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## IS GLOBALIZATION IN NEED OF GLOBAL GOVERNANCE?

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I am extremely honored by your invitation to deliver the tenth Raymond Aron lecture under the auspices of Brookings and the French Embassy in Washington.

When I looked at the list of previous speakers, I realized that they were either prestigious scholars or statesmen. Well, this time you have chosen a hybrid creature, or, to be more accurate, two: Bob Zoellick and myself! Hybrids with wings that allow some altitude for reflexion and theory, and with legs to walk the muddy ground of reality and get a few things done, because at the end of the day that's what matters.

In my case, these tools developed naturally as I have been privileged to devote the greater part of my professional life for the last 40 years to public service, first in my native country, then on my native continent, and more recently on my native planet.

I have lived through what I call the three states of governance matter: the solid, or national, state; the liquid, or European, state; and the gaseous, that is to say, international, state. Moving from one to another was always a shock, like entering brand new territory, provoking reflexion and interrogation on how the different systems of governance can work together.

Hence today's question: **Is globalization in need of global governance?**

I will articulate my answer in 3 steps:

First, why I believe globalization is indeed in need of some global governance.

Second, why I think we face a global governance deficit.

Finally, some suggestions to fill this gap.

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**I - To start with, why do we need some form of global governance?**

We all know that globalization is the great transformation presently at work in our world. Paul Valery sensed this when he wrote, at the beginning of the 20th century: "Le temps du monde fini commence".

This transformation is not unprecedented. Human history witnessed other periods when

technological advances in the transportation of goods, people, and information triggered an acceleration in international exchanges leading to major economic, social, cultural and political upheavals.

But we have never, so far, seen such giant and, perhaps more importantly, such forceful and rapid changes comparable to what we have witnessed during the last decades. The result is a level of interconnectedness and interdependence with countless implications which still need to be explored.

Containers and sophisticated IT systems are crushing the cost of distance, providing market capitalism with a formidable expansion opportunity and rapidly reshaping the geographical distribution of goods and services production, the well-known global value chain.

But like Janus, globalization has two faces: the smiling one, and the grimacing one. The smiling one belongs to Ricardo. The grimacing one belongs to Schumpeter. Ricardo explained why international exchange creates efficiencies, thus leading to growth, the lifting of all boats, and the reduction of poverty. Schumpeter explained how competition shocks and innovation boosters disrupt the economic and social system and propel inequalities between the winners and the losers.

Forceful globalization: Immense opportunities, huge potential economic and social benefits. Commensurate risks: instability, contagion, and stress to humans and Mother Nature.

Hence a governance challenge: how can we reap the benefits of globalization while minimizing its costs? Given the predominant role of market forces as one of the engines of globalization, how can we address classical issues of elite capture, insider rents, benefit sharing and welfare creation that traditional governance systems have had to cope with since the Industrial Revolution of the 19th century?

How can we 'harness' globalization, an expression I used for the first time in 1999 during my hearing as Commissioner-designate before the European Parliament?

Is there a way to respond to the feeling of many, that the global market is moving on its own, without political control, thus eroding democracy as a means for citizens to express choice among different political alternatives? Or do we have to live with a powerlessness syndrome, a "pensée unique", one-way thinking?

Many of the answers to these questions do not pertain to global governance. They lie in classical political systems.

After all, all countries swim in the same global sea. Some are doing well, others are not. Economic science tells us that what makes a difference in the performance of economic and social systems is deeply rooted in local conditions, institutions, behaviors, beliefs. This is obvious in matters like education, skills building, redistribution and social security systems that play a major role in spreading or preventing the welfare effects of globalization. The same goes for the quality of regulatory and legal systems.

But what I think remains true, if we look at facts and figures, is that globalization has not only hugely decreased poverty, it has also significantly increased inequalities. Volatility is higher. Contagion is

easier. Our natural environment is being harmed. These challenges are clearly not local but global, as demonstrated by the financial, followed by the economic and then social crises which started here in the US in 2007, and contaminated many of the people on the planet. Reducing carbon emission, or ocean depletion, or currency volatility, or protectionism, or cyber-criminality, or tax evasion, or the pain of migrants, are not local challenges. They cannot be addressed within frontiers. Some form of global governance is needed.

## **II - Why do we have a global governance deficit?**

Do we have a global governance system able to cope with these challenges? I think the answer is no. A rapid survey of recent academic literature on this topic, whether "Gridlock" by David Held, "Divided Nations" by Ian Goldin, "the Great Convergence" by Kishore Mahbubani or "Le grand basculement" by Jean Michel Severino, leads to a disheartening conclusion: we have a global governance deficit.

Not that we do not have an international system. We do. But its construction, difficult as it has been, has dramatically slowed for over a decade.

Building an international system of governance has never been and never will be easy, due to its intrinsic structural handicaps as compared to other governance systems, be they politics for nation states, corporations for business, or the community organizations of civil society. These systems can simultaneously provide what we expect governance to deliver: leadership, legitimacy, efficiency, and coherence.

For policy or political purposes, the Westphalian Nation State matrix retains an indisputable comparative advantage. It reflects the conventional wisdom that all politics are local. It is based on a sense of togetherness, of community, on an "affectio societatis" linked to proximity. This feeling is obviously lacking globally. That is why the international system remains inter-national (between nations) but not global. It requires co-operation. All the treaties, codes, deals, institutions, and programs that are the brick and mortar of this system are dependent on the willingness of sovereigns. By definition, they can opt in or out.

In the international world, a tripartite organization such as the International Labour Organisation, the ILO, where the "between states" dimension was connected to other dimensions ("between industries", "between labour"), remains an exception. A compulsory dispute settlement rule such as the WTO's, where the losing party to a litigation must comply, has no international equivalent. These two organizations have the same membership. Yet the members of the ILO have not agreed that the ILO should be an observer at the WTO, and the members of the WTO have agreed that the WTO should be an observer at the ILO. Incoherence!

That is why the construction of the present international organization system started 150 years ago with the International Telegraph Union, the last episode of which was the creation of the International Criminal Court in 1998, has been so arduous and painful.

Escaping the pull of Westphalian gravity necessitates a very powerful political energy. Only the horrors of major catastrophes such as two world wars and genocides have so far generated such an

energy. When the pressure of collective or individual culpability recedes, when chaos is forgotten, progress stalls. It will have to wait for the next apocalypse.

That is also why the present system remains more inter/national, between nations, than global, meaning that states retain the monopoly of entering, or not, into obligations that bind them. A strange thing indeed at a time when some multinationals or some global NGOs have become more powerful and influential than many of the nearly two hundred nation states; they have surfed on the wave of globalization; they have succeeded at becoming 'global' actors and advertise themselves as such.

It is also the Westphalian nature of the present global governance system which explains why its progress has slowed from the mid-90s on. A paradox in many ways. Western-generated globalization has allowed the rise of new stakeholders, the emerging countries, leading to a destabilization of the previous Westphalian, western-based power balance, but without yet providing a new sovereignty-based order.

Are emerging countries rich countries with many poor people, or poor countries with many rich people? Depending on how you answer this question, the level of rights and obligations in the present international order may vary significantly.

Negotiations at the WTO on a new multilateral trade regime, or at the UNFCCC on carbon emissions burdensharing have stalled for the last 10 years because of our incapacity or unwillingness to answer this question. Developed countries refuse, wrongly in my view, to recognize that development takes time. Developing countries refuse, wrongly in my view, to acknowledge that as they develop, the future playing field has to be level.

The present global governance deficit is both permanent and provisional.

Permanent because emulating or cloning national governance at the global level is a distant dream in the absence of a critical mass of global citizenship.

Provisional, or transitional, because the process of rebalancing geopolitics as a consequence of the rebalancing of geo-economics generated by globalization is still under way for some time to come.

### **III – Some possible avenues to fill the gap**

In these difficult circumstances, I nevertheless believe that some approaches are available to try and bridge the global governance deficit.

I will briefly outline several categories of possible solutions, which, if combined, could offer some hope for progress in the future.

But let me first dismiss a solution advocated almost exclusively in my country, that of "deglobalisation", which I have called "reactionary".

It is impracticable, because I am enough of a marxist to believe that technology, the major infrastructure of globalization, does not move backwards.

It is also undesirable, because I am enough of a social democrat to acknowledge the fact that poverty, malnutrition and powerlessness are receding overall, even if they are only one part of the injustice I care about.

Globalization may move at a less rapid pace in the future, not least because of financial deleveraging, but I do not believe it will simply stop or retreat.

We still have to confront the task of harnessing it.

One possible approach is one I would call "post Westphalian", moving away from Westphalian gravity, building a new political space and entrusting it with the capacity to deliver the outcomes desired for governance. The European option. The only one of its kind so far on the planet, a supranational system, a supranational set of institutions with checks and balances, a "federation of Nation States" as Jacques Delors called it. With a quasi-Government ( the Commission), a quasi-Senate (the Council ), a quasi-House of Representatives ( the Parliament), and a quasi-Supreme Court in Luxembourg. A system of devolution where decisions implying obligations for citizens of nations can be taken or enforced without recourse to international treaties, except for constitutional amendments.

Does it work?

The jury is still out.

In many ways, it led to remarkable achievements in policy aggregation. A single currency, a single market, a common trade policy, a common competition policy.

But it has not succeeded so far at political aggregation. For most European citizens, the superposition of local, regional and European governance is not yet recognized as a continuum of power devolution. Participation in European elections is low, and declining over time. The distance between citizens and Brussels or Strasbourg still reveals a "democratic deficit", or more precisely the citizens' perception of a democratic deficit. The root of this deficit does not lie in improper institutional arrangements. It stems from a weak sense of belonging to a community, from an absence of a common narrative about what Europe stands for as a civilization.

The continent's climax of violence during the 20th century explained the political energy that the founding fathers, Schuman, Monet, Spaak and others succeeded in mobilizing. But the shelf value of peace, understood as "no more wars between us", has become obsolete in the minds and hearts of today's generations.

'Eurosion', the present crisis of European integration, still has to be overcome. To get there will require filling the gap between economic and political integration and between citizens and institutions, as well as the gap in economic dynamism between Europe and the rest of the world. I believe this will happen at the end of the day. But I also think that European integration will remain one-of-a-kind. A laboratory for supranational governance where major innovations are brewing but will not be reproduced as such elsewhere.

There is another road to harnessing globalization which I would call "neo-Westphalian". It involves no fundamental questioning of the sovereignty of nation states, but rather new arrangements that progressively tie these molecules together.

Informal fora, G-20- like, an improvement over the G-8 format to provide more leadership and coherence.

The UN system to provide more legitimacy.

Specialized organizations to provide more efficiency.

A better articulation between the three points of this triangle.

More transparency, improved monitoring, rankings that allow name and shame, thus leveraging national pride as a tool for governance.

Some form of global accountability for countries through initiatives such as the Millennium Development Goals which I believe have been a successful global governance innovation. Regional integration, 'mini-global governance' as we see it in Asia, in sub-continental Africa, or in Central America.

A slow move away from consensus towards various models of majority voting for treaty adoption or for decision-making in technical organizations.

More of a right of initiative for the leaders of international organizations to table proposals, as has been recently suggested for the WTO.

The insertion of a sunset clause in the status of international organizations, as was recently proposed by the Oxford Martin School Commission which I had the privilege to chair, in order to clear the decks and take a fresh look at mandates, relevance, and resources from time to time.

Many ingredients of this type of incremental, step by step progress are already available. The key remains to gather enough political energy to use them among sovereigns.

Finally, I see an array of possible solutions that I would call "a-Westphalian", with more innovative, more creative systems to deliver the desired outcomes of governance about global issues. The two previous types of approaches were about globalizing local problems through traditional command and control top-down models that respect the primacy of the nation state over other players and stakeholders of globalization.

This third group of options is instead about localizing global problems. More bottom-up, less top-down, thus addressing the problem of legitimacy deficit, and moving to a more networked, decentralized way of generating convergence, cooperation, and collaboration.

I experienced this approach as WTO Director-General, with the launch of the "Made in the World Initiative", which led to a transformational change in measuring international trade through the use of value addition instead of gross volumes. No need for a governance superstructure. Instead, a global internet of statisticians, a spontaneous mobilization of good will, initiatives bypassing hierarchies of organizations, and tacit informal understanding between the WTO, the OECD, research

centers, and academics. Together, they achieved in three years what would have taken twenty years with classical Westphalian negotiations and trade-offs.

Cross-cutting coalitions, innovative partnerships among non-profit organizations, businesses, cities, national and international bodies have proved to be effective in the fight against Aids or in coping with the Y2K challenge. In the report of the Oxford Martin Commission for future generations just mentioned, we proposed to address climate change through an innovative C20/C30/C40 coalition (20 countries, 30 multinationals, 40 megacities), where convergence of interests could leverage change more efficiently than in the classical UN only forum.

The internet, Skype, and social networks could, in some way, replace the old diplomatic apparatus between nations. Democracy as a substitute to 'diplomacy' to harness globalization.

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I will now conclude by mentioning what I see as the biggest challenge ahead of us for global governance: values.

Regardless of which approach is used to address present flaws in global governance, it is not just interests, the world of Mars or Hobbes, that divide nations, but also values, the world of Venus or Kant.

For a long time in human history, these value systems, the different scales between what is good and what is bad, what we call in economics "collective preferences", remained clustered. Porosity was limited.

These times are gone. One of the most striking examples of this evolution lies in international trade regulations, where obstacles to trade are morphing from objective measures to protect producers against competition to more subjective precautionary measures to protect the consumer against risks, or, to use the WTO legal language, to protect "public morals".

What are global public morals? All governance systems rely on a bedrock of aggregated collective preferences. We are all in favor of more freedom, more security, less injustice, a better environment. But the coefficients we attribute to these different variables lead to a system of different individual equations which the democratic process has shown itself to be best equipped to solve. Democracy as the proper way to aggregate preferences.

Transposing this "social contract" model to a global dimension is, in my view, as necessary as it is difficult. We need a sense of common purpose in order to accept governance. Western philosophy has provided this essential software for a long time. It must now be combined with the other cognitive traditions that are part and parcel of globalization. Acknowledging differences, discussing them with a desire to reach more convergence would probably be, in my view, the most useful contribution of the G 20 or the UN to better manage economic, social and political integration in the future, and a necessity, in my view, to make our world a better place for future generations.