

Obama, Can It Work?*

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Mr. Chairman, Dear Professor Ahn, and dear friends, for me it has become like a ritual to be invited to your breakfast lecture when I come to Korea. In the past few years I have had many opportunities to talk about various subjects. I've talked about China, and also I have talked about the United States. Probably I was too optimistic at that time, but I make mistakes. We all make mistakes. Economists, particularly, make a lot of mistakes. Economists are really bad at predicting the future. We don't know how to predict the future. But, if I remember well what I said some years ago about the US economy- I wouldn't change this- that fundamentally the US economy was, and still is in spite of the crisis, the leading engine of growth. In terms of innovation, thanks to their excellent universities, laboratory research, thanks to their excellent cooperation between academics and the business community, the United States has been in the lead since the 20st century. We don't see right now, despite the crisis, any real challenge that would modify this leadership. We all accept it in a way. Whether we like it or not, we accept it because we all know that the whole world will get out of the recession on the very day that America gets out of it. There is no hope to get out of the present situation if the US doesn't do it first. This is an example of the proof that the US still maintains its leadership. Another paradox of this crisis is the strength of the US dollar. In a time of crisis, what do people want? They all buy US dollars. The US dollar is stronger than it ever was, and the whole world is buying US treasury bills. This has consequences, as we will see in one moment, on the choices that have been made by President Obama because when you can print your own money and when you can borrow without limit from the rest of the world, this gives you some kind of freedom that other countries like Korea and France do not have. So, this has some influence. This influence maybe positive, but it may also be negative in the long-term. I have written a text for this conference in English and I would the text, if possible, to be translated and distributed in Korea in the coming days because it is long and detailed and I don't have time to go through it all this morning. I will make some remarks based on this text, but if you're interested I think the organizers will be able to distribute the text that I have written for you. As you started, and rightly so, with foreign affairs and the threatening

* Transcription of a speech given at the Distinguished Lecture Forum on Thursday, March 19, 2009

situation in North Korea, before I turn to economics, I will make some quick remarks on the foreign policy of the United States.

Very clearly, I believe and maybe some left-wing commentators in the United States wouldn't agree with me, the choice of the new administration has been continuity. The Secretary of Defense is the same, and the top military brass is the same. From the very first day, Barack Obama has said that he would rely on the advice of the top military offices starting with General Petraeus who was in command of the War in Iraq and is now in charge of the War in Iraq and in Afghanistan. This means that the Obama administration is not opening any debate on the role of the US in the global order. The Obama administration thus considers the US as a nation and the US military should keep its role as a global peacekeeper and that there is no substitute for the US military to keep peace in the world. There was some hesitation because among the democrats you have some pacifists and you have some people who doubt the role of the US military and they wonder why they should keep the huge 7th fleet in the Pacific Ocean, why they should increase the number of US soldiers in Afghanistan, but this debate has become marginal. The 7th fleet is here for good and will be here for a long time and the military presence in Afghanistan and other dangerous parts of the world are being reinforced. Vis-à-vis North Korea, I think it is really clear following Secretary Clinton's discourse and declaration that there won't be significant change toward North Korea. Similarly, there will be no significant changes vis-à-vis Iran. So, the American policy will continue, it will be tough, but I'm not sure it will be very successful because it has not been that successful for many years.

At least, there won't be a tendency to be soft vis-à-vis North Korea. I don't want to elaborate on this problem of North Korea. I've told my position quite often to the Korea media. The key is not in Pyongyang; the key is in China. As long as you don't find a way to deal with China, you'll never find a way to deal with North Korea. Enough of that because it is not our topic this morning, but I just wanted to insist on the continuity of some enemies of the United States would say the continuity of American imperialism. Obama is an American imperialist. An American President first used the term "imperialist" as far back as the 1800s by Jefferson. Jefferson said that the United States was the empire of liberty. Since the very beginning, the US has seen itself as an empire with an imperialist vocation. They see their role as a positive imperialism. They see the role of the military as extremely positive.

If I may add one remark on the US navy, I very recently visited the headquarters of the 7th Fleet in Hawaii. One of the Admirals, the head of the 7th Fleet, told me that the pride of the 7th Fleet is that since WWII the fleet has never fought in a war and, therefore, proves the importance of the 7th Fleet. The Pacific Ocean is quiet. Trade can continue because the US Navy is here. President Obama has no intention to change the role of the US military in this part of the world. I wanted to say that, which I think is quite significant, quite important, and quite positive.

If we turn to the economy, the chairman said in his introduction and everyone agrees that this the most severe recession since 1930. It's severe but it is not to be compared. It is not to be compared because as he mentioned the growth might be negative this year and next, but even though it isn't pleasant to have negative growth by two, three or four percent, the situation in the 1930s saw production in the US and Europe decline by more than 40 percent. When we talk about unemployment, in Europe for example, we live with 10 percent unemployment on a regular basis but maybe now we'll reach 12 percent. That's not very pleasant. The United States might reach 8 percent by the end of the year. Once again, this has nothing to do with the situation in 1930s when half of the people in the US didn't have jobs. We are not talking about the same thing. It is a recession; it is a crisis; it is not the end of the world; and it is not the end of capitalism. It is not the crisis of capitalism, but it is a crisis within the capitalist system. It destroys part of the wealth; it destroys jobs; and it puts many people in a difficult position. But compared to the past, we now have a kind of welfare system throughout the world that prevents people from falling into complete poverty. In Japan and Korea, you have started to give direct help to the poorest people who are most impacted by the crisis. This is certainly the thing to do-to help the poorest people in order to save the system. In the case of the United States, there is no doubt that President Obama is very much in favor of maintaining the free market and the capitalist system. He has repeatedly said this on a very frequent basis because he has been accused by the Republican Party to be a socialist. To be called a socialist in France is a compliment, but to be called a socialist in the United States is really negative. President Obama has been very cautious by repeating that he's on the side of capitalism, on the side of the free market, and is certainly not a socialist. Everything that he does, including state intervention and regulation, is to save the system and to help capitalism rebound. Some skeptics believe that he's a hidden socialist. I do personally think that he has no clear idea about economics. That's for sure. He basically thinks the system is good. The system is American and it's adapted to US culture. He is not planning on changing

the system.

How is he doing if we go into some of the details? We have to start with the stimulus. The huge stimulus in the United States is quite an ideological revolution in a way because since Reagan was in office, the market was supposed to adjust spontaneously and that state intervention was supposed to be extremely limited. This face of the faith in the automatic adaptability of the market seems to a certain extent to have disappeared with the Obama administration. This disappearance is for good reason. It is true that the monetary policy advocated by the classical liberals does not work. Even with zero percent interest rate nothing happens. The classic instrument of economic policy doesn't work. Therefore, what is left for the state is direct intervention by the stimulus and also-we'll come to it in a while- direct intervention by the recapitalization of industrial companies and financial companies.

The problem with the stimulus is the following. First, if we look at economic history, stimulus has not worked. We don't have one example where a country has been saved by a stimulus. What usually happens with stimulus like the many that were applied in the 1970s everywhere, and in Japan in the 1990s was that people kept pouring money into the economy and nothing happened. Sometimes the economy recovered; sometimes it did not. But, usually recovery is not connected with the stimulus, because very often the economy recovers before the stimulus reaches the people. So, the connection between economic growth and economic recovery on one side and stimulus on the other side, has never been proven. This does not mean that this time it will not work. One of the arguments by one of the economists supporting Obama is that the stimulus in the past didn't work because they were too small. If you have a huge stimulus-a big shot in the arm- because of the very dimension of the stimulus, it will restart the economy. I'm not sure about that. No one is sure about that. As the chairman mentioned, what we see as soon as the stimulus started, people increased their savings, not their consumption. Therefore, the stimulus increases savings, which aggravates the crisis because if people save, they buy less and less. The production, therefore, goes down and it impacts countries like Japan and South Korea. The stimulus might have negative effects. In the short term, stimulus packages are neutral. Maybe they create jobs here and there, but maybe these jobs would have been created anyway. It cannot be proven. So, basically, I think the stimulus plan has a political dimension. It is to show to the people that the government is acting; it is in charge; it is doing something. From a classic economic perspective, the best solution in this kind of

crisis is to do nothing. In a democracy, to go on a television show and tell the people that you're not going to do anything because this is the best way out of the crisis would not go very far with the people, including the South Korean people. So, politicians have to act. Stimulus packages are neutral. They can create problems in the long-run, two kinds of problems.

If you go on for too many years, like Japan did in the 90s, public spending will replace private investment. There is now a consensus in Japan among economists that a stimulus package is okay for two years, two years would be a maximum. If you go beyond that, you create a new economic system where you have no reason to work, and no reason to invest. You just wait until the government provides the jobs and the profits. So, if you implement a stimulus too long, you can really destroy the engine of growth. This is the advice that the Japan government has given to the European states and America. At the G20 meeting, this will be the dominant discourse of the Japanese. If you want to avoid "The Lost Decade" as in Japan, you'd better shorten the life span of your stimulus. The second risk in the stimulus package, as we know, is inflation. So far, the United States is protected from the threat, but they are the only one. Because they can use their own money, because they can loan it to the rest of the world, they can have huge deficits, 10% deficit this year. No other country can afford this. How will they repay the debt? They will repay the debt most likely with inflation. We know that there is nothing worse that destroys an economy and disrupts society other than inflation. The United States is using methods that might be good for them, but they are only valid for the United States. These methods cannot be copied by any other country.

The second instrument used by the Obama administration, as you know, is direct intervention in the production industry and the financial industry. Once again, this is extremely ambiguous because if you try to save the auto industry, you do it because after the temporary stimulus the auto industry can recover and adapt to the market. The danger of this kind of intervention like stimulus is that it will go on for years and years and that the bailout of this kind of industry will replace good management and innovation. So, in a way, you can draw a parallel between the global stimulus and bailouts of industries. It's the same debate. Do you do it short-term to rekindle the growth and allow people to adapt to a new situation or do you create little by little a new economic system that's kind of like a socialist system where dependence vis-à-vis the state replaces economic dynamism, investment, and innovation. Regarding the auto industry, I think that the bailout system will not help this industry to innovate and

recover. The companies in the auto industry are only gaining time. The question would be the same vis-à-vis the banking system and the financial institutions.

The US government so far has been unable to focus on the real origin of the crisis. The real origin of the crisis, as you know, is the allowance of the size of the derivatives to escape any control. Derivatives, on a whole, are a good thing. Thanks to derivatives, which is a good financial innovation, better ways have been found to do more risky invests in more risky countries. Without derivatives, China and India, for example, would not have been able to find the necessary investments to sustain their growth. However, they have gone too far. How far? Nobody knows. This is the real problem. We know that there will not be recovery as long as this problem is not solved. The US government does not clearly know how to solve this problem. Why, because it is not that easy. It is not that easy because nobody knows the amount of toxic assets that are on the market. Nobody knows the amount and nobody knows the values of the assets. The US government, in a way, is gaining time trying to devise a system to isolate the banks that deserve to be saved and the banks that do not deserve to be saved. This process of evaluating assets is extremely dangerous because no one will be able to evaluate them as long as they are not put on the market. Only the market can say. Of course, it will be extremely dangerous on the market because many banks could fail and many financial institutions could fail. So what? Old industries, corrupt banks, and financial institutions that were not able to manage their risks should maybe disappear. There is no reason, no economic reason, no ethical reason to save them with taxpayer's money. What is being done with AIG for the last several months is not founded on any clear ethical or economic reason.

The government talks about systemic risk. What kind of risk? We don't know. I think that the Treasury Secretary, Mr. Geithner, should stop making contradictory statements and signals on a daily basis. As long as he is not able to make a decision and choose one way, the crisis will continue and the trust within the financial system will not be reestablished. When you say this, and many columnists write about this in the United States, the reaction by the Obama administration is to say, "we have only been here for two months," which is true, but this should have been the first decision to be made. All the rest could wait. The stimulus could wait. The bailout of the industries could wait. The way you manage the toxic assets cannot wait. There are other signals or policies in the Obama administration which are not that favorable to the business community, as you know: raising taxing, attacking the ethics of the business community, criticizing

the bonus system, and condemning the immorality of the business community. The business community doesn't like that of course. There is kind of a populace discourse which could have consequences in the United States, but we don't know. It's too early to know. There is an anti-free market, anti-entrepreneur, anti-business discourse which is quite new in the US history, even coming from the Democrats, and we don't know where it will lead.

As we now turn to free trade now, there is a lack of commitment from the Obama administration toward free trade. It is very ambiguous to say the least. It is very ambiguous, I think, for the same reason that they are not able to make a decision vis-à-vis the banking system. The administration and the Democratic Party is very divided on this issue. The Democratic Party is not a unified party. It's a collection of individuals who have very different views on the economy from the most leftist to the most conservative views on the economy. During his campaign, President Obama was very much anti-free trade. We all understood that that was a way to buy votes in the industrial regions of the United States like Ohio or Pennsylvania that were decisive in this election. Since he has been elected, he has changed his position a little bit. Recently when he was in Canada, he said that he did not intend to revise the NAFTA with Mexico and Canada. This was part of his platform. He said that's over-so back to a more free-trade classical position. Then on the backburner, there is the Colombian Free Trade Agreement and the Korean Free Trade Agreement.

Then President Obama made a very dangerous decision. He said that the NAFTA whether good or bad for the United States, he didn't know, should be decided along with the Korean and Colombian FTA by the American people. My God, I wonder what will come out of this kind of debate because evidently you'll have strong lobbies and strong voices against these free trade agreements. The consumer who would be the main benefactor of the free trade agreement has no voice. He's not organized. The United States will be in a similar situation like in the 1980s when the automobile lobby opposed Japanese cars. However, Japanese cars were popular enough among the US population that the Detroit lobby was over taken by the consumer. In the case of Columbia, will the consumer say, "We want Colombian flowers and textiles?" They don't know what it comes from Colombia. I'm a bit afraid that it's the same with Korean products. They do benefit from Korean products, but they don't know it is Korean or Korean products are not clearly identified as Korean.

I would suggest that South Korea starts lobbying in favor of the free trade agreement. Well, you should start lobbying in Korea first, if you want to avoid another candlelight vigil. You have to explain to your own people the benefits of the free trade agreement with Europe and with the United States. You will also need to lobby in the United States as well. This won't be a simple task. You cannot just wait and hope that the Korean government earns public support; you have to work at it. In the case of France or Europe, there won't be a popular action against the free trade agreement, but who knows? Maybe some industrial lobby will discover that there will be a lot to lose with this free trade agreement. I think that South Korea should be extremely cautious with this free trade agreement with Europe, which will be announced and confirmed in London at the G20 Meeting. It will be a strong signal to the world that South Korea and Western Europe are committed to free trade and that in the midst of this crisis, the best political act that can be implemented is a Free Trade Agreement. This European-South Korean free trade agreement, which will be on April 2nd--if I remember the date well--is extremely important. It will be a signal to the United States, but it should not preclude the South Korean government and business community to be actively lobbying within the United States and within the Korea public opinion.

I'd like to quickly discuss some other aspects of Obama's economic policy. I don't know if we should take them serious or not. I mean, will it change the American economy and the global economy or is it only discourse and rhetoric? I'm talking about "green jobs" and "alternative energy." If you ask me what green jobs are, I frankly don't know. If you ask me what an alternative energy is, I can tell you that it's an energy paid by the taxpayers. So, I know what is an alternative energy. We don't know how far the Obama administration will go into this kind of direction to support alternative energy and green jobs. I think this is pure rhetoric and it will be a fad that will go away quite rapidly.

Eventually, if I were to conclude on this, I would repeat what I said at the beginning about the paradox of this crisis. It started in the United States, and it will end in the United States. It has shown the fragility of the US economy, but it will not replace the United States with a new leader or a group of leaders. It has also shown the ambiguity of the US dollar as a currency that is completely unpredictable but no other currency, not even the Euro, is in a situation to replace the US dollar as a safe currency. Those are all products of the crisis. We are at the very beginning of it. We are learning on a daily basis. We have to revise all of our textbooks. Many things have changed. The

federal bank in the United States buying commercial paper that was not in the textbook. We never imagined that it could be in the textbooks. However, we don't need to change principles. One of the risks of the crisis is that people due to stress and anxiety forget everything that they learn in the past. For example, the French love ideological debate with statements like, "This is the end of capitalism," "This is the end of the free market," "Let's reinvent socialism." People forget very rapidly basic knowledge. This is why it is extremely important not to forget the basic knowledge and basic principles. Korea has become a rich country because it respected some basic knowledge and followed some basic principles. You shouldn't forget this knowledge and principle because we are in a crisis. On the contrary, you must reinforce your conviction and your principles and not partake in these useless and stupid ideological debates. I regret that many economists forget their knowledge because they lose their senses because they were not able to predict this kind of situation. Thank you very much.

Questions & Answers

Q Obama advocates change. He insists that soft power will supercede hard power. However, I don't see it that way. During WWI and WWII France's soft power was greater than the Nazis', but the Nazis still invaded France. That's just one of many examples. Do you think that Obama's soft power stance will change during his term? The second question is an economic one. The Obama administration recently put some rescue money that made up 2% of GDP. A Japanese financier told me that the Japanese put 20% of their GDP over a 10-year period into rescuing their economy. So, it appears that the US rescue plan is under-funded. What do you think about this? Lastly, I'd like to touch on the KORUS FTA. In 2007, I went to the University of Memphis and in 2008 visited the Long Island University to give a special lecture on Asia's financial and economic integration, which included discussion on the KORUS FTA. The high turnout in attendance proved that many Americans are concerned about the FTA between Korea and the United States and are worried about the US job market. Do you think the KORUS FTA and the Colombian-US FTA will pass in the US Congress and what about in the Korean National Assembly?

A Thank you for bringing up the soft power issue. The Obama administration foreign

policy and military policy are basically the same as George W. Bush's policy, but, you cannot say that. So therefore, they came up with the idea that it's not the same policy because they put more emphasis on soft power than on hard power. This was a way to show change without actual change. You are perfectly right that soft power cannot be implemented by a government. It's like cosmetic rhetoric to hide the fact that there is continuity.

Concerning the stimulus--I mean we have talked about it--there is an open debate among economists going back to the 1930s. You have economists like Paul Krugman saying that it didn't work in the 1930s and it's not going to work now because the stimulus is too small and that it should be much bigger. How big? We don't know. If it's too big I think there is an underestimation of the inflationary risks, maybe I'll come back to that later in more detail. At the very beginning of the crisis there was a very loose monetary policy. If we go back to a loose monetary policy, we won't only not solve the crisis but we will repeat the very cause of the crisis. Will the FTA between Korea and the United States be approved in both states? I think yes because if you look at the long history of free trade in the long run, you always have vociferous groups against free trade but eventually there is a common sense which triumphs and eventually most FTA get approved in other countries where they have been presented. Since WWII all of the free trade agreements have been approved even if it takes time.

Q Thanks very much for sharing your wisdom. I have two questions. One is related to a pessimistic quote about the economy and I would like to have your thoughts on the matter, and the second one is related to the US dollar exchange rate. I recently read an article that argued that the recession was caused by American credit debt. It said that the total US debt of the public and private sector was 51 trillion dollars as of June of last year. It further says that in the past 100 years America's credit debt was 150% of GDP and during the Great Depression it was 250%. This author suggests that the only long-term solution is for Americans to save more and spend less. What do you think about this opinion? Secondly, despite such a big American debt, the US dollar is getting stronger. I believe America is in a unique position by benefiting as the key trading currency status. Once the financial crisis is over, once people get over the horror of credit risks, and once stimulus packages are implemented, places all around the world will see inflationary pressure. That pressure will be stronger in American than other countries. This could create a scenario with rising interest rates in America and

precipitating exchange rates.

A Starting with your second remark, I tend to agree with your hypothesis. Another paradox is that when the recession is over, the US dollar will go down because we will have less of a reason to invest in a safe currency. Those are only hypotheses because if there is one thing that we can't predict it is the evolution of the exchange rates. We don't have any mathematical model that can accurately predict this kind of behavior.

On your first observation, you said that the long-term solution would be for Americans to save a little more. Yes, to certain degree because, as you also said, we need America to have debt. There is a right level of debt in a way. When they start saving, like now, they don't buy. They should save but not too much. What is the right level of debt? If they have no debt at all, they are not the engine of the world economy anymore. If they have too much debt, they put everything into a recession. If they don't have enough debt, they can also put the world into a recession. The right level of debt is difficult to evaluate. This directly relates to the interest rate policy of the Federal Reserve Board.

I'd also like to add that if we were to write the history of the current recession, it really started with the really low interest rate after 9/11. Of course, with all recessions there are several combinations of parameters involved. This said, I consider the main reason, in spite of the huge respect that I have for Allen Greenspan, is that he was overshooting after 9/11. There was such a fear after 9/11 that the global economy would stop, that everybody would be frightened causing trade and investment to stop. The decision, as you remember, after 9/11 by Allen Greenspan and the Federal Reserve Board was to lower the interest rate to rekindle economic growth. At that time it worked. It worked so well that the Federal Reserve Board didn't feel that they needed to raise the interest rate at a certain moment. They didn't do it because there was an enthusiasm during that period because of the high growth rate in the United States. everybody was making money. The whole world was growing. On top of this loose monetary policy, which made credit available for everybody at a very low rate, you had a huge influx of foreign capital from Russia and Arabic countries because of very high oil prices, some from China, Japan and Korea. The US financial system was really flushed with money at a near zero percent interest rate. Speculation was a consequence of this loose monetary policy because today the main political discourse is to say that we were too greedy, too many speculations, and the bubble burst. You

have to ask yourself how was the speculation possible, why did the people become too greedy. The reason is that when a society is flushed with money, when there is no more notion of what an interest rate is, and greed, I would say, is in any society but the fact that greed can do anything this is because of the super abundance of money which took place in the United States. I think it's not greed but loose monetary policy which is at the origin of this crisis and it will be extremely disastrous for the sake of stimulating the economy for there to be once again too loose of the monetary policy in the US.

Q In the case of the French Revolution, the court was in heavy debt, the meeting of real estate was convoked and there was a revolution. Maybe, that's a bad analogy, but would a proletariat of nations rise against the US? Also, I think the US hegemony won't last forever; at least it will have to be revised. So what will be the role of Obama's presidency in that evolution of the US hegemony in the world?

A Nobody has decided this hegemony. It's just a consequence, an outcome of history. In the United States, there has always been lots of dissenting voices on the role of the US as an empire. Still today, you have plenty of dissenting voices in the academic and political community, but why should the US be responsible for the rest of the world? It has just happened like that. It was not a choice. This is important because the US became an empire nearly by accident. The Roman Empire wanted to build an empire. The Chinese Empire wanted to build an empire. The United States became an empire. It was never really a choice. Therefore, there won't be a debate within the US where the Americans will say that they don't want to be an empire anymore. Two things can occur. First, will there be an anti-American revolt? Well, we have that on regular basis from time to time. In the case of the Obama Presidency, Obama's charisma protects the United States, I would say, at least for four years. Obama as a person is very charismatic and is respected all around the world. We are also in an economic integrated system and you need a kind of global government. So the question is, what will be this global government? Will one nation replace the United States? Clearly, in the short-term the answer is no. No nation has the economic resources or the political desire to be the global cop for the world. It costs a lot of money. The Chinese don't have the economic or military resources. The Europeans don't have the will; they are not interested, good life first. So, there is no nation willing to replace the United States and you need a global cop. If the 7th were to disappear, who would replace it? No one is volunteering for that. We'll probably see an emergence of a semi-global government.

The G7 will disappear. I'm quite sure that the next G7 meeting in Italy will be the last of its kind and that the G20 will replace it for the years to come. This is an enlargement of this kind of global government where the US will remain the leading voice but is mitigated by the strong presence of other countries. I think this is the direction we are going, but nothing as dramatic as the French Revolution.

Q About five or six months ago you came to this breakfast lecture just after the financial crisis broke out in the US. At that time, you said that you firmly believed in the fundamentals of the American financial system. At the beginning of your lecture today, you said that you made some mistakes. By mistakes are you referring to previous predictions that you made about the development of the American financial crisis? Also, do you still believe in the fundamental in the American financial system? Secondly, these days American news media reports that there are differences between the financial crisis in the 1930s and the present one. A few days ago, an American television network reported that people are living in a wealthier state now than compared to the 1930s. So what are some of the differences between the two recessions?

A I regret that you were there last time and you remember what I said. Right after this breakfast conference in Seoul last time I was here, I said to myself that I was a bit too enthusiastic and I should have been more cautious. My mistake, like many others, was that I underestimated the seriousness of the financial crisis because I didn't know that all of the banks and financial institutions all around the world were loaded with toxic assets. At that time, we didn't have enough information. Toxic assets were thought to be a problem only in leading institutions in the United States. However, it was discovered that it wasn't just one bank. This has been discovered little by little. As we said before, we still don't know the entire story today. We don't know the value and we don't know the entire dimension of the crisis. We now know that we have derivatives based on derivatives. It's an endless process. So that was my mistake based on the lack of information.

One of the lessons that I think we should retain from this is not that we need more regulations- regulation was there- the problem is elsewhere. The problem is the lack of information. I compare the toxic assets sold by the bank to medicine. When you're severely ill you buy a pill. You know that it can cure you but maybe it can have bad

side-effects, but at least, it is written down on a piece of paper or a doctor who can explain the benefits and risks to you. In the financial sector, I don't think the solution is regulation. It's information and transparency of information. The state should intervene by not adding regulation because they will be incapable of applying regulations or if the regulations are too strict they will kill innovation in the financial sector. The way out is really transparency of information so that we know ahead of time what we are going to buy.

As for the other fundamentals in the long run, they all still exist. They include the capacity of innovation, the capacity of bringing innovation to the market, the capacity to attract the best research from all over the world, the good cooperation between academics and business. There is no equivalent still today of the US as an economic engine. In the medium-run, I'm quite sure that the American industries are going to have a spectacular renaissance. When you go and visit research labs in the US, it's impressive to see what's going to happen in the coming years. Everything that has to do with bio-technology, nano-technology-these take place everywhere- but its going to be marketed first in America. Despite the crisis, we are on the verge of a new industrial revolution. All of the new products and techniques are there. This trend toward innovation has been disrupted by the financial crisis. When the financial crisis is over, all of the new products, methods, technologies will be ready. They just wait for the right financing and the restart of the economic process. We have to remember that the growth of the economy is mainly due to innovation. There is no other growth engine like innovation. This is why I should say that the fundamentals are still okay. In one word, a big difference between the 1930s and today is that in the 1930s two-thirds of mankind lived in agriculture and was in a way protected from the crisis. In a country like France, for example, the crisis was bad but not that bad because in the 1930s 50 percent of the French people still lived in agriculture so the impact of the crisis was moderate. It was stronger in Germany because it was a more industrialized country. These days even agriculture is impacted because agriculture is on the world market. So the big difference is that today everybody is impacted; there is no shelter; there is no place to hide. This is a big difference. Another difference is that most countries have a welfare system. Therefore, the impact of the crisis-except for places like Africa- doesn't destroy the lives of people to the same extent as in the 1930s because of the welfare state and state intervention. Finally, the big difference is that we know more about economics today than we knew in the 1930s. Many of the huge mistakes committed in the 1930s like closing borders, forbidding the creation of new companies in the United States, and

imposing monopolies are not being followed. In the 1930s it looked like the right thing to do. Today we know that there has been progress in economic knowledge. We know that those policies were mistakes. This has tremendously helped to not aggravate the recession and not to repeat the mistakes of the 1930s like the New Deal, which has been an aggravating factor of the recession.

Q Recently, Secretary Rueben was here three or four weeks ago to participate in a global seminar organized by the Korean government to celebrate the one-year anniversary of the Lee Myung Bak administration. He's, in fact, the culprit of the financial crisis and the inventor of repackaging derivatives. He has never made an apology for making such a financial mess. He said that he didn't recognize the implications of constant repackaging derivatives. You said that you didn't recognize the implications as well. Nor did I. All of the economists are on the same boat.

My first question is related to the KORUS FTA. The Korean National Assembly-the opposition party and the ruling party- are waiting to see what happens in Washington. Our national assembly is almost ready to ratify the FTA, but now the opposition party is unsure about ratifying the FTA first. My own position is that despite such ambiguity by our American counterparts, we should go ahead and ratify the FTA and put the ball back in America's court. I would like to hear your view on this. In fact, you said that Korean-EU FTA will provide a very good position for Korea to project our image as a liberalized country in the global community. Taking this into account, I think that Korea should ratify first. As for my second question, you said that Korea should lobby very hard in the American market because American consumers are not aware of Korean brand names. How can we approach this? How can we deal with the US consumers advertising Korean products? Of course, Hyundai Automotives is using the precious time during the Super Bowl to advertise its own products. That is one way of doing this, but what is the general approach to enhance Korea's product image to the US consumer? Finally, you said that while the crisis is still going on, we should get prepared for the post-crisis system and we should look for a new robust search engine. In this context, I believe that Korea has no serious problem. We are pioneers in stem-cell research, but unfortunately, we had this Dr. Hwang scandal. As a result the Korean government suspended expenditures of the budgets for stem-cell research. Now, just a few weeks ago, President Obama gave the go ahead to do stem-cell research. This has spurred on the UK, France, and Germany to race into the field. What is your view?

I think we should allow the resumption of stem-cell research.

A On what Reuben says about the responsibilities of economists, I think economists should take the same type of Hippocratic oath as doctors where the first line is “you should not harm.” Sometimes we invent products that are very sophisticated and we are absolutely delighted because they are so sophisticated. We can forget that they have consequences. But, we also make models that are quite useful. We have models to show that free trade is good. Have models to show that inflation is bad. Sometimes it’s good and sometimes it’s bad, but we are not very cautious. Economists are like scientists. They don’t know how to communicate. They don’t relate very well to people. They are not very good at explaining themselves. The profession as such these days is thinking really hard about the kind of behavior it should have because after all, we do have a collective responsibility. We are at the origin of certain products and these products can be toxic. We never thought about this before. I consider Reuben to be much more toxic than I am because he is much more creative. There is an ethical problem in the profession and it is being taken into consideration right now. In the coming years, this ethical dimension will be included in the profession.

About free trade, as I said in my introduction, it’s not because we are in a crisis we must forget the basic principles and everything that we know about economics. We know that free trade is good. Of course, we know that it does impact certain people. It’s good globally. Individually, it can destroy jobs, but this is a responsibility of the national people to help the people impacted by the agreement. So, I think that it’s very important to keep these principles and be careful about the negative consequences of these global benefits for certain categories of people. The first big mistake would be to forget about the FTA for circumstantial reasons, and the second mistake would be to forget that what is good global is not good for everyone. This is a big problem because the adversaries of free trade will always be better at public relations than the advocates of free trade. The advocates of free trade say that it is good globally. The adversaries of free trade will select the guy in a small village who will lose his cow or shop because Europe imports. There is an asymmetric imbalance between the global benefits and the negative impacts. This needs to be taken care of by South Korean government. The candlelight vigil demonstration was a political and ideological demonstration, but the demonstrators also made some good points. If the government had been more careful at that time, it would have communicated the benefits better. So you should not repeat the same mistakes which allowed the opponents of the free trade to have another

candlelight demonstration.

To lobby the US consumer, a few days ago the Korean President established a committee to promote Korea as a brand abroad. Apparently, I am the author of this brilliant idea, but I'm completely unsatisfied with the way that it's done. Why? The President brings a committee of ten or twelve "wise men" together. These "wise men" decide to promote Korea abroad. They decide that they should put Taekwondo first; Kimchi came second and so on. There was a list of about ten good things that should be promoted abroad. This is not a good method. A good method is to go through professionals like a PR agency and ask Americans or French, "what do you want to know about South Korea?", "What is your image of South Korea?", "What are your prejudices about South Korea?", "What do you expect from South Korean imports?". You have to start from the demand. You have to start from us and not from you. I was very happy to have a committee taking care of promoting Korea as a brand; that's good thing. I was a bit surprised by the method. It's as if Hyundai or Samsung decided the best products to sell abroad regardless of what US consumers want. I hope that they will change and that they will ask the US consumers what they expect and then build a PR campaign targeted toward these countries with each country being different.

As for the question concerning South Korea ratifying the FTA first, simply there is no hesitation to have about this issue. You should follow your path. This is a long-term trend. You shouldn't be stopped by your current circumstances.

For the stem-cell research question, as I said before, economic growth is based on innovation. There is a general agreement that nano-technology and biotechnology are among the most innovative fields today. Clearly, Korea has an advantage in these fields. Okay, there has been an accident, but there have been accidents in every country. You should start as soon as possible. You have the facilities and researchers. Many of these researchers went to the US after this incident; you have to bring them back.