The 5th Annual Conference of Columbia University’s Center on Capitalism and Society (CCS) directed by Professor Edmund S. Phelps, McVickar Professor of Political Economy and 2006 Nobel Laureate in Economics, took place on November 24th in the Club de Industriales in Mexico City. It was the first time that CCS conducts its annual conference in an emerging market.

Amid the financial crisis and the high risk of a deep deceleration in the world economy, a distinguished number of participants, including Mexican national authorities, top academics and researchers, as well as leading national and foreign CEOs focused their discussion on developments in the international financial sector and how these developments are affecting economic dynamism and social inclusion—the main topics of the CCS—not only in mature economies but also in emerging markets. In particular, options to reactivate dynamism through innovation and to ensure that such dynamism is socially inclusive were analyzed. These options included proposals such as Phelps’s low-wage employment subsidies and President-elect Obama’s hiring plan according to which public subsidies would be provided to private enterprises for encouraging and lowering the cost of employing and training low-skilled and other displaced and vulnerable workers.

Participants appreciated the opportunity to listen to Professor Phelps who has been one of the most serious critics of financial models based on rational expectations. In fact, he has argued for a long time that the “financial engineering” and “rule-based” monetary policy of recent years abstract from the uncertainty of things and in so doing were actually quite hazardous to the performance of the economy—its dynamism and inclusion. Articles by Professor Phelps on the financial and banking crisis have appeared recently on the Wall Street Journal and the Financial Times, and he has been interviewed often more than once in Forbes, Newsweek, Bloomberg, Fox News, MSNBC, Associated Press, US News and World Report, the BBC of London, Fortuna, France 24, ARTE (TV franco-alemana), among others. In acknowledgement of this distinguished trajectory, Professor Phelps was recognized in 2008 by President Sarkozy as Chevalier of the Legion of Honor, and won the Premio Pico della Mirandola for humanism and the Kiel Global Economy Prize.

After the introduction by Professor Phelps, the Governor of the Bank of Mexico, Dr. Guillermo Ortiz spoke about the financial crisis and the structural and other factors that make reactivation of dynamism and inclusion particularly difficult in the present context in Mexico. The speakers in Panel I on the Financial Sector gave their vision of what has happened in the financial markets and discussed risks going forward. Speakers included Dr. Robert Aliber, Professor Emeritus of International Economics and Finance at the University of Chicago Graduate School of Business. Professor Aliber is a renowned authority on banking and financial crises and was a harbinger of the banking crisis in Iceland. Mr. John Authers made a most interesting presentation on developments and trends in the financial markets. Mr. Authers is Investment Editor at the Financial Times and author of the “Short” and “Long View” columns. Dr. Richard Robb, CEO of Christofferson, Robb and Company and Associate Professor of Professional Practice in International Finance at SIPA focused on developments in the mortgage-backed securitization market in Mexico from the point of view of a US investor and compared it with that of the United States. Mr. Peter Jungen, an entrepreneur and angel investor who is CEO of Peter Jungen Holding GmbH was the lunch speaker. He presented his views on what led to the crisis and the things that should and should not be done to come out of it. In this regard, he emphasized the danger of pressures for more regulation which arise from the misguided diagnosis of many analysts that it was the lack of regulation that led to the crisis. He also emphasized the need to revise the model under which rating agencies operate to eliminate conflict of interest and monopolistic practices. In addition to being the Chairman of the
Advisory Board of CCS and a Member of the International Board at Columbia University, Mr. Jungen is also the President of the “European Enterprise Institute.” In September 2000 the leading German business magazine “Wirtschaftswoche” named him one of the 100 most important personalities who has shaped the future of the “New Economy” in Germany (New Economy Top 100). In August 1999 he was awarded the Commander’s Cross of the Order of Merit of the Federal Republic of Germany by the President of the Federal Republic of Germany.

One of the tenets of the CCS is that new ideas are the driving force on earth. The creation, development and adoption of good commercial ideas are the force behind high economic performance: not only high productivity, but also stimulation in business life and intellectual development gained from careers of problem solving. The central question before the CCS is what determines a country's ability to generate and select such ideas and thus achieve economic success. For this reason, the Mexican conference addressed innovation as one of the factors that most affects country dynamism and should be a key factor in efforts to reactivate it.

Panel II on Innovation was led by a CCS member and one of the top authorities on innovation Prof. Amar Bhide, Glaubinger Professor of Business at the Graduate School of Business at Columbia University and co-editor of the CCS Journal Capitalism and Society. Prof. Bhide discussed the finding of his new book, which has received raving reviews from The Economist, Financial Times and other leading publications. Thomas J. Peters, coauthor of In Search of Excellence: Lessons from America’s Best-Run Companies, for example, wrote that “If I were asked to recommend to the next president just one book on the trajectory of the U.S. economy in the next several years, it would unhesitatingly be Amar Bhidé’s The Venturesome Economy. The book is an utterly original interpretation of the nature of the complex process of innovation.” Prof. Bhide explained how breakthrough ideas have no borders and nations have the capacity to exploit cutting-edge research regardless of where it originates. He posited that “venturesome consumption,” that is, the willingness and ability of businesses and consumers to effectively use products and technologies derived from scientific research, is far more important than having a share of such research. Thus, his main argument is that a venturesome economy benefits from an increase in research produced abroad, rather than being hurt by it. Two successful entrepreneurs, Mr. Maurice Mason, founder of Ryan Air in Ireland and Mr. Miguel Angel Dávila, Founder of Cinemex in Mexico discussed their own experiences in creating innovative and highly competitive firms in their respective countries.

Economic and social inclusion is always an important topic in Latin America but it acquires priority at times of crises. Another tenet of the CCS is that without economic inclusion, growth is not sustainable. For this reason, Panel III on Inclusion was an important feature of the conference and counted with the expertise of one of the key members of Mexico’s economic team, Minister of Labor Lic. Javier Lozano Alarcón, who discussed the present situation in the labor markets in Mexico as well as the challenges ahead. The Panel also had the participation of one of the top authorities on issues of inclusion, Ms. Nancy Barry, former President of the Women’s World Banking who is now founder and President of Enterprise Solutions for Poverty (ESP). ESP works with large companies, new entrepreneurs and leading business schools to construct business models that utilize low income producers as suppliers, distributors and consumers as a way to increase their income and assets. Ms. Barry was selected by Forbes among the top 100 most influential women in 2004-05 and by Kellogg-McKinsey among the principal business leaders in the United States in 2006. Mr. Alvaro Rodríguez Arregui, Managing Director of IGNIA, also participated in this Panel. IGNIA is a fund focused on investing in and developing commercial enterprises serving the base of the socio-economic pyramid, that is, the most vulnerable entrepreneurs. In 2005, the World Economic Forum named him a Young Global Leader.

Panel IV on the Mexican Economy counted with several distinguished speakers. Mr. Authers, who had been in charge of the Financial Times in Mexico, analyzed the impact of the financial crisis, which he had
discussed earlier, on Mexico. Prof. Denise Dresser, Professor of Political Science at the “Instituto Tecnológico de Mexico” (ITAM) gave a compelling presentation of the structural and monopolistic factors that make dynamism and inclusion difficult in Mexico. She argued that, without radical change to improve education, competitiveness, energy investment, and other weaknesses, Mexico will not be able to become a dynamic and inclusive country. Mr. Armando Martínez Ríos, a Partner in Global Capital Markets at PricewaterhouseCoopers discussed the challenges for Mexican companies, in terms of raising capital, managing risk, improving corporate governance, adopting fair valuation, and other such issues, as well as the opportunities that the crisis might present to companies well prepared to deal with it. Mr. Fred Kittler, Managing Director of Firelake Capital Management and a Member of the Advisory Board of the CCS, discussed innovation and energy, and analyzed the potential for solar energy in Mexico, a country in which high energy costs is increasingly threatening competitiveness.

The conference concluded with a dinner at the Club de Banqueros, in which Prof. Jorge Castañeda, Global Distinguished Professor of Politics and Latin American and Caribbean Studies at New York University, made a presentation on the political, social and economic challenges of Mexico in the years ahead. Prof. Castañeda was Mexico’s Secretary of Foreign Affairs in 2000-03.

The objective of the CCS of having the annual conference in an emerging market was to establish contact with leading firms in Mexico and to put Mexican business leaders in contact with members of the CCS and other international experts who can give them a vision of what is happening in the international capital markets and what they can expect in the future. In this regard, the conference was successful and we hope to deepen the CCS relationships with the private sector in Mexico and other emerging countries in the months ahead. The interchange of views between the academic members of the CCS1 and private sector leaders is essential to be able to put many of the ideas generated at the CCS into practice in different countries to reactivate dynamism and inclusion and strengthen the capitalist system worldwide.

The CCS is grateful to Credipyme, PricewaterhouseCoopers (PwC), Asociación de Bancos de Mexico (ABM), and Club de Industriales (CI) for their sponsorship of the conference, and to Endeavor, the Bureau de Relaciones Institucionales y Comercio (BRIC), Enlaces Terrestres Nacionales (ETN) and Habita Hotel for their support in organizing the conference and making it a success.

The Mexican media took great interest in the conference and the work of CCS. Professor Phelps was interviewed in radio programs before the conference and major articles appeared in Excelsion, Reforma, El Financiero, El Economista, El Universal, Cronica, La Jornada, and Milenio.

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1 In addition to Professors Phelps and Bhidé, other Members of CCS include Professors Roman Frydman, Bruce Greenwald, R. Glenn Hubbard, Richard R. Nelson, Janusz Ordover, Andrzej Rapaczynski, Jeffrey Sachs, Robert Shiller and Joseph Stiglitz.