

**Remarks of Ambassador John K. Veroneau
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Global Futures: Globalization at the tipping point?
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It is a pleasure to be here. I appreciate the opportunity to discuss the economics and politics of globalization.

Many accept globalization with a dour note of resignation. Like the common cold, they wish they could avoid it but, since they cannot, they accept its inevitability.

But, I think Harvard Professor Jeffrey Frieden had it right when he said:

Globalization is a choice, not a fact. It is a choice made by governments that consciously decide to reduce barriers to trade and investment.

National policies and relations among national governments are the sources of globalization and determine its staying power.

That staying power is being tested and will continue to be tested for the foreseeable future. In the face of these tests, we must reaffirm our support for an open and integrated global economy.

The problems facing our financial sectors today have brought to light some economic as well as political cracks in the global system. We will get through these difficulties. We will learn important lessons and make adjustments. We will fill the cracks.

In the end, governments will choose globalization because – quite simply – globalization serves our common interests. The world is a better place today as a result of globalization. Since renewing our commitment to global markets in the 1940s, technology and economic openness have allowed standards of living to rise steadily in the developed world and poverty rates to drop significantly in the developing world.

The unprecedented empowerment of the individual has been the great historical mark of the past 50 years. Innovation and democracy have been the handmaidens of this global trend. The automobile, the airplane, the telephone and the internet are but a few of the technologies that have enabled unprecedented levels of personal freedom.

The steady march of rights-based democracies is the other source of empowerment. In the past 30 years alone, the number of democracies in the world has doubled, allowing more people greater control over their lives and livelihoods.

As we sort through the current financial crisis, we must not lose sight of the tremendous benefits of a global economy. We must resist fearful calls to impose barriers to trade and investment. History has shown that protectionism does not protect. It destroys.

In 1930, the U.S. Congress passed the Smoot-Hawley Tariff Act, significantly raising import tariffs. The legislation spectacularly served its intended purpose – to curb imports. Unfortunately, it also curbed exports on which many U.S. jobs relied. As other nations responded with their own protectionist measures, a severe economic downturn quickly turned into a global depression.

I am confident that the economies of the world today will avoid the mistakes of last century. But, in the face of growing attacks on the legitimacy of the global trading system, it is not enough simply to avoid past mistakes.

Three affirmative steps must be taken to strengthen the legitimacy of globalization:

First, we must be more effective advocates.

The politics of trade are difficult because too many people continue to view the global economic pie as fixed. They believe that the global economy is zero-sum – that one country's gains must come at the expense of another's. This is wrong.

An opinion piece by economist Steven Landsburg last year provocatively started with the observation that:

Modern humans first emerged about 100,000 years ago. For the next 99,800 years or so, not much happened.

There were wars, political intrigue, the invention of agriculture, but none of this stuff had much effect on the quality of people's lives. Almost everyone lived just above a subsistence level.

Life during these times was, in the words of Thomas Hobbes, "nasty, brutish and short."

Then – just a couple hundred years ago – people started seeing changes in their daily lives. Per capita income began to grow at unprecedented rates. The primary source of these gains was technological progress. Innovation has allowed the global economic pie to grow exponentially. We no longer live in the zero-sum world of our first 99,800 years. As defenders of globalization, we must make this point more often and more effectively.

Second, we must assure that benefits of globalization are broadly shared.

The global economic system is not sustainable if large segments of the population believe that it does not serve their interests. For this reason, evidence of rising income inequality in developed and developing countries is directly relevant to the legitimacy of globalization.

Many so-called “studies” on income inequality are polemics that carefully select data to draw pre-determined conclusions. But some incident of rising inequality does seem to be occurring in many countries, even its causes are unclear. Public perceptions of income inequality are closely tied to views about globalization and, therefore, must be addressed.

If significant numbers of people believe that globalization works for a handful of lawyers, bankers and engineers who may thrive in a global economy, but does not work for the average person, the legitimacy – and in turn the viability – of the global economy will be severely tested.

In general, the benefits of a global economy have been shared widely but more can be done to bring more people in developing countries into the global economy. And more can be done in developed countries to help those whose livelihoods are threatened by global competition.

The social safety net must be strong, without inviting moral hazard. And because a good education is so crucial in today’s competitive workplace, societies have a duty to assure access to good, life-long educational opportunities.

One of the great strengths of the modern economy is flexibility. Human and financial capital are reallocated constantly to maximize productivity. But this constant churning is also a great source of anxiety.

A significant political challenge for the next decade will be to identify and adopt public policies that preserve the benefits of economic dynamism while responding to the anxiety it creates. We need effective tools to share risks in society. In the United States, such tools include more affordable and portable health care. Absent such policies, there will be growing political pressure to preserve the status quo and try to steer economic outcomes.

Third, we must strengthen institutions underpinning the global economy.

The World Bank and others have produced many studies connecting rule of law and economic openness to broad-based economic growth. Last year, the World Bank released a major study measuring the wealth of nations. The authors sought to better understand the sources of each country’s wealth. They expected to find manufacturing capacity or natural resources to be the primary source of wealth for most countries. Instead, they found that “human capital and the value of institutions (as measured by rule of law) constitute the largest share of wealth in virtually all countries.”

Rule of law is critical to economic development. It is especially critical to *broad-based* economic development. A 2004 study published in the *Journal of Economic Literature* found that the benefits of improved openness and rule of law accrue mostly to the poorest members of society. This makes sense. In an economy with weak rule of law, the wealthy have the economic and political resources to navigate an opaque or corrupt

system. It is the poor who stand the most to gain from the fairness inherent in a transparent economy with strong rule of law.

A major focus of domestic economic reform should be strengthening rule of law. Foreign assistance programs should have a similar focus for recipient countries. Global, regional and bilateral trade agreements can also play a critical role in strengthening rule of law. The rules-based trading system, embodied in the World Trade Organization (WTO), is a tremendous tool for strengthening rule of law.

In order to accede to the WTO, a country must undertake extensive domestic reforms to open its economy. Over the past decade, WTO accessions by China, Vietnam and Ukraine have provided opportunities for significantly strengthening rule of law and transparency in those countries. Russia's WTO accession, when completed, will hopefully serve this same goal.

Bilateral trade agreements also can spur economic reform and stronger rule of law. Far beyond the tariff-cutting benefits of trade agreements, many U.S. trade partners view bilateral agreements as necessary tools for "locking in" domestic economic reform.

Institutional strengthening is particularly important with regard to regulatory systems. Regulatory agencies today are called upon to achieve their mission in a global context that did not exist when the agency was created. The current financial crisis has generated calls for greater global coordination among financial regulators.

There is a tremendous need for better communication among a whole range of regulators, financial and non-financial alike. One goal of such cooperation must find ways to stop countries from using regulations as protectionist tools. Every sovereign has the right, indeed the responsibility, to protect the health and welfare of its citizens. But too often regulatory regimes are being used inappropriately to impose non-tariff barriers. The "spaghetti bowl" of regulations is far more pernicious and burdensome on well-meaning global companies than the "spaghetti bowl" of trade agreements that some have criticized.

We also must find ways to encourage regulators where appropriate, to recognize the work of their peer regulators in other countries. Global institutions must be strengthened -- politically and technically -- to assist domestic regulators achieve these goals.

Last century, the expansion of local markets to national markets spurred demands for national governance and accountability. This century, the growth of national markets into global markets is spurring demand for global governance and accountability.

We should use the current calls for better global governance of financial regulation as an opportunity to seek better global governance and accountability in areas such as healthcare, food safety, and technology standards.

The current financial crisis and the backlash against globalization offer choices.

We can retreat from the world. Given the world's experiment last century with protectionism, I expect few to choose this path.

We can stand still, embracing neither protectionism nor further liberalization. This is the path of least resistance. But, it is not a path without danger. Trade liberalization, like the proverbial bicycle, can falter without forward progress.

Or, we can muster the energy to continue the long march of breaking down barriers to trade and investment. This is not the path of political expediency. But it is the path to proven prosperity. It is the path I believe we should take.

Thank you.