Mandelson: Globalisation needs a global 'New Deal' – New York, 9 June 2008

'A memo for the next US President'

Whoever moves into the Oval Office on 20 January 2009 will be the first US President whose foreign economic policy from day one will so clearly need to face up to a fundamental shift of global economic and political power from West to East. In the annual Churchill lecture, to be delivered in New York today, EU Trade Commissioner Peter Mandelson will argue that this means rethinking some central assumptions about how power works in the global economy, and how American and European governments can best defend their people and their interests. "The Atlantic world is no longer the centre of the economic world", Mandelson will say, "because the economic world no longer has a centre". Mandelson will argue that the American and European response to that fact could have immense consequences.

Mandelson will set out why:

- the next phase of globalisation will be dominated by questions of global resource pressure for water, energy and food. He will say that while economic internationalism remains the only way of addressing these problems effectively, it is being undermined at home by a "crisis of confidence" and a slide towards protectionism and zero-sum thinking in the US and Europe. Mandelson will say: "In the 1950s Western politicians asked themselves: who lost China? I think what should worry us today is the idea that a decade from now we might be looking back and asking: who lost globalisation?"

- Americans and Europeans should worry about the failure of the developing world, not its success. Mandelson will argue that it is not in EU or US economic or political interests to "keep the developing world down". The level of interdependence in the global economy has made the costs in stability and prosperity of disengagement from a growing global economy dramatically high.

- protectionism starts in the pockets of Europeans and Americans, so their governments need to tackle rising economic inequality. Despite huge aggregate economic gains, support for globalisation in the EU and the US is being undermined by widening levels of economic insecurity and inequality in western societies. Reviewing OECD data for the last twenty years, Mandelson will argue that strong welfare states have prepared and equipped countries for globalisation much better than weak ones. He will urge Americans and Europeans to "recapture some of the radicalism of Roosevelt and the New Deal and remake the case that the state is there to help people get the most out of an open economy".

- resource pressure must be met with innovation and adaptation, not resource nationalism. Mandelson will argue that recent export tariff raises in response to high food prices show the huge potential costs of resource nationalism ("for food importing countries in Africa, these restrictions can literally constitute a foreign policy of hunger"). Mandelson will argue for a mix of market solutions, innovation and adaptation to address the intense pressure development is putting on the environment.

- the risk is not a multipolar global economy, but the failure of the ties that hold those poles together. The greatest risk the EU and the US face is not "a world of multiple powers, but a world of multiple powers without institutions to coordinate their action and bind them together". Mandelson will urge the renovation of global institutions to enable the emerging economies "not just to exercise their rights, but to assume their responsibilities".
On the world on 20 January 2009

"The next US President will be the first US President whose foreign economic policy from day one will so clearly need to face up to a fundamental shift in global economic and political power from West to East".

On 'Globalisation's adolescents'

"The Atlantic world is no longer the centre of the economic world, because the economic world no longer has a centre... the EU and the US are no longer going to dictate the contours of global economic change. Globalisation's adolescents are growing up fast and starting to demand a bigger say in who gets to use the car and who chooses the TV channel".

On the challenges of a new order

"Where the politics of globalisation have, up to now, revolved around foreign competitive pressure on our industry, or changing global patterns of production and supply, they will now also be dominated by questions of global resource pressure. For water, energy, and food, for a world of six billion and growing".

On why globalisation remains part of the answer

"Only globalisation provides the economic tools to increase everybody's welfare in a way that meets people's expectations and needs. It can give us both a ladder out of poverty for the developing world and a tool for greater equity not just between states but within our own societies. And it can drive the economic integration between states which can support – even if it cannot guarantee – a stable international system".

On globalisation's bull market

"The last twenty years have been a bull market for liberalisation and trade. The openness of the global economy has only moved in one direction. Like any bull market, it is tempting to believe that there is no reverse gear. But history warns us against such presumptions. If it is not supported and shaped by political action... the tools of economic internationalism will become increasingly hard to use...We need to be straight with Americans and Europeans about just how badly disengagement from the global economy would hurt their political and economic interests. And that means being honest about the extent to which protectionism is a dead end".

On why we should worry about the failure of the developing world, not its success

"Once we feared strong states opposing us. Now we have more to fear from weak states failing on us. If there is one condition that defines the global economy it is interdependence. There is no longer a drawbridge to lift up between us and them. The openness of our economies not only drives our own growth, but is the ladder that much of the developing world is using to climb out of poverty. The emerging world is now the new engine that is taking up the slack as demand cools in the US and European economies. If growth in the developing world stalls the world would become less secure. Effectively managing rising
global demand for energy, water and access to food will only be possible in a system of stable, open and co-operating states. Like the Marshall plan, the enlightened self-interest at the core of globalisation is that your neighbour’s stability is your security… it is not in our interests to keep the developing world down”.

On why inequality may be the weak point of globalisation in the developed world

“For most Europeans and Americans their deepest concerns about economic internationalism relate to its impact on their personal economic security. They may applaud shrinking gaps between the rich and the poor globally, but they worry a lot more about the same gap widening in their own societies. Protectionism starts in your pocket. Unless we can demonstrate that the economic interests of middle and working class Americans and Europeans are compatible with the progressive enrichment of the developing world, support for globalisation will shrink”.

On the "most important piece of political misdirection associated with globalisation"

“Across the OECD, some of the most open and economically competitive societies in the world also maintain high levels of public spending and active safety nets. The most effective models favour flexibility in labour markets, but protect individual workers with wage insurance as they move between jobs. They fund a high level of education, at all levels, and support retraining because if we cannot keep people in their last job, we can help them obtain their next job. Only by reducing some of the biggest economic risks in individual lives – particularly healthcare and unemployment - are societies psychologically ready to face the buffeting conditions of globalisation…We need to recapture some of the radicalism of Churchill’s great contemporary Franklin Roosevelt and the New Deal and remake the case that the state is there to help people get the most out of an open economy. Otherwise people will pull the door shut”.

On governments for globalisation

“The argument for greater reduction of economic risk in our societies is not an argument for state socialism, direct market controls, import barriers and national ownership or direction of industry. But the state has to have a fundamental role in the global age in ensuring that lives of greater economic change are not lives of greater insecurity. This needs to be the new point of departure for thinkers on the centre right as much as the centre left. Protective states do not have to be protectionist ones”.

On the consequences of resource nationalism

“As one government after another has imposed new export tariffs in response to rising global food prices, they have pushed up prices for everyone else. They have cut off the market signals that would encourage their own farmers to improve productivity, which is what global food markets really need. For net food importers like Africa, these restrictions can literally constitute a foreign policy of hunger”.

On why multipolarity is fine, but multipolarity without global institutions is not

“We agonise over the emergence of a multipolar world because we fear a decline in our relative weight. But the greater risk is not a world of multiple powers, but a world of multiple powers without institutions that coordinate their action and bind them together…the institutions of the international system, however imperfect, help us avoid conflict, manage tension, and broker solutions. Multilateral solutions will not be perfect solutions, but they are better than the alternatives”.
On the future for multilateral institutions

"I am in absolutely no doubt that the rising powers in the developing world need to take on greater responsibilities to go with their greater rights – not least in the area of trade. If they do not, then inevitably the United States and Europe will start to step back and review what they are prepared to keep paying into the system. In a rules-based system there cannot be one set of rules for some and another set for others. But in all cases there is no question that multilateral institutions will be risking irrelevance until the emerging economies feel a shared sense of custody".

On worrying about foreign investment

"(Americans and Europeans) should continue to underwrite a global economy that is open to trade and investment. In future, much more of that investment will come from China, India and Brazil. If it is transparent, productive investment, I am inclined to ask: good thing too. These growing markets will be growing markets for the goods and services that we supply".

On 'losing globalisation'

"In the 1950s Western politicians asked themselves: who lost China? That sounds rather patronising now. I think what should worry us today is the idea that a decade from now we might be looking back and asking: who lost globalisation…The problem with economic nationalism is that it is highly politically contagious and it's hard to know just how much you have to lose until it breaks out. A single export tax, or blocked investment, or import tariff may seem irrelevant against the openness of the global economy as a whole. But economic nationalism can quickly provoke an irrational spiral of negative reciprocity".