

WTO NEWS: SPEECHES – DG PASCAL LAMY

8 December 2010

Crisis is opportunity to restore coherence in global economic governance – Lamy

Director-General Pascal Lamy, in a lecture at the United Nations office in Geneva on 8 December 2010, said that “this crisis stems from the growing disruptions to the order established in the aftermath of the Second World War. But I also think that it provides us with an opportunity to restore some kind of coherence in global economic governance.” This is what he said:

In modern history, crises have been both the result of failures of governance and the cause of progress in governance. This applies both at the national level and, if we take armed conflicts as the ultimate form of crisis, at the international level.

It also applies to the crisis — first the financial crisis and then the world economic crisis — that erupted in 2007-2008. I would argue that this crisis stems from the growing disruptions to the order established in the aftermath of the Second World War. But I also think that it provides us with an opportunity to restore some kind of coherence in global economic governance.

1. Coherence lost

Drawing their lessons from the economic excesses of the 1930s that were considered to be partly responsible for the calamity of World War II, between 1945 and 1948 thinkers and governments put together an entirely new system of international economic governance based on three main elements:

- **A coherent understanding of the links between full employment, social progress, development, the international monetary system, and open trade;**
- **acceptance of negotiated disciplines to contain the deviations in sovereign national policies;**
- **Global institutions covering the various areas of international economic and social cooperation: IMF, World Bank (Bretton Woods Conference), International**

Trade Organization (Havana Charter), International Labour Organization (Philadelphia Declaration) and, overseeing them all, the United Nations.

This system subsequently experienced breakdowns which put a strain on the ideological and operational coherence that ensured its stability. And this happened at the very moment when technology was progressively driving us towards closer interdependence which required, on the contrary, stronger international governance to harness market forces.

For the sake of brevity, I shall mention only two major breakdowns:

- The first — a political breakdown took place almost immediately, when the International Trade Organization aborted, giving birth to a temporary ersatz, the GATT, which lasted until it was replaced by the WTO in 1994. In the context that we are examining today, the GATT can be seen as an ITO minus the elements of coherence — for example the link between the opening up of trade and fair labour standards, or practices that distort competition, or even formal cooperation with the United Nations Economic and Social Council or the ILO. So, a major step backwards in terms of coherence, as it were.
- The second — this time an economic breakdown — came later, but was probably more momentous: the end of the fixed exchange rate system in 1973, when the anchor of the monetary system was raised and currencies allowed to float, resulting in an easing of disciplines and multilateral surveillance of current account balances, since the financial markets were meant to take over from the IMF. This, among other causes, led to the rise in protectionism in the 1970s. It is also one explanation why the coherence between trade policies and exchange rate policies laid down in the GATT and IMF Agreements, although still in force, are now interpreted in different ways.

In addition to these breakdowns, three other factors aggravated the disintegration of post-war coherence.

- The sudden arrival on the scene in the 1970s of environmental sustainability issues, hitherto absent, and

for which international governance has partially taken shape with the Kyoto Protocol;

- the refusal in the 1980s to introduce global and binding regulation of the financial industry, which has undergone the most rapid globalization and had become oversized;
- the geopolitical shifts that have progressively cast doubt on the power-sharing among the victors of 1945, for instance the fall of the Berlin Wall and the rise to power of the emerging countries.

In this context, the G-5 summits, followed by G-7 and G-8 summits, should be seen as attempts to compensate for the steady erosion of world economic governance, which still remained in the hands of the leading industrialized countries. As if the model originally developed by the western powers and imposed on Japan had to be perpetuated while the new stakeholders merely stood helplessly on the sidelines, unable to influence the process. Obviously, this would not do.

Ultimately, 60 years of erosion of coherence and governance revealed a number of major deficiencies both within the international system and between national systems and the global system.

2. Restoring coherence

Drawing a parallel between the recent financial crisis and the crisis of the 1930s and 40s, we owe it to ourselves to review the entire system of global economic governance. As we well know, “history does not repeat itself”, and a new order will not be a replica of its predecessor.

However, I do not think that the principles on which the new order should be based have changed very much.

I basically see three underlying principles:

- Shared objectives: I am speaking here of the scope of the challenges we should explicitly recognize as common global objectives: full employment of human resources, development, social progress, a stable monetary system, open trade, environmental sustainability. We should be looking at these objectives as a whole, at what links them to each other, and at the arbitration that possible contradictions would entail.

- **Accepted disciplines: globalization can only be properly managed if we acknowledge that interdependence implies certain limits to the autonomy and sovereignty of nations.** When it comes to establishing the minimum level of collective restraint in accordance with the principle of subsidiarity, that minimum will no longer be what it was in the past, in the Westphalian world. It involves a greater degree of explicit renunciation of national sovereignty. Why should such renunciation be accepted, when it might dangerously weaken the security and solidarity guaranteed by national sovereignty? Simply because those guarantees, however indispensable, have become illusory, and because they are better protected by shared sovereignty.
- Instruments designed to ensure governance in conditions of transparency, legitimacy, coherence and efficiency, which cannot simply be a replica of national instruments of governance, assuming that they are a proper reference in the first place.

Experience has shown us that it is a combination of these three components that gives governance its strength. Take, for example, the WTO system. It is not perfect, far from it! But there are *no more trade wars*, and the test of the crisis showed that *simultaneous consensus on the virtues of opening up trade, of the existence of tested multilateral trade rules, and the implementation of binding mechanisms has thus far enabled us to avoid the suicidal protectionist wave that we feared two years ago.*

Do recent developments in global economic governance show any signs that we are moving in that direction? I think so, even if those signs are sometimes tenuous.

- Institutions are changing. New ones have appeared, such as the Financial Stability Board, which itself came about as a result of the Asian crisis of the late 1990s. Or the G-20, the new incarnation of the G-5 of the 1970s. Power within the World Bank and the IMF is shifting. A sort of “triangle of coherence” is forming within the network that links together the G-20 as a place of leadership, the United Nations as a place of legitimacy, and the specialized institutions as places of expertise and of mobilization of resources.
- **The links of coherence within the perimeter I have outlined still need to be explicitly recognized.** In the

social sphere, I detect the beginnings of such links in the ILO's presence in the G-20 or in the recent work that the ILO has conducted jointly with both the IMF and the WTO. I notice them in the cooperation on Aid for Trade between multilateral and regional financial and economic institutions, begun in 2005. I see evidence of them in the work that has been carried out over the past two years under the auspices of the UN Secretary General to deal with the food crisis together with all of the international institutions. I detect signs of these links, albeit faint at this stage, in the surveillance of economic, budgetary, monetary and exchange rate policies — a task that has been entrusted to the IMF by the G-20. I see indications of them in the regional integration movements in Africa, South America and Asia.

It would undoubtedly be excessive to view these examples as anything more than the first glimmers of a new dawn of coherence. But the matrix is there, and can break the crust of habit, conservatism, and the tendency to take refuge in an “each to his own” attitude — both tempting and dangerous, as we know full well.

On two conditions, with which I shall conclude:

- The first condition is trust, which in the international context is a rare commodity, both precious and fragile. Because it can only be built up through a slow accumulation of signals, first exchanged and then verified to remove the professional distrust that inhabits all negotiators, whose ideology dictates that their country has “neither eternal friends nor eternal foes”. Because it presupposes the involvement of reliable and trusted third parties, free of all suspicion of manipulation or bias and ready to take the risk of intermediation or to act as scapegoat if the intermediation fails.

But this trust goes beyond the building of compromises. It can only take root in shared values capable of filling the legitimate gaps in interests, cultures, beliefs and visions of the world.

- The second condition is the backing of public opinion. It is to the public that governments are accountable. It is with the public that we must share the sense of urgency that so many of us feel. The political legitimacy still

belongs first and foremost to nations, as the European experience will attest, despite formidable progress in the field of governance. The global governance that the world needs cannot be severed from local governance roots. *There is no shortcut to global coherence via our international institutions*, all too often perceived by citizens as remote or obscure, even if it is their governments that are running them. In my view, good international governance is not about globalizing local problems, **but localizing global problems**. This is the price to pay for the legitimacy on which all power must be based. Hence the importance of discussions of the kind that brings us together today.