

## **In defence of globalisation**

**Article by Peter Mandelson in 'The Guardian ©**

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We will look back on the banking crisis of September 2008 as a defining moment for economic globalisation. It may have started in the US mortgage market and on Wall Street, but through an integrated global economy it has become an international problem. Whatever our response, we should be guided by two principles. First, we should not jettison our commitment to globalisation. Second, a global economy needs global governance.

Globalisation works by widening economic networks. It multiplies the sizes of markets, increases the economies of scale that push down prices, and allows countries to tap into sources of productive investment from around the world. Those networks have created a global economic engine that is the biggest eliminator of poverty and creator of opportunity the world has ever seen. But globalisation transmits risk and volatility as well as benefits.

Sustaining the huge benefits of economic globalisation relies on preserving these fundamental networks of interdependence, not rolling them back. Changes to financial regulatory frameworks must tackle excessive risk while defending open trade and foreign investment as vital to development.

Beyond ending the liquidity crisis, our first response should be to fix the source of the shock. We need to inject confidence by regulating to control excessive risk-taking and heavy leveraging, and to improve the way ratings agencies work. The European commission is right to now come forward with new European rules on these questions. Certain financial products have become so complex that they are not understood by the very institutions that buy and trade them. This is a regulatory and professional failure of the first order.

Politicians need to recognise that national solutions are only half the solution. For years, financial markets have been global more than national, yet they operate with limited multilateral coordination or governance. Asset bubbles in one market can have serious consequences in another. The effects of monetary or currency policy are easily exported. Yet the machinery of global economic governance barely exists.

Mechanisms for cross-border cooperation in Europe exist but they are incomplete. The rescue package for Dutch financial group Fortis showed European governments can act quickly to limit damage. But the Benelux states that stepped in to help the group have close ties and habits of cooperation. Guarantees for Irish banks have proved more politically complex. The general mechanisms of European coordination must be strengthened so governments and regulators act effectively to address the fact that many financial institutions operate across borders.

Internationally, the problem is even more acute. There is no institution with a mandate or real capacity to assess systemic risk in financial markets. There is no institution empowered to speak from the perspective of global economic interdependence and to counsel states on the global picture. Coordination mechanisms among central bankers and regulators exist, but they are weak.

They are also skewed towards an economic order that is increasingly outdated. The large emerging economies - especially China - are growing sources of capital and economic

demand. They are tightly knit into the global economy. Bodies like the G8 simply do not reflect this changing economic architecture. Effective multilateral governance of the global economy will require institutions that do. It is 64 years since the Bretton Woods conference put in place the basic machinery of modern global economic coordination. It is time for a Bretton Woods for this century.

It has always been a mistake to believe that globalisation was putting governments out of business. States and effective governance are what makes globalisation possible: they preserve open markets, enforce rules and responsibilities, and manage the risks for individuals and society. We have been reminded over the past two weeks that the state underpins the market as lender of last resort. But it has a legitimate claim to a wider role. Its role is to ensure that the conduct of individuals or businesses does not put at risk the stability of the system or the foundations of our economies.

We have nothing to gain by shutting down financial globalisation. But the networks that make up globalisation will keep transmitting the shocks along with the benefits unless we take a tougher line with excessive risk, and strengthen the multilateral instruments that govern the global financial system.

If there is anything cathartic in this crisis it will be a healthy new scepticism for financial products we don't understand, a heightened intolerance for excessive risk-taking, and a new conviction that a global economy needs global economic governance.