that one would reject it. What's interesting to me even from just what we've heard is I suspect they have different views about the moral implications of

this crisis and of the things that the governments have had to do in the last few months.

I mean just because you've just raised this and you talk about the bailout which did seem very unfair to people, on the other hand what the last few months has also brought is as John said in some sense the humbling of these titans, the people who were untouchable, who were supposed to be unable to make any mistakes. I mean are you optimistic about the way things are going that this is going to be an opening for a kind of potential reform?

Bernard-Henri Lévy:

I'm optimistic but not enough was said to humble them and to un-throne them. Not enough was made. At least in my country in France I would not allow myself to speak about what happens here. But the help which was delivered to the banks was not tied enough to real economical condition. What is given has to be given back. What we see today in the French financial system and also in America, maybe less in England but America is clear and France too is big - the whole burden taken out of the shoulders of the main banks by recapitalisation, by buying of their toxic products, by huge loans in figures which were unthinkable a few days ago but without real counterpart. The credit is still frozen.

If you want in Minnesota or in the South of France to buy a house or to have a loan to build a little company - I don't know well about that, but I hear it is still as difficult as it was in the crisis. So a moral and intellectual reform means also a political reform. The free market system liberated itself too much from the politics. It - il s'est affranchis, it franchised itself too much from the regulation of the politics.

And what American leaders not without courage by the way, not without bravery are rediscovering which was in the programme of the inventors of the free market by the way Adam Smith and others is the real core role of politics. Free market without politics, without a strong - politics does not mean bureaucracy, it does not mean the overwhelming weight of the state but it means rules, counterparts, a real check and balance between the state and the banks and the citizens, these three pillars of the system which is not enough implemented today but I'm sure it will be because there is no solution.

Such huge channelling of money cannot be done to the banks in order just to be - make as a treasurer and kept under their feet or their arse, it cannot be like that. The money has to innerve - there is a sentence in France which is le nerf de la guerre, the nerve of the war, money is the nerve of the peace, it is the nerve of the peace. It is the blood of a society. What distinguishes a prosperous democratic society from fascist or feudal or dictatorial society is this role of money being the blood of the peace and of the democracy, but the blood has to circulate, the blood has to infuse all the members and all the nervous terminaisons and nervous endings of the social body, this is what has to be done now in the next month or weeks.

Stephanie Flanders:

John, you also said you thought that this was the end of the market system, have we moved in a better direction in the past few months?

John Gray:

Well let me in the spirit of Bernard-Henri remarks make three brief proposals for an intellectual at least reform. The first is stop referring to Adam Smith as an unqualified apologist for the free market. If you actually read Adam Smith what you find is he's one of the sharpest, most astute and fundamental critics of the emerging market system.

Marx who I don't think we get much illumination from by the way, I think if you want to read something which is relevant read Hyman Minsky, the American disciple of Keynes he's the most relevant to our present circumstances, with the disturbances in the financial world.

But Marx took many - as he himself attempted took many of his criticisms of the commercial system that was emerging - that had emerged in Marx's day from Adam Smith. If you read not only *The Wealth of Nations* but also *The Principles of Jurisprudence*, that's what you'll find, that's rather an important point. It's a fundamental error to think that Adam Smith did not recognise the morally corrosive affects of market institutions and market life.

He proposed a national militia on Swiss lines not because of defence regions but because he thought it promoted virtues that the market undermined. So Smith is as important as a critic of the market as a defender of the market.

I guess the second point is more related to the whether the American commitment to free markets was an ideology, before I mention that briefly I thought - I think it's very important it seems to me to recognise that I think there's a sort of looseness in talking about markets and market economies here. Is China a free market? Now I would say and I think most ideological defenders of the free market would say no and I think they'd be right. But it is a type of capitalism. It's quite different from what went before it is different from Maoism. Is what Russia has, is that a free market? Certainly not, it's a type of oligarchical - but it's a market system of some kind, markets exist and are legitimate and there is some sort of rather shaky legal

framework often intervened upon by politicians. But it's quite different from Stalinoid or even Khrushchevian central planning.

So there are a variety of types of capitalism in the world and only a few of them, the ones that have recently begun their collapse which I think could be called free markets.

And the final point about American, were they non-ideological? I don't think this is true at all. Partly for one reason that was mentioned itself, if you favour the extension of markets into areas of life where they are not appropriate you can only do the like prisons, like interrogation by armies if you favour private contractors taking over those, you can only do that I think because of an ideological reason which says markets are always better so that's ideology.

But the other reason that the recent American Administration, the one still in power for a few more weeks was ideologically committed is that it was a missionary project. It wasn't simply a way of organising American and economic life. They were constantly haranguing the rest of the world, China, Japan, everywhere to adopt their way of doing things because they said it was universally the best. And that seems to me to be the hallmark of an ideology and one I reject myself, I don't think any economic - any type of capitalism is always and everywhere the best. Though I do think that there are some types of economic systems that are always and every way bad, like central planning for example was.

But there is none that is always good. And what's happening now I think and this is where ideology and even geopolitics comes into our discussion is that the world, is that the world - the parts of the world which resisted the full incorporation of American practices can now say and are saying we would be

much worse off than we are, we're all hit by this global crisis, this large global change which isn't like the banking crisis of Bagehot days but they were national crises they weren't global crises this is global, are hit by them.

But they are better off because they did not accept and absorb the policies which were pushed on them in a proselytising missionary fashion by the Bush Administration and also by Clinton actually before that. The parts of the world that are in somewhat better shape are the ones that have not done this. That's why this is apart from anything else, it's not just a global financial crisis I think it's also a geopolitical shift.

Stephanie Flanders: Okay, but what does that if America no longer has the moral authority to preach the markets ...

John Gray: Or the money.

Stephanie Flanders: Or indeed the money, well it never had the money but somehow it still managed to preach ...

John Gray: It has sustainable debts ...

Stephanie Flanders: ... it was still borrowing the money while preaching.

John Gray: It's still borrowing money actually.

Stephanie Flanders: But if it doesn't have the moral authority, does that make the world a better place in your view or a worse place?

John Gray: It's better and worse. It's better because this silly, childless, infantile ideology has collapsed and we won't see it again in our lifetimes. It could be worse because no one knows how this is going to develop. And what I sort of anticipate rather than global

co-operation is something like not the 30s, we're in a different - again American is not now in the position of the 30s. China is now in the position that America was in in the 30s, so we have a fundamentally different situation.

But what I anticipate where it could be worse than it was under the reign of the free market which I criticised and opposed is that we could have the classical phenomena of protectionism and competitive currency devaluation and so on and so forth among these or between these types of state capitalism which is basically all we've got now, different types of state capitalism.

Stephanie Flanders:

Jagdish?

Jagdish Bhagwati:

We always had different types of state capitalism and I think in a way sort of focussing on America as the source of this ideology of the markets ...

Stephanie Flanders:

Okay, but on this issue, the moral implications of what's happened in the last few months. If we're moving - if you read in your pamphlet and indeed in many other things you've written you have been so strong in supporting the market and that version of globalisation because you feared and you mentioned it earlier the costs of a more state-centric or bureaucratic approach. Does that mean you're worried now that we're going to have a backlash?

Jagdish Bhagwati:

No I'm not worried about it. Let's take specifics like trade. Trade is going to continue because this is confined to the financial sector basically as I was pointing out. There is not a single policy maker in the world - I'm not sure about France, France has always been protectionist so that is not good evidence. But G20 reaffirmed trade as being important. Nobody wants to repeat the mistakes of a Smoot-Hawley tariff.

It doesn't mean it won't happen, but I'm just saying that the people have clearly said that this is not something which is at stake.

One of my colleagues has been going around saying it's like the collapse of the Berlin Wall and free trade is also gone. Now that's crazy in my opinion I think. So that's one of the things where a lot of people still believe in certain areas like trade, multinational investment, corporations, short term capital flows - the financial sector again are a different matter, people are much more aware of that.

But I don't think anybody is willing to throw out markets or the use of markets along with what's happened in the financial sector.

Stephanie Flanders:

But was there hubris that is now being curbed, I mean is there a sense in which ...?

Jagdish Bhagwati:

I don't notice that, I mean I come from India as you know and we had anti market fundamentalism in India for decades, for three decades. And we had a terribly low growth rate. As a result we had no impact on poverty, it kept increasing. Then we started our economic reforms, not because Americans told us or we thought of the American example. This is a kind of Washington concept to call it Washington Consensus, you know I mean it's those guys who think so and I find it laughable to call it Washington Consensus. They were the last ones to probably think about some of these things in the World Bank and the IMF.

We had major intervention in everything, complete - you know it was like we had reproduced a Soviet State in many cases. And I used to go around saying, you know the trouble with countries like India and Ghana and Brazil and so on was that Adam

Smith's invisible hand was nowhere to be seen and everywhere there was intervention, knee jerk intervention.

We had indiscriminate expansion of the public sector into all kinds of areas. We were turning inwards. In '91 India had 1% of its GNP in trade. It had been doing down steadily. We had 100 million dollars worth of direct investment coming in, that's less than the budget of my Columbia University. We're talking about things which were going on where just like - you know Gorbachev decided the Soviet Union couldn't go on like that and decided to have for internal reasons largely to have Perestroika and so on, not that they managed it too well.

But at some stage due to internal thinking, not because of the Americans or the Europeans and so which is a very ethnocentric view we ourselves came to the view that we really had to change this and we were going to move away from anti market fundamentalism towards the centre more pragmatic. You know we are going to look at the public sector we're going to - you know bring it down a little bit more to the normal and so on.

So in a variety of these things we were moving from fundamentalism to pragmatism, and a whole lot of people looking at us thought we were going from really a very benign kind of system and moving in to market fundamentalism, because they just weren't aware of the background against which this was happening.

So my view is basically that nobody's going to throw out anything just because the American financial sector got into trouble. I mean, some people may, but they have got to have their heads examined. And I don't know of any leaders in the developing countries who are very keen on the benefits of globalisation, which Mr. Lévy was also pointing out.

People are aware of these things. Even in terms of inequality, many people are quite sceptical that globalisation is leading to inequality. Globalisation is leading to reduction of poverty, and that's a very important outcome actually. If reduction of poverty is happening, that is a good thing and that's part of morality actually, because markets are being used increasingly in the stagnant mode in order to get at things like reducing poverty which is extremely important. And that's a moral outcome. A lot of evidence shows that on gender issues, on child labour, on poverty reduction (which I've mentioned) that in fact market-oriented reforms - not letting markets rip, not a libertarian position, but market-oriented reforms, internationalisation using international opportunities, are in fact a very good way to proceed.

And I don't think people are just going to close down the system. And I predict in two years we will have done something pretty drastic about the financial sector and fixed it. Look at what happened in the '87 financial crisis. The capital account convertibility which happened got them from a high growth rate under trade to a crash under financial liberalisation. I was worried that they would throw out international trade; they didn't. They resumed it; they made the distinction, and they also fixed the financial sector up to a point you see.

So I think we're probably a little too much under the influence of the current crisis and thinking about the issue, and a little too much obsessed by America. I mean, I live in America; I don't obsess about America. You know, there are things happening in the rest of the world which are very important in terms of the way people are thinking about globalisation, about markets and so on and so forth. So I think I'm much more optimistic for that

reason. Whether Europe will go down a particular route - I don't know - Mr. Lévy should predict that one or John.

Stephanie Flanders:

I agree with you and I'm going to follow your suggestion of trying to step away from the crisis a bit. We're going to go into questions in a minute, but I was very interested, Bernard, when you were talking about the whole move away from the state of nature and suggesting that the market was a neutral instrument which becomes this sort of central nervous system for the culture. I don't know if you had a chance to read a rather interesting contribution to this debate by Robert Reich in the States. But he actually spoke - he said one of the problems of the market in fact is the complexity, is the lack of transparency which allows us - you know, that it isn't a neutral instrument, because it actually helps us to hide from ourselves the conflict between ourselves as consumers and ourselves as moral agents. But if it was this transparent market system that you suggested, that somehow our moral decisions and our consumer decisions would be forced to sort of come together and we'd have to reassess them. But because the market is what it is, we can hide those two realms from ourselves.

Bernard-Henri Lévy:

No, it is true that the market has become much more intelligent than the wisest of its actors. There is here a sort of Gollum, a sort of Frankenstein, which has really escaped from the hands of the financial economic operators, whether they are average or big tycoons and so on. The market is much more intelligent. There is a sort of sophistication - nearly devilish, diabolic - of the financial products today which sometimes I think even some of those who use them don't quite understand thoroughly. So there is this point.

But we are at this point, and to have the *nostalgie* of ancient, bucolic, ideal market where you had the sort of spontaneous

adjustment of the passions and desires of every single cell of the society, it's a great dream. But it is just a dream; we shall not go back to that. So we have to deal with this system as it is today.

What I would say also is to reply to what was just said about Adam Smith. Of course Adam Smith doesn't make the free market as a sort of idol, but no serious theoretician, theorist of economy ever did that. The proper or the free market, as the definition of the democracy, is that their most intelligent and serious commentators know that they are never the end of history; that we can never say - okay, it's done - we have the good one. It's a continual process, without end, and you cannot be a theoretician of free market and of democracy without believing at the same time that it is not such a bad system and that of course it is not completely good.

From Adam Smith to Ricardo to Benjamin Constant to Karl Marx himself, there is this double bind - the system is not so bad; it creates a form of civilisation; it creates a sort of mediation between the normal and natural brutality of the subject, but it is always at the edge to fall into the abyss. This is the contradiction and the paradox with which has to deal anyone who tries to reflect on that.

Russia and China, are they free market economies? Of course not. At least for Russia, which I know a little. True, that Russia of Putin is not the Russia of Stalin. But when you look really at the economy of Russia, it is frankly closer to the economy of what was called a few decades ago the Third World than from the economy of the developed England, United Kingdom or France. Russia is a country where there is hope of life in '35. It is an economy which relies for 70% on oil. It is an economy

where huge areas of the country are really not in such a better shape than those devastated areas which I quoted before.

So the free market, this connection of the free individuals exchanging their merchandises and their desires - Russia is very far from that.

And last point: and on this I would agree with what was just said - is that this trial cannot be put only on the head and on the shoulders of America. As for myself, all that I tried to say in my terrible and broken and pitiful English about the crisis of capitalism today - it was implicitly said and now I'll make it explicit - about the whole system. But the whole system is not America. If you go to the origins of this crisis - financial crisis - as far as I know the two starting points, the two ticking bombs which made, according to all the best specialists, this financial crisis were of course the sub prime phenomenon in America and was in China the refusal to devalue the Yuan which was during years an argument for those who were predicting an explosion of the system. Real responsibility of the readiness, the egoism of China in this crisis.

At the starting point of this crisis there is a v..... - *pillage* - how do you say *pillage* - to lure - *pillage* - to extract the raw materials in a completely devastating way, in a completely pirate way - from all the parts of the world where they are. And in a completely un-ecological way of doing. America participated to that of course, but what about China again, which with so much cynicism, with such greediness, swallowed entire parts of the economies of some countries, specially in Africa? All the analysis of the Marxists of my youth - Andre Gunder Frank, for example - Gunder Frank - entire imperialist theoreticians who said - who make the theory of the unequal balance, and so on - can be done at the disadvantage of China today. The way in

which China acts towards Africa is exactly the embodiment of what the American economies of the sixties called Paul Barron and Sweezy - Barron and Sweezy said about America.

So if we have to make the framework or the billboard of the guiltiness, Russia, China have a huge responsibility.

And last - last word, but not the least - at the origin of this crisis there is this completely crazy speculation about the oil. There is no more or less oil today than three months ago. The oil is at \$47 today; it was near to \$200 a few - 150, 160 - a few weeks ago. Who did that? Who was at the origin of this criminal speculation? Probably the friend of Mr. Bush in Texas, big oligarch of the oil of Texas, okay. But what about trafficking man number one, Mr. Ahmadinejad in Iran, who did all his best to have the oil increasing? What about Mr. Putin with all his traffic about the Tbilisi project and so on, the will to put their hands on the channel for it? And what about Mr. Chávez who is also a big *trafiquant*, a big pirate, a big dealer and a bad dealer on oil, and who has a huge responsibility too on this crisis. So if we have to reflect thoroughly and calmly about all that, we have to have a fair analysis of the sharing of responsibilities.

Stephanie Flanders: John, we'll go back to Jagdish in a moment and questions, but -

John Gray: I agree with that obviously, because although I think America is a pivotal power .....

Stephanie Flanders: What, agree with all of it?

John Gray: No. I mean, although - no, I agree with part of it at least which is that - I mean, America is a pivotal power - that's important. It's not simply one - it hasn't been one power among others; it has been pivotal in the world economy in many ways through the

IMF, for example, which imposed various policies in Argentina and Indonesia and various parts of the world, and so on. So it is pivotal.

But of course, if you want to talk about blame, and I'm not sure blame is terribly useful, but if you want to talk about blame, these other states have to be apportioned a share of blame. But it's complex because of course their blame is connected with what we did. In other words, one of the things we did with China was outsource our manufacturing industry and our pollution and our ecological problems. The reason we can be clean and have wonderful consciences is that we outsourced a lot of that to China.

Now I'm not saying we shouldn't have done it, I'm not saying there shouldn't be that kind of trade, but that's kind of a relationship of mutual dependence. Wal-Mart in China - the American dependency on inflows into the American government bond market - all these economies are locked together in various ways by a kind of mutual dependency. So there is shared blame, if you want to talk about blame. But I think more important is to see the ways in which these economies interact with each other and depend upon each other, because that leads to paradoxes which is - one of the paradoxes, which is a kind of moral paradox - I'll end on this - is that we're now hearing many calls as it were that China assume a burden of deflation and of avoiding inflation and of getting its economy moving again, and so on and so on, which of course it would be sensible to do. But what we're doing when we're saying that - we're appealing to the Chinese Communist Party to re-float the global economic system. That's what we're - and there's a certain kind - for a connoisseur of paradox - there is a certain pleasure to be derived from that situation.

Stephanie Flanders:

It is an interesting question and actually Bernard-Henri's assessment is not dissimilar to the assessment of many economists in possibly different language and different descriptions of certain national leaders; but I think the pivotal role of China as well in this is widely agreed. What's interesting though, and there's been some reference by all of you to the decline of, if you like, international fraternity that has come with the recent market global system - does our interdependence as a global economy make it easier or harder for countries to work together at times like this?

John Gray:

It's harder when a shift of power is occurring in the world. I mean, essentially if you have a global hegemon, which America has been - I mean, it's never had complete hegemonic power and lots of things have happened, as has been pointed out, in countries which weren't animated by the Washington consensus - they were domestic. The Chinese reform was domestic. It certainly wasn't animated in that way. But America was a global hegemon. As it becomes weaker, as it becomes - as issues arise about the sustainability of its power in a context in which it's critically dependent on inflows of capital from - it always has been, but now there's a question about the sustainability of that - power is moving to other parts of the world and of course it's harder, I think, for a concert of powers - three, four, five, six powers - big powers - and of smaller powers, some of which are so to speak semi-outlaw powers like Venezuela, like Iran. I wouldn't yet include - or at least I wouldn't dogmatically include - Russia, but it could become one - and there are tendencies that way. It's very hard to synthesise, to get some kind of co-ordination in those terms. I'm not a great advocate of game theory but anyone who know of it, if you have several different actors together, each with different interests and different perspectives and bla-bla-bla, you can get dilemmas, you can get conflicts that are actually - everyone can see, even the actors

themselves - are damaging. But they're constrained to do it. So it is harder than it used to be. And that's one of the ways in which I think the waning of American power is worrying.

Stephanie Flanders:

Jagdish.

Jagdish Bhagwati:

Yes, I'd just like to return to this - I mean, we have hardly discussed the effect of markets on morality .....

Stephanie Flanders:

Keep trying.

Jagdish Bhagwati:

..... Because that's one of the principal themes. And I think there seems to be a tendency to think that somehow being in markets is actually going to make you mean, greedy, whatever - I mean, whatever you want to say. And I don't think it's very - to me that's a bit of a welcome Marxist fallacy, that where you work and what you do really defines your values. We get our values from a variety of places. There are people like Simon Schama's burghers, you know the Dutch burghers who, you know, accumulated wealth but spent it on - you know, they were embarrassed by the riches, as Simon Schama said. The giants of Gujarat where I come from, they accumulate like mad, but they would spend it on social things.

Stephanie Flanders:

So it's a reflection of the moral character you have when you go into it, so you -

Jagdish Bhagwati:

No, so therefore it's not - they bring to the marketplace where they're making money like mad a very different morality. So the notion that morality is defined by the market I think is a little too much, to say the least, and so I .....

- Stephanie Flanders: That actually agrees with Bernard-Henri who is saying the opposite, that the market had been corroded by - the character of the people within it.
- Jagdish Bhagwati: No, so where do we get our values from? I mean, I'm not denying that sometimes where you're working affects things, but you read literature - you read Tolstoy, you read Dostoevsky; you learn it from the Church, from your family, from your community. Where you work is hardly the most important thing.
- John Gray: Can I just mention Bernard Mandeville here? Bernard Mandeville, several hundred years ago, before *The Bees*, his fable - he says markets are very good things. Free markets do all kinds of useful things, but they do corrode traditional virtues; we've got to accept that. They depend on greed, on vanity, etc. Now it seems to me that that's a sort of early recognition by a defender of markets that markets have these characteristics. So I can't at all accept the idea - I mean I don't think any sociologist would - that markets are just, so to speak, neutral institutions that you can use in any way you like, any more than I accept that Central Planning could be neutral. Central Planning wasn't neutral. What it did was it reinforced corruption, nepotism - tremendously nepotistic Soviet Russia was. Utterly nepotistic.
- Jagdish Bhagwati: But, John, the very fact that you talk about different types of capitalism, not just about institutions - I mean, that's an important part of it. But it's also - you take the way the Japanese within the firms would be dealing with inequality of pay from the top to the bottom, that's very different from what you get in the United States. Where does that come from? It comes from some value structure. And what I'm saying is that values do affect the way you run the markets or exploit them. And maybe vice versa, but I haven't see the evidence of that.

- Stephanie Flanders: But Jagdish it's interesting what you say. I mean when you say - 'cos it's the opposite obviously of the Bob Reich argument I was talking about before, you say we should reject the Marxist - what you would say is a Marxist idea that we are what we produce or consume.
- Jagdish Bhagwati: That's right.
- Stephanie Flanders: Which doesn't that let people rather off the hook? I mean it's interesting to say okay so I can care deeply and consistently about the developing world and poor labour standards in those countries whilst feeling completely blame free as a shopper going to the cheapest store. I mean quite apart from the argument of whether it would help for me to go to a more expensive store when we know the money won't go. Just I shouldn't even raise that question; I shouldn't even worry about the relationship between those two.
- Jagdish Bhagwati: No, no, no I was only thinking about the way you behave, you know the way your moral attitudes which you get from a variety of sources will affect the way you will behave in the marketplace. Now when you're talking about like the sweatshop conditions here and many people object to buying cheap goods that's a slightly different matter, that's where you're reacting as a consumer rather than as a producer in the marketplace.
- Stephanie Flanders: It's morally relevant though how I behave.
- Jagdish Bhagwati: It is morally relevant.
- Stephanie Flanders: It's my assessment of myself as a moral agent. It matters what I do from where I work and...

Jagdish Bhagwati: Yes, and I said the other day on BBC4 there was a series called Iconoclasts series where I was supposed to defend sweatshops, a very difficult thing to do.

Stephanie Flanders: I've heard you do it many times I think.

Jagdish Bhagwati: So what I was saying there was that if you want me to buy something more expensively call it fair trade coffee if you like or fair trade fashion or something, you're basically asking me to subsidise. For your altruistic definition I'm paying a little more than the marketplace for that coffee.

I am a free moral agent, there's hundreds of ways in which I would like to be altruistic. You're not going to tell me how I'm going to be altruistic. I would rather spend that money on something else, on building a playground in that area, on a civil society group which is doing Aids. So fine this adds to the possibility of altruistic choices and I'm all for people exercising their freedom but what you get in the marketplace today is the notion that if I don't buy fair trade coffee somehow you know I lack morality.

Stephanie Flanders: I don't think that's true. I think there's just now you have a variety of coffees available I think and people can make their own choice.

Jagdish Bhagwati: No this is the you raise - sort of consumer oriented. And you know many of us do all kinds of things. I do - I wouldn't talk about them you know I don't believe in - I'm not Madonna or Angelina Jolie so you know I do things without advertising and trying to get some blowback from it or something.

But basically everybody I know today, and that's another thing that's broken out on morality in my opinion, which is that many of the firms today for one reason or another are now doing what

the old, the Burghers, etc. used to do, corporations are now into CSR, Corporate Social Responsibility. That's a way in which you can also; I mean where does that come from? Not necessarily from the marketplace but you feel that you ought to contribute something. That is also going to make capitalism more stable in my opinion because people aren't really looking at it.

Now one thing we haven't discussed about the current crisis which also borders on this because certainly people are agitated in the United States and certain parts of Europe about the bailout but where does that come from? I mean you know why are people so agitated about the bail out?

Stephanie Flanders: He's very agitated about the bailout.

Jagdish Bhagwati: Yeah but a lot of people are. I mean he's not the only one.

Stephanie Flanders: No I'm just saying we have an example here.

Jagdish Bhagwati: He's the most distinguished one who is agitated.

Stephanie Flanders: You're agitated about the bailout.

Jagdish Bhagwati: Now essentially again it started from the manufacturing sector with many of the CEOs, you know the Managing Directors whatever you call them here, were in fact getting large bonuses and walking out as the firm was failing. Now originally the bonuses weren't meant to be in a steady state kind of situation, to be providing incentives for people to do well. But when the system is going down and the firm is collapsing the guy who is a CEO has the insider knowledge. So he cashes in his stock options and then gets out. And the others are left behind.

Stephanie Flanders: But your argument would be that reflects on his moral quality not necessarily the...

Jagdish Bhagwati: Yeah but the point is that is something which particularly annoys people. It's not the fact that he's walked out with a huge packet or something but everybody, every schoolchild here except Sarkozy probably has been brought up to believe that when a ship is going down a captain had to be on board going down with it and the passengers leave in the lifeboats.

Here it's the other way around. It's the captain, the CEO, who is leaving very rapidly right. And the other guys are caught. And I think that offends a basic sense of ethics in the western culture. I don't ever remember having been taught in India any of this stuff so it doesn't mean anything to me.

So it is nothing to do with inequality or social justice which are much more sophisticated concepts as these two philosophers would know but I think this is what - it started with that and that was steadily defining the attitude towards helping these guys out because they felt that these were unethical people. And I think that's going to be a very hard one to work. And the financial sector is just repaying the down side of it, we need to do something but people just feel so worked up about that sector, you know about the CEOs.

Stephanie Flanders: But also to remember that we have also managed to broaden it away from the crisis so anyone should field questions on all of those. We've got lots so I think we might take a few at the same time. If you wait for the mic to get to you, this gentleman here in the fourth row in the glasses just here. Then we'll take - try and keep them brief and questions with a rising intonation at the end.

Male: Okay. I welcome Professor Gray bringing in Bernard Mandeville but I feel he's completely misunderstood him. We'd recommend anyone to read him. The Fable of the Bees is not very long. But the essential point of the Fable of the Bees is that about turning vices into public benefits through the markets. The point about Mandeville that was troubling to many of his contemporaries was that he had no morality, that he was amoral and that this immorality could result in - it was the engine, self interest was the engine of commerce which led to public benefits and trade generally. So that's the essential point and Adam Smith and many other commentators were very much worried about - if you'd like to respond to that.

Stephanie Flanders: That is helpful though it's not quite a question.

Jon Gray: It's not true though it might be helpful.

Stephanie Flanders: And apparently not true.

There's a gentleman right there behind the other person - yes that one.

Male: Thank you I've got the microphone here. The question is does free markets corrode moral character and it seems to me that the great threat to moral character in free market capitalism is greed. And that the constraints on greed have been removed and I first became aware of this debate looking at people like Weber on Protestantism and capitalism and Tawney writing in a similar vein.

And that is it a fact or is it an issue that in the post sort of '60s world that the collapse or disappearance of protestant aestheticism among our great Quaker bankers and our great Scottish Presbyterian bankers has contributed to the fact that

our leading companies have people at their heads who don't have as moral agents in the market a strong basis for constraining that temptation to greed that perhaps was available in previous generations.

Stephanie Flanders: Two gentlemen at the front.

Male: A quick point first. John Gray you suggest that a central planning system is always wrong. Even in wartime? Wasn't that how Britain survived the way by adopting essentially a Stalinist system? Just a quick point.

One other thing I was going to say, quick question. Should the instrumentalities of the states ever be allowed to vary the conditions of the contracts large concentrations of wealth make with small concentrations of wealth? If we say that they shouldn't isn't that going to encourage those large concentrations of wealth to behave in an overbearing fashion? Isn't that wrong? Isn't there the danger that the smaller concentrations of wealth will accommodate themselves to that overbearing behaviour and isn't that wrong as well?

Male: Do you see any real ray of hope for the global moral character if we can call it that, in the recent appearance of such distinguished works coming out of Columbia called Common Wealth in two words or the other one advertise next to the wonderful symposium we are having here tonight called Philanthrocapitalism. That these terms are even used is that a sign for a trend of people becoming more interested in ethics and moral applications of capitalism.

Stephanie Flanders: John I think there's quite a few there that are addressed to you or at least...

John Gray:

One line on Mandeville. Mandeville is rather a settled thinker. He did want to turn vices into public benefits but he didn't ever deny that they were vices. That's a kind of important point. He wanted to use impulses which he for the purposes of this argument he accepted were wrong for public benefit, but they still didn't stop being bad.

On the British war economy I agree it's an important point. The British war economy, it was highly successful. People who study these matters closely, economic historians, say it was a lot more productive and rational for example than the Nazi one. I didn't say it was always wrong, I said it was always bad and the British war economy was adopted in the conditions of a war of national survival. If we hadn't done most of the things that were done in that context we would have been less likely to win a war against a really profoundly dangerous and evil foe.

It was never proposed except by a few people in the Labour party as a permanent model of economic life. And the reason it's a bad model for economic life which everyone pretty well except for a few people in the Labour party at the time accepted, is that once the overriding goal of national survival was gone the diversity of human purposes and goals and interests and values would reassert itself.

And so we can't carry on having a war economy when there's no war anymore and when the whole country is not - so I don't see it as a counterargument. It can do a few things in a context of a desperate war of national survival. It can do those and did them actually better in Britain than happened in Nazi Germany. But it was never proposed by almost anybody worth taking seriously as a long term economic model of an economic system.

Stephanie Flanders:

On this point about the Philanthro - Philanthropic Capitalism I wonder it could go the other way of course that now there's less money available for these things. People find different uses.

John Gray:

Maybe this sounds sort of - given what I've argued sounds kind of a bit odd for me to say but I actually think that the important thing for defenders of capitalism is to defend the bad bits, the nasty bits.

That's to say for example, and some of the defenders of capitalism have recognised, that for example Hayek made the point I think it's one of the valid things in Hayek, that rewards in any kind of market system but especially a rather free or deregulated one do not and should not and cannot correspond to public judgements of merit. They actually are quite different. And if you have a far reaching attempt to make them all like moral desserts, you see people should only get the rewards they somehow deserve, that's kind of rather tyrannical in a way because it entrenches existing standards and it leads to lots of drops of productivity and restrictions of freedom.

So I actually think that we shouldn't as it were think that these deep issues we now face of the connections with the ethics and economics are somehow resolved by just a softer, gentler, nicer type of capitalism which is more philanthropic. Partly because I also agree with Stephanie's as it were at least the intonation she's voiced, that in hard times that might not survive very long but basically because it's the hard, tough aspects of capitalism in which it deviates from many common, I mean not all, but in which it deviates for example from standard ideas in which merit or dessert should really just. They're the parts that actually should be defended by defenders of capitalism, the tough bits not the easy bits.

- Male: Inaudible - no microphone.
- Stephanie Flanders: But that goes back to the point. I mean possibly one could say, at least Jagdish's point is that that reflects the morality that Bill Gates brought to the market not anything about the character of the market.
- Jagdish Bhagwati: Can I just address? Talking about greed of course I mean Adam Smith we have been quoting all the time. The reason why he got famous was because he said you could take self interest or man's basic instincts and then show how they could be harnessed to a social good. So I mean you know if he had simply said altruism led to public good we wouldn't remember him at all.
- So I think why is that broken down is really what you were saying. And my view is that the rewards to not greed but corruption I think, because greed is just a heightened word for self interest and I don't think self interest is something even Adam Smith, you know he was working with it but he certainly wasn't confined to it if you read the The Theory of Moral Sentiments and so on. But we'll go back to Rabbi Hillel, you know he says if I'm not for others what am I, and if I'm not for myself who will be.
- So we are all a mix of self interest and altruism. And I don't consider self interest to be a heinous thing but what has happened is that in the financial sector which is I'm sorry to keep coming back to it Stephanie, but in the financial sector the returns of doing some hanky panky are so enormous. Not a week goes past without some MNA or something leading to billions of dollars worth of returns. I mean you'd have to work over all the lifetimes that we Indians are supposed to be confined to to accumulate that much money.

In the manufacturing sector the CEOs were getting what 75 to 100 million, that's chicken feed for the firm. So when Enron broke out for instance the Mr Fastow the CFO, he was actually producing huge sums of money by just cutting corners and he was rising. The people who were in the manufacturing sector like the lady who went out to India and got a manufacturing contract in Bombay; she could produce one hundredth of that income.

Stephanie Flanders:

We are running out of time and I want to do a very quick round of people.

Jagdish Bhagwati:

So I think it's corruption rather than greed in my opinion and the returns are so high that you see that.

Stephanie Flanders:

We'll have a quick round of questions and then I'll - and Bernard has to go so we'll - as you've already had a question I'm not going to go to you. There's a woman in the second row. You can keep your hand up but I promise I'm not going to go to you because we've got too many other people.

Female:

I'm intrigued by our inability to discuss the question that was posed. And I work in a completely different sector, I'm a psychoanalyst so I hear about people's experience of the democratisation of the free market and their personal engagement with its notion and its delusion and the taint that people are experiencing by having been caught up in the delusion that everything is going to be okay and everything is okay and the horror of their engagement with it.

So I think I'd like the panel to address the fact that this is not something just about the financial sector. It is something that enters into people's deepest experience of engagement with

themselves and with culture. So I would like you to address that question.

Stephanie Flanders:

Gentleman here just behind you.

Male:

Hello. It strikes me that two of the panel think that at least that political form of some kind is desirable and necessary if not inevitable. I just wonder whether it might not be the case that there are no political institutions left capable of carrying out the kind of reforms that would be sufficient to the task, insofar as it may be the case that most governments have joined the system to the extent that if they were to regulate the economies in a way that would be sufficient most of the capital would flow elsewhere in a way that would be detrimental to their own power. So it seems to me that they've starved themselves of not moral responsibility but executive power. And that's the question, is there a way out.

Stephanie Flanders:

I'm going to take two more.

Female:

Two very brief related questions. Mr Lévy when you talk about the markets being intelligent, notwithstanding the critique of Marx do you not fetishise them in a way that abdicates the responsibility of the human beings who are after all the markets? How can a market be intelligent?

And secondly it says here free market. Nobody seems to have seen behind the smokescreen that what we're not talking about tonight is free markets; we're talking about managed monopolies. What might a free market look like with freedom of commodities and freedom of labour? Would we be in a Hobbesian nightmare or might that not be a far more just economic order than we have if we truly did have free markets?

Stephanie Flanders: Okay there's a gentleman right there and then that will be it.

Male: In a world of global markets, as one who grew up and worked in Zimbabwe and then in the Philippines, how do you outlaw usury and its impacts when you loan to dictators and its impacts upon their populations and exploitation. I heard the critique of China but we sit in this e..... of Victorian religious men who bankrolled Cecil Rhodes. So how would you get rid of usury and exploitation in global markets when you deal with dictators?

Stephanie Flanders: There were quite a few addressed to you but also I was interested particularly this whether there are institutions capable of the kind of reform that you were talking about and whether you were fetishising them or not?

Bernard-Henri Lévy: Yes before coming to that because I heard a lot of things and I kept very silent. I would like to make a few remarks. About Mandeville and about the idea that the free market gets rid of suppressors, erasers, antique, archaic values, I'm not so sure of that. And what is very strange with the market, one of its virtues maybe is also to reinvent the past. To reinvent the archaism, to reproduce, there is an industry of the past; there is a production of archaism and so on, modernity of archaism which is also one of the tasks of the market. Market is not a machine of amnesia. It is not only a sort of programme of erasing, it's more complicated than that.

The second thing I want to say is that if we want to be really fair and I think this is a moment where we have to try to be fair if we really want beyond ideologies to get out of this mess, the first virtue required this fairness. Fairness to say that Chávez or Ahmadinejad are at least as much guilty as the companies of Texas. But fairness also to say that all that we reproach through the market of today, all that I said myself of the corrosion of

moral values which are inoculated to the market, greediness, violence, selfishness, what you said also so well, all that can be said also and maybe more about the situations which are out of markets.

There is no society where people are more greedy, where people are more violent and where people are more self sufficient and self defending that the so called archaic societies, the so called out of history which are not out of history societies.

So to be fair it must be said that all these vices and even defects are not invented by the market. They belong to human condition. Lévy -strauss pointed that very clearly in a discussion with Jean Jacques Rousseau, again the idea of the good savage, le bon sauvage.

In the same way as we can say that an ecological world, ecology can only be provided by industry, modernity, unmarket than from natural society. There is nothing less ecologic than nature. Nature is as we know the place where you have the biggest quantity of microbes, viruses and so on. In the same way and in the rivers one can say that all of these vices are not invented by the market, they are just continuing their way, their path through the vehicles and the ways of the market. This is the completely fair way to analyse the society, the situation.

Now can the market be intelligent and what does it mean to say that the market is intelligent? My dear there is a very old principle which is established by political philosophy since Aristotle to the most - Michel Foucault and Jean-Paul Sartre which is that you are an intelligence of the individual and you have an intelligence of the whole.

And you have even according to Michel Foucault a distinction to make between various sorts of wholes. Michel Foucault made a difference between the crowd and the mass. And he said right or wrong that the mass is more intelligent than the crowd. That crowd is the reign of inertia, of penologist reaction, everybody imitating the other. And that masses bring a sort of a collective intelligence.

So intelligence can be provided by your collective whole of course. And in this collective whole which is billed by the market you have a specific intelligence which does not look like the intelligence of the individuals who compose the whole, who has its own specificity, peculiarity, speed of wide spreading and so on. And we have to deal with that. We have to deal with the intelligence of the market.

About the question raised very properly I think by a young lady speaking about psychoanalysis. Of course the book to read about that, you'll know it better than anybody maybe here, is the book of Sigmund Freud, *Malaise dans La Civilisation*, uneasiness in the civilisation. And what it demonstrates is that the so called financial crisis, what it suggests economical crises and so on are nothing but the reflect and the effect of a much deeper inner uneasiness and crisis. The crisis is never financial. Economy is a nickname, is a codename for a deeper uneasiness.

And last point about the market and its moral corrosion, I would make a last little statement. I thought when I listened to my partners at the end of the day when we speak about morality, ethics and so on of course there is a virtue but there is another sense of morality. And what I observe is that in the societies which pretended to work without markets, not a single progress was done on the very important domain of the public morality

which is medicine. Soviet Union did not invent during 70 years one single medicine to cure the diseases which affect the human being.

Morality means also if we take it at the large scale art -, real art. The society without free market, it is often said that culture should escape the free market. It is often said that free market for everything except for the work of spirit. On the contrary in the society where you had not market and free market especially, the only ways in which culture could be produced at the margin, in the undergrounds like Dostoiefsky said or in the peripheria archipelago of the peripheria like Solzhenytsyn did.

In Soviet Union, in Nazi Germany you are not a real piece of art growing out of a society which pretended to make the art and the work of spirit escape the market. And even I would say I'm sorry if I shock some of you, if I provoke, but it is often said also that art should escape the market, that public health should escape the market. It is only with the market that it progresses.

It is often said also that in America that sex should escape the market and that nothing is more disgusting than the marchandisation, the marketisation of sex. I have to say I could prove that but it is a little late. That the marketisation of sex in all its way even by prostitution, you have the great text written by great writers in the 19th century about in a Mandeville way, about the social virtue of prostitution, of marketisation of sex as avoiding or diminishing the quantity of real violence, real rapings, real abusings on concrete woman.

And I observe that the countries, I give an example of that yesterday at the Royal Geographic Society, the countries where sex is completely out of the free civilised relations which are called the democratic market are the countries where women or

little girls are buried alive because they committed the crime to look at the man who was not their promised husband.

So the market has to be revised, has to be reformed. Institutions are maybe not able today but they have to be able one day because we have no choice. There is no other solution but the worst regression; the worst retreat would be to think that we can do without the market. We cannot do without it, even if we had to reshape and rebuild it from bottom to top.

Stephanie Flanders:

I was going to say that we'd had a pretty interesting intellectual journey the last hour and it's just taken another interesting turn. So Bernard-Henri has made my point for me. I'm going to be very unpopular with the other two thinkers on this panel because I know we're going to lose the room and we have gone over time. So I think we have to call an end to that.

But we've had some - I think if you'd done your homework before coming in you now have a very long reading list to go away with from Marx to Hobbes to Mandeville and somewhere or other we ended up with Angelina Jolie and Madonna as well so it was a pretty broad spectrum. But thank you very much to the speakers and to you for your great company.

Applause

END