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Timeless Economists

*In frank conversations, unburdened from the formalities of academic papers, 16 eminent American and European economists posit their schools of thought, explain theories and methodologies, and talk about their personal experiences. The end result is a portrait of the economics field in constant movement and renewal. By **Cyro Andrade**, from São Paulo*

Economists like to joke about the profession. For example: "How many economists does it take to change a light bulb? Three possible answers: (a) Two, one to change it and the

other to hold an imaginary ladder. (b) Eight, one to change it and seven to guarantee that everything else remains the same. (c) None, they will all be waiting for an invisible hand. The joke is apt as a caricature of economists with partial views of the world arising from assumptions disconnected from the reality of their own work. Here lies a lot of the criticism that is directed at this discipline, with its methodological traditions and frequent ideological biases.

The fundamental question in this criticism contrasts, on one side, with the dominance of the neoclassical school, according to which the economy works under the incentives of agents, who, guided by rational expectations, know how the markets work and have all the relevant information to make their decisions. On the other side, one finds the pluralities of schools of thought and teaching that include game theory, experimental, behavioral, evolutionary, neuro economics, etc. The book, *Inside the Economist's Mind* (Blackwell

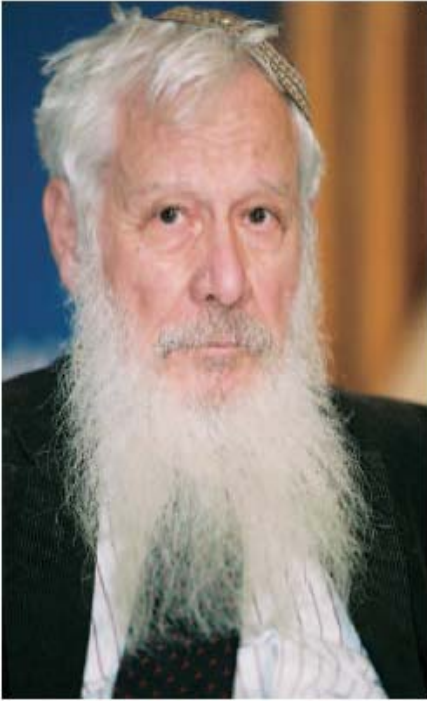
Publishing, 456pp, 75 photos), recently released in the U.S.A. and Europe and a best-seller on the list of the *Financial Times of London*, provides great help in understanding the true dimension of this dichotomy.

Some of the highlights of the book, regarding this issue, are in the interview of Robert Aumann, Nobel Prize winner in Economics in 2005 (shared with Thomas C. Schelling). However, in Sergiu Hart's long interview of Aumann, who is a central figure in the development of game theory and in the overall intellectual methodology of modern economics, Aumann goes even further: he provides a discussion of the multidisciplinary knowledge in which economics situates and on his own career as an economist and mathematician, with a broad humanistic context.

This is very relevant to the idea of the book, edited by William A. Barnett, professor of macroeconomics at the University of Kansas, and Paul Samuelson, Nobel Laureate in 1970, to provide a broad



spectrum map for "reading" the minds of 16 important economists, including Americans and Europeans (some of whom have already passed away). Those economists in great part are very well known for their contributions to economics and for their widespread influence around the world. In addition, the book regales us with personal



Robert Aumann: To comprehend game theory and to see the economy through the eyes of an economist and mathematician of rare humanistic sensibility.

anecdotes of these economists, their memories, choices made, and landmark moments in their careers. Why did you choose to study or work in this or that university? What was the most remarkable influence of

professors and classmates from college? Which work from other economists left the best impression on you? What motivated the choice of this or that partner to develop co-authored papers? Where did you find the motivation to get into the line of research that led you, a couple of years later, to the maximum distinction by receiving the Nobel Prize? Why did you decide to become an economist?

The interviewers do very well in dealing with the duality of the editorial objectives of the book: to have the economists talk about economics, theirs and others, while extracting the meaning and the results of their research, sole or co-authored. In many cases, that research resulted in theoretical models or insights that became classics. In addition, among the purely technical discussions there are occasional opportunities to converse about personal experiences, inside and outside the profession.

This is not all: interviewers and interviewees get together in the book in a mission that

transcends the immediate intellectual importance of each conversation. They turn this into a dissemination of economic knowledge. This is a book mainly for economists. However, it will also constitute a good reading, pleasurable and instructive, for the layman with interests in economic subjects. Such readers will be able to find in often dry technicalities, an incentive to improve their knowledge, and may be motivated to research further insights in additional sources. Persons from other academic fields will find motivations to comprehend the economy with influences from their own respective disciplines. Such interdisciplinary approaches have been the focus of amplified speculations in recent times.

In a few cases, mostly the minority, the conversations move towards pure economic jargons. In those cases, the discussion is only for economists, and that is it. Thomas J. Sargent and their interviewers, for example, take pleasure in esoteric dialogues that are difficult to follow.

Photos, in which Sargent, one of the pillars of the rational expectation revolution in the 1970s, appears showing a fish that he caught in Hawaii or appears in the company of his wife and his son, are not enough to lower the temperature. But the appearance in the middle of the conversation of Sargent's remembrances and comments about Robert Lucas's "critique" provides additional insights into that subject.

The conversations with the 16 interviewees took place at different times. Among them, seven Nobel Laureates: Wassily Leontief, Robert E. Lucas Jr., Franco Modigliani (interviewed by William Barnett and Robert Solow, who is another Nobel Laureate), Milton Friedman, Paul A. Samuelson, Robert Aumann, and James Tobin. In addition, two governors of Central Banks, Paul A. Volcker, ex-chairman of the US Federal Reserve Board, and Stanley Fischer, chairman of the Bank of Israel, are included, along with David Cass, János Kornai, Martin Feldstein, Christopher A. Sims, Robert J. Shiller, Jacques Drèze, and

Thomas J. Sargent.

There will be some economists who will disdain reading the book. Those will be the ones who say that they have already passed their phase of reading books – much less collections of interviews in which they are not among the interviewees. Nowadays, they insist snobbishly that they only read papers, and very selectively. (The American Tyler Cowen, professor at

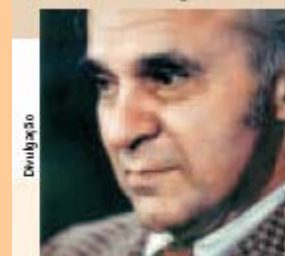
George Mason University and columnist for the *New York Times*, snubbed the book, which he qualified as boring in his blog “The Marginal Revolution.” However, that did not go over very well: the book was not for sale yet when he made the comment, and the publisher had not yet distributed advance copies. As a result, it was clear that he had only read the introduction, published by William A. Barnett in a blog

created to disseminate information about the book. Cowen was cut off from the publisher’s courtesy list. It is not known if he bought the book: US\$ 29.95 paperback or US\$ 74.95 hardcover (having higher quality paper pages).

The economists, perhaps to show off their ownership of truths in which the layman, a person devoid of the medicine of economics, put little or no faith, not rarely slide into

arrogance, entrap themselves with presumption, and lose themselves in discourses filled with jargons that are codes understood by few. In such cases, the economists communicate with their “pals.” However, they also can show themselves unpretentious, pleasant, and clear (not so much, sometimes, for a layman) in the ways they explain their theories and, in this book, to themselves, as professionals and inevitably humans.

“Marx was not a very good mathematician. He was always mixed up in math, and the labor theory of value didn’t make much sense.”



Wassily Leontief (1906-1999).
Interviewed by Duncan K. Foley
(Columbia University).

“Marx was not a very good mathematician. He was always mixed up in math, and the labor theory of value didn’t make much sense.” “Problems of income distribution will increase in importance labor will be not so important, and the problem will be just to manage the system.”



Robert E. Lucas (1937 -).
Interviewed by Bennett T.
McCallum (Carnegie Mellon).

“The atmosphere at Chicago when I was a student was so hostile to any kind of planning that we were not taught to think: How *should* resources be allocated in this situation? How *should* people use the information available to them to form expectations? But these *should* always be an economist’s first questions.”



Janos Kornai (1928 -).
Interviewed by Olivier Blanchard
(MIT).

“I still admire Marx as an intellectual genius; he had many ideas which are still useful. He was, however, absolutely wrong on many fundamental issues.” “Before 1963 [in Hungary], I had been denied a passport. I had a standing invitation to the London School of Economics for years, for instance, and I couldn’t go.”



Franco Modigliani (1918–2003).
Interviewed by William Barnett
(Kansas) and Robert Solow
(MIT).

[When he got in conflict with the administration at the University of Illinois, influenced by the McCarthyite witch hunt]. “I then quit in disgust My departure was greeted with joy by the old staff, proportional to their incompetence. But 40 years later, the university saw fit to give me an honorary degree!”



Milton Friedman (1912-2006).
Interviewed by John R. Taylor
(Stanford).

“He [Nixon] wanted me to urge Arthur [Burns, chairman of the Fed] to increase the money supply more rapidly, and I said to the president, ‘Do you really want to do that? The only effect of that will be to leave you with a larger inflation if you do get reelected.’ And he said, ‘Well, we’ll worry about that after we get reelected.’ Typical. So there’s no doubt what Nixon’s pleasure was.”

In its format, the book is reminiscent of *Conversations with Economists*, edited by Arjo Klammer, professor from Erasmus University in Rotterdam, published in 1984 (Rowman & Littlefield) and translated into several languages. The Brazilian edition came out in 1988 (*Conversas com Economistas*, Thomson Pioneira). In 1996, Publisher 34 launched *Conversas com Economistas Brasileiros* (Conversations with Brazilian Economists), a series of

and José Marcio Rego. interviews organized by Ciro Biderman, Luis Felipe Cozac, The model created by Klammer was productive. *Inside the Economist's Mind* has, however, the distinction of constituting a project in constant renewal, fed by interviews that are being published in the Cambridge University Press journal *Macroeconomic Dynamics*, edited by Barnett. A second volume of the book is already planned to include interviews of Alan Meltzer,

Elhanan Helpman, William Brock, Karl Shell, Axel Leijonhufvud, Anna Schwartz, Guillermo Calvo, and Assar Lindback, among others. In the foreword introducing the book, Paul Samuelson observes that scientific research, by its nature, needs to develop in a way so that is independent of the personal motivations of the authors. Nevertheless, it is useful to know the details and experiences of the economists' lives. As he observes: "The dynamic growth in individual

subfields of the economics profession needs to be supplemented by overviews of the whole, not just as the sum of its normally separated parts. This book provides such a view of the whole of the modern field of economics and the connection of that whole with the life experiences of famous economists whose work was seminal to the field." Samuelson adds further: "The book permits us to step back and view the whole of the field in a revealing context that otherwise is easily

"Free trade does not need to help everybody everywhere."



Paul Samuelson (1915-). Interviewed by William A. Barnett (Kansas).

"Anti-Semitism was omnipresent in pre-World War II academic life, here and abroad." "Free trade does not need to help everybody everywhere Nowadays every short-term victory by a union only speeds up the day that its industry moves abroad."



Paul Volcker (1927-). Interviewed by Perry Mehrling (Columbia).

"I had begun thinking about how one could practically adopt some of these monetarist ideas, not just to create a constituency but actually to make policy more coherent and predictable." "I said to the Board, 'Let us do as little as we possibly can' [about credit controls] ... Consumption just collapsed We took the credit controls off. We took them off the first time we had an excuse."



Martin Feldstein (1930 -). Interviewed by James Poterba (MIT).

"I had been admitted to Harvard Medical School, but I thought taking a year off to see the world would be a good idea I packed my bags and went off to Oxford I discovered I rather liked this economics work." [About the time he became chair of Reagan's Council of Economic Advisors:] "It soon became clear that the budget deficit was going to be an enormous problem."



Robert Shiller (1946 -). Interviewed by John Y. Campbell (Harvard).

[The view that] "every movement in the stock market must have a rational foundation ... is one of the greatest errors in the history of economic thought." "Economists themselves are herdlike in their research directions, and so there is a lot to be gained by staying away from these common topics."



Stanley Fischer (1943 -). Interviewed by Olivier Blanchard (MIT).

"That [Israeli] stabilization was the work of Michael Bruno and colleagues. Discussions about how to do it were exciting, and I learned a tremendous amount; but, I learned even more watching the administrative and political battles that had to be fought in making the program work."

missed in the narrow focus of individual expert researchers.”

For example, it is important to know (or remember) that the dissertation defense of János Kornai in Budapest, on the eve of the 1956 revolution, attracted an audience of hundreds of people. When it appeared in his book, however, with a title and contents about over-centralization, he lost his job – and a close friend was executed, for other activities that were not approved by the government.

Robert Lucas refused an offer from George Shultz to work in Washington, and Arthur Laffer was hired in his place. Jacques Drèze, one of the founders of the Center for Operations Research and Econometrics (CORE) at the University of Louvain, started his adult life working with his father, a small banker in Verviers, Belgium. He worked in activities as diverse as searching for someone in London interested in exchange rate operations for future delivery and negotiating barter agreements in Finland so that a

local business could pay for textile machinery with industrial oven molds.

David Cass remembers, in a certain moment, having suggested to Arnold Weber, dean at the university at which Cass used to teach (Carnegie Mellon), that he should go f..., when Cass heard from the dean the aggravating comment that Cass was too theoretical to be in the mainstream of a business school.

Franco Modigliani slashes the theorem in which Robert Barro relates savings habit and government deficit financing: “In my view, Barro’s theorem, despite its elegance, has *no* substance. I don’t understand why so many seem to be persuaded by a proposition whose proof rests on the incredible assumption that everybody cares about his heirs as if they were himself.” Modigliani also talks about the hardships he experienced for being Jewish in Italy during Mussolini. Those hardships were the reason for his departure to France, and subsequently to the United

States. He did not stay at Harvard, because the department chair was xenophobic and anti-Semitic.

Milton Friedman talks about his years as a university student: “I probably would have described myself as a socialist, who knows?” And about the use of mathematics in economics, he observed: “I go back to what Alfred Marshall said about economics: translate your results to English and then burn the mathematics.” Remembering his first year in Chicago, as a student “of what’s now called micro and macro,” he gets it off his chest: “I hate those words. I think it’s price theory and it’s monetary theory. Why the hell do we have to use these Greek words?”

Lucas, Modigliani, Friedman, Leontief, Samuelson, Aumann, Drèze, Sims, Cass... are all major parts of the history of economic thought in movement, and their works are a continuous chain of additions to knowledge, often resulting from ideas and discoveries that have passed from one to another or are co-authored work. Their

works might also have been born from healthy confrontation of points of views or by experimentation from different directions.

It is clear that the conversations end up displaying an “interest” bias, in the sense that the interviewees (almost inevitably) put themselves in the center of actions that did not, in the majority of the cases, belong solely to them. Given the intellectual stature of each of them, however, they deserve ample recognition. Also they would agree with the economist, Joseph A. Schumpeter, (in *History of Economic Analysis*, Oxford, 1954): “Scientific analysis is not simply a logically consistent process that starts with some primitive notions and then adds to the stock in a straight-line fashion. It is not simply progressive discovery of an objective reality.... Rather it is an incessant struggle with creations of our own and our predecessors’ minds and it ‘progresses.’ (...) The state of any science at any given time implies its past history and cannot be satisfactorily conveyed without making this

implicit history explicit.”

Inside the Economist’s Mind is a valuable work, and it succeeds in the need to contextualize the advances of the field’s theories with the sense of its implicit history.”

Five Brazilian economists participate in this book review, with comments about the works and the lives of some of the interviewees in “Inside the Economist’s Mind”: Eliana Cardoso, João Sicsú, Márcio Holland de Brito, Carlos Eduardo Soares Gonçalves, and Mauro Rodrigues.

Friedman and Speculators

João Sicsú
To *Valor Economico*

Milton Friedman was one of the greatest economists of the last century. He was brilliant. He launched the theoretical base of modern conservative macroeconomics. The

subsequent developments of his ideas are important, but they contribute much more mathematical technicality than additional innovative content. Friedman was a great thinker, he knew how to articulate economic along with political ideas. He conceived society in an integrated way. Inspired by the work of Friedrich Hayek, he was a radical liberal economist, who was always coherent.

Friedman searched for empirical evidence to prove his theories. He worked meticulously, always trying to identify in real life the predictions of his theoretical

models. He had considerable academic influence, due, in great part, to this methodology. However, it is worth mentioning that his Keynesian adversaries, among them James Tobin, utilized exactly the same method to prove that Friedman’s points were equivocated. The Keynesians were also successful. As a matter of fact, since economics is a social science, it is difficult to draw conclusions exclusively from an empirical debate.

There is an important Friedman’s argument (which was placed at the end of page 140 of *Inside the Economist’s Mind*),

“It would be nice if there were a little more acceptance of different ways of looking at things in the macro area.”

James Tobin (1918-2002).
Interviewed by David Colander
(Middlebury College).

“There’s a lot of economics being written on practical problems. It’s not so much macro policy that we’re talking about, but a lot of important economic problems like Social Security, health care, and government budgets. I’m not saying the profession is going completely to the dogs; I’m just saying that it would be nice if there were a little more acceptance of different ways of looking at things in the macro area.”

David Cass (1937 -). Interviewed by Stephen E. Spear (Carnegie Mellon) and Randall Wright (Pennsylvania).

“I have pursued some questions just because they are interesting puzzles to me, not because of any economic relevance.” “He (Arnold Weber, Dean in Carnegie Mellon) told me that I was a luxury good and that I didn’t do business. I did theoretical economics and it wasn’t something that business schools could really support I said “f--- you, Arnie.”

Christopher A. Sims (1942 -).
Interviewed by Lars Peter Hansen
(Chicago).

“Econometricians have failed to confront the problems of inference that are central to macroeconomic policy modeling The models [macroeconomic] are now in a sorry state.”

Thomas J. Sargent (1943 -).
Interviewed by George W. Evans
(Oregon) and Seppo Honkapohja
(Cambridge).

“Except for our paper on commodity money, not our best in my opinion, Neil [Wallace] asked me to remove his name from every paper that he and I wrote together.” “After he read the introduction to one of our *JPE* papers, Bob Lucas told me that no referee could possibly say anything more derogatory about our paper than what we had written about it ourselves.”

Jacques Dreze (1929 -).
Interviewed by Pierre Dehez
(Louvain) and Omar Licandro
(European University
Institute)

[Explaining his interests in extending models to include uncertainty] “No doubt [my alertness to the subject is] rooted in my early exposure to practical business situations: Coping with uncertainty was part of the daily life of my father and of his customers.”

which he never tried to prove and about which he always avoided questions. In 1953, when he wrote his well known article “The Case for Flexible Exchange Rates,” Friedman believed that exchange rates should be totally flexible, so much so that the Central Bank should not accumulate reserves and not thereby influence the price of foreign currency. Although he considered the adoption of floating exchange rates to be an optimal decision, he never associated their fluctuations with volatility. The exchange rates should be floating, but stable. In the Keynesian view, exchange rate stability should be attained through permanent and cautious Central Bank intervention, by buying and selling dollars according to momentary needs. But in Friedman’s view, this stabilizing role would be fulfilled by speculators.

Friedman believed that speculators had the following microeconomic behavior: sell when high and buy when low. Given this conjecture, such microeconomic behavior would

lead to an ideal equilibrium in aggregate. The speculators would be the “market-makers” that stabilize the floating exchange rates. Friedman would never say, as some Brazilian public authorities in recent years have said, that “the problem is that our exchange rate floats.” To say that, is to imply that speculators are not “working” properly. The six currency crises experienced by the Brazilian economy in recent times, as well as many other crises of the same nature worldwide during the 1990s and 2000s, show that speculators fulfill the opposite role suggested by Friedman. Speculators bought dollars when dollars were rising, because they expected an even higher price tomorrow. The price would then turn yet higher tomorrow, and the price would turn even higher the following day, because speculators would buy intensively to avoid the “day-after.” Thus, to clear eyes the observable reality, not requiring econometric tests, is that Friedman was wrong. Speculators make the exchange

rate unstable, and the government is the only entity that can recover its stability.

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On Interest Rates and the Ideal Weight of the Government

Carlos Eduardo Soares Gonçalves
To *Valor Economico*

Milton Friedman is today very well-known for his monetary theory of inflation, which emphasizes the presence of long and uncertain lags between decisions by the monetary authority and their

repercussions on inflation. But he was also the proponent of the negative income tax to the poor and the defender of individual freedom and free markets. If I could have interviewed him, my questions would have been the following:

A pro-government wave took over the globe and post-war economic thought, as the result of the success of governmental planning during the war and also as a result of Soviet successes. During that period, how difficult was it for him to pursue the defense of a liberal intellectual position? In addition, which experiences, work, and authors inspired him most in this solitary battle? My impression is that Friedman was influenced a lot by the liberal ideas of Hayek, whose experience as an immigrant from Eastern Europe strengthened his convictions about free markets and free choice.

When Friedman formulated the idea that monetary policy needs to be conducted through calibration of money growth, the link between money and inflation was stable and clear in the data.

“The experience as an immigrant from Eastern Europe strengthened his convictions about free markets and free choice.”

However, in the 1980s this correlation became weaker in the short run, and many Central Banks proceeded to utilize interest rates as an instrument of monetary policy. I would ask Friedman if he would still advocate direct control of money today. I suspect that he would respond that, given the great instability of the velocity of money, his rule of expansion of a monetary aggregate would be less efficient nowadays than rules applied to interest rates.

Given that Friedman always advocated limitation of the State only to essential social/economical matters, I would like to have heard his suggestion regarding the optimal size of government in

an economy with the per capita income and degree of inequality similar to Brazil's: would the optimum be 20% of GDP or 25% of GDP? My guess is that whichever numbers might have been suggested by Friedman would be less than the current 40% participation of the Brazilian government expenditure in total GDP.

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Lucas, Volcker, Sims, and Money

Márcio Holland de Brito
To Valor Economico

In a first overview of this book, I read the interviews of

Robert Lucas, Paul Volcker, and Christopher Sims. An interesting fact is that they complement each other, in a curious way, in displaying what goes on in the “economist’s mind.” Lucas is absolutely theoretical, he never held a public position, and won the Nobel Prize in 1995 with his rational expectation macroeconomic models.

Mostly, Volcker’s influence in politics and policy was much greater than the influence of his academic papers. But he is absolutely practical in his applications of monetary theories, with initially modest but later surging influence in the academic debate in the 1970s about the nature of inflation. Sims is strongly applied, or more accurately, strongly empirical.

As with the other two economists, Sims is concerned about the macroeconomic research agenda, especially regarding monetary theories and policies and the large gap between economic theory and its applications. He comes into the econometric research field



Paul Volcker: What would have been his perception of the consequent damages in highly indebted economies, as Brazil, of raising interest rates to the stratosphere?

defending Friedman’s monetarism against the Keynesians. Interestingly, Sims’ empirical research ended up being atheoretical. With Sims’ contribution, Keynesians and

monetarists could equally investigate their propositions.

Three economists, three different formulations, three different perspectives on how to approach macroeconomic theory, regarding a common and fundamental issue: money. Money is so important in Lucas's agenda that, by associating it with the notion of rational expectations and by asserting it to be neutral in the long run, he was granted the Nobel Prize in 1995.

According to Volcker, money is the reason for all failings of the U.S. economy at the end of the 1970s. The inflation level of 13.5% in 1981 has a purely monetary explanation. How about Sims? He was of great importance in the development of econometric methods for central bankers during the post-Volcker period. Sims's methods are used to make decisions on increasing or decreasing interest rates, and by how much.

I would challenge Volcker to think about what effectively was his perception of the real consequences for highly-

indebted developing economies, such as Brazil, Mexico, and Poland, of his policy in the 1980s of large increases in the American interest rate. Such high interest rates led several developing economies to severe debt crises. I would ask more, because in the interview he reveals a conception apparently unimaginable for such a practical and pragmatic economist: his belief that soon, perhaps even before 2050, the world will have only one currency. That is right, he said only one global currency. If a lunatic, a poet, or a young economist had said this, it could be simply because he was a lunatic, a poet, or a youth. In any case, there remains the question: which currency will this be? The American dollar? A basket of currencies? And there will be questions even more challenging about the parity of this new global currency with respect to the old national currencies. However, I believe that this would be easily answered by the economist Volcker: he would say that these would be mere technical details

and that the main problems would lie in how to conduct regional and international policies – a political science answer by an enthusiastic, practical economist.

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The Enigma that Came from Asia, and Here it Still Remains

Mauro Rodrigues
To *Valor Economico*

The most important contributions from Robert Lucas — those that earned him the

Nobel Prize in Economics in 1995 – refer to the relationship between expectations and monetary policy. This is also the topic that received great emphasis in the interview of Lucas by Bennett McCallum in *Inside the Economist's Mind*.

If I had had the opportunity to interview him, I would have explored an area to which Lucas has dedicated his research recently: growth and economic development. In his most relevant contribution to this topic, he analyzes the importance of human capital, especially the accumulation and transmission of knowledge, to the growth process. He has also been writing about the role of the Industrial Revolution in the emergent growth processes sustained since the 19th century, following the centuries of stagnation in several regions of the planet.

My question would emphasize the differences between the development paths in Latin America and in the Asian Tigers in the post-War period. There is no convincing explanation yet of those differences. I believe that the

Robert Lucas could very well explain the differences in economic growth between the Asian Tigers and Latin America

question is relevant, not only to understanding these contrasts, but also to analyzing the impact of public policies on long run growth. How would Lucas explain the differences between the Asian and Latin-American experiences? Why, in spite of reforms, has Latin America registered relatively low growth rates? Which strategies should the governments in Latin-America pursue to increase growth and reduce poverty?

In 1950, income per capita in Latin America was equivalent to 28% of the per capita income in the U.S.. This number reduced to 22% in 2000. These indicators are even more striking, when compared to those of some specific Asian

countries (e.g., Japan, Hong Kong, South Korea, Malaysia, Singapore, and Taiwan), where average per capita income rose from a mere 16% of the American per capita income, sometimes compared with the African average, to 55% during the same period. The presence of heavy trade barriers and excessive intervention of the government in the economy are typical explanations for the Latin-American failure. However, the countries in Latin America implemented a series of reforms in the last two decades with the goal of liberalizing trade and reducing government weight on economic activity. With the exception of Chile, the results have not been satisfactory: the gains in terms of incomes per capita were insignificant and the poverty levels remain high. The emergence of leftist governments in the region is a clear symptom of these results.

What would Lucas say?

Mauro Rodrigues is a visiting professor at the Economics Department at FEA/USP

Chat with Giants

Eliana Cardoso
To Valor Economico

Economists love to cite an affirmation by John Maynard Keynes from the last chapter of his *General Theory*: some ideas, right or wrong, have more power than common mortals may think. They command the world, because “practical men,” who believe they are immune from any intellectual influence, are, in general, “slaves of some defunct economist.”

No way, says Paul Samuelson. The popularity of Keynes’s saying only reveals vanity among economists, or the desire to leave a mark in history. As a matter of fact, any madman sitting in a position of power could generate his/her own delusions without help from intellectuals, whether the ideas are from the frontiers of science or are out of fashion. In

addition, the economists who surround public authorities cook only what the government, or the public, would like to digest.

Samuelson’s reflections are part of the foreword to *Inside the Economist’s Mind*, a collection of dialogues in which the interviewees and the interviewers are equally famous and are friends, who have interacted with each other for years. The interviewer knows about the interviewee’s life and work inside out. The interviewer is not there to ask what he does not know, but to allow the interviewee to record for posterity exactly what he would like to say.

Among the interviewed there are three great MIT professors: Franco Modigliani (Nobel Nobel Laureate), Paul Samuelson (also Nobel Laureate), and Stan Fischer (currently the president of the Central Bank in Israel). I was a student of all three, as well as of another Nobel Laureate, Robert Solow, who interviewed Franco. I was a classmate of Olivier Blanchard, professor at MIT and Stan’s interviewer. Olivier arrived two years before me at MIT, where I studied from 1975

to 1978. During the subsequent 15 years, I socialized with the laureate professors, because I was married to Rudi Dornbusch, who was a professor in the same department. However, I never knew how to address Professor Solow, whom American students called Bob with no embarrassment.

I became friends with Serena Modigliani, Barbara Solow, Rhoda Fischer, and Noelle Blanchard. Serena reprimanded my vanity, when I started dyeing my hair. Rhoda and I created a literature group. Noelle made me the godmother of her daughter, Nana. I listened to lots of conversations among the giants and observed some things perhaps more important than their dedication to research. These titans possess a certain existential equilibrium that transpired in their dedication to students, in their appreciation of their colleagues, and in their devotion as loving husbands to their wives. In the book, which intends to establish a connection between the life and research of

these famous people, there are no deeply personal revelations about their lives, as you and I understand. There is no paternal affection, the sound of a certain violin, the stroll in the beach, or the stolen kiss from a girlfriend.

When the theoretical observations get mixed with personal revelations, these are, in the majority of cases, compliments to professors and colleagues or criticisms of antagonists. Among a few such personal exceptions, is Modigliani's reference to Serena, the bride with whom he escaped from fascism in Italy, and with whom he lived his entire adult life.

Samuelson makes a reference to his biological brother, Bob Summers, an important economist and the father or Larry Summers, the ex-secretary of the American Treasury and ex-president of Harvard University. However, Samuelson does not tell us that he was raised by adopted parents or that he had six kids (including triplets) with his first

wife. Neither does he tell us that he became a widower and got married for the second time to the ex-wife of a colleague. For him it was enough to remember that he was 16 years old, when he was admitted to the University of Chicago. Life in this book means mostly intellectual life.

Samuelson comments with irony that Hitler and Lenin did a lot for American science, since they motivated the migration to the U.S. of extraordinary economists, such as Koopmans, Leontief, Schumpeter, Marschak, Kuznets, and Harbeler. And he confirms, bluntly, a known historical fact: in the period preceding the Second World War, anti-Semitism had already spread to the academic world. Its prevalence at Harvard induced Samuelson to move from there to the Economics Department at MIT and to transform it, together with Bob Solow and Modigliani, into a powerful factory of ideas.

Franco also reports how the anti-Semitic and xenophobic Harvard department chair led



Modigliani (who declares himself a committed Keynesian and explains his choice) laments that Central Banks have adopted price stability as their only target.

him to reject an offer from Harvard. Franco declares himself a committed Keynesian. To be Keynesian, says he, is to understand that our system does not converge automatically to full employment in the absence of adequate policies. Subsequently, he comments disapprovingly on the fact that the Central Banks in

Europe and other regions have adopted price stability as their only target. Solow answers: “Well, they argue that there is nothing they can do about it, but you and I think that’s fundamentally wrong and simply a way of avoiding responsibility.” Economics has two parts, says Franco. One is theory; the other is economic policy. The first is universal and should exist according to its principles. The second involves judgments about values and preferences, reflecting differences of opinion.

Samuelson would have agreed, because in his classes he would always say that there does not exist a different economic theory for different regions or countries. His conviction that there is only one economic theory underlies his interpretation of Somerset Maugham’s phrase, which he evokes in the preface of the book: “to know one country, you must know two countries.”

At first sight this phrase seems to say that the contrast among countries is a source of learning. By observing how one

country differs from another, you would understand each one of them with more acuity. However, Samuelson interprets it in the opposite sense. For him the phrase indicates that countries, in some ways, are equal. If you understand one of them, then knowledge about the other will be easier to acquire. There exist “economies of scale” in learning, because the fundamentals of reality are the same. In this case, 1+1 could be more than 2, particularly, if you observe the world from the shoulders of the giants.

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