

# **An open economy - the progressive response to global change**

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## **Introduction**

Good evening. Thank you for this chance to speak to you tonight. It's a real privilege to be here.

The Fabian founders of the LSE - George Bernard Shaw, Graham Wallas, Sidney and Beatrice Webb - stand in a long line of great distinguished progressive thinkers in Britain.

They all recognised that creating an open society is vital to unlocking the potential and talent of our country and its people.

In the last century, we tackled the barriers – both legal and cultural – that have always held people back from playing a full part, as equals, in British society: establishing universal education and health services; extending the right to vote; securing religious freedom; and attempted to tackle gender equality; racial and sexual discrimination.

At each step, we have seen that the extension of freedom and equality is of course a basic human right for the individual, and that opening up our society by allowing people to stand as equals enriches and strengthens it beyond measure.

Of course, as a small island nation reaching out across the world, Britain has, I believe, similarly driven progress towards a more open economy to match our open society.

In the 18th century, the father of modern economics, Adam Smith would watch trading ships from across Europe arrive and leave the port, near his home in Kirkcaldy. And throughout our history, as a country, we have relied on the spirit of discovery, innovation and open trade typified by those ships to build our power and wealth.

Over 150 years ago, Britain enacted law to create the limited company, so that our entrepreneurs could invest in what were seen as risky global ventures – creating markets and trade routes throughout the world and drawing nations closer together through the bond of commerce.

And of course, technology played a key role too. Refrigeration was just one of the 19th century technologies the British helped develop, then used to break open massive new markets for meat and dairy products across Australasia.

I fundamentally believe such ambition and experience offers the UK huge, historic advantages both economically and culturally; as we tackle now in this century the challenges of globalisation in this century.

We are one of the world's most open economies; a global hub for international finance and commerce. We have built links with nations in every continent of the world and speak the world's most commonly understood language. We have the potential, expertise and ideas to win as a knowledge-based economy; against competitors increasingly racing to the top.

And as a Government we're making the tough choices and necessary investment in our people to ensure we have the ambition and policies to make that happen.

## **The Open economy**

But while a consensus has emerged in developed countries on the basic necessity of opening our society, many people – particularly those who would say they are on the left of politics in Britain and the world – continue to have an ambivalent attitude towards the emerging open, globalised economy.

Despite our history, and even after ten years of rising prosperity built on the foundations of solid economic growth and advancing free trade with other nations, I suspect few student radicals here at the LSE have replaced Che Guevara with Adam Smith as their t-shirt icon of choice – even here at the LSE.

And the few that have are probably not the people you most want a drink with in the Tonnes after a heavy day in the library.

This, of course, is not a new argument. It has raged in some form or another, since trading between individuals and communities began.

But what is different about this latest wave of globalisation is the speed and intensity of the political, economic, social and technological forces that have combined together now to create this unprecedented era of global trade.

In the last few decades – the collapse of communism, shifting demographics, increased open trade, exponential technological advancement and the emergence of large, rapidly growing economies like China and India have together restarted a global revolution led by British manufacturers and inventors over two hundred years ago.

The impacts of this new, economic era have seen developing countries play an increasing role in world trade. Over the last decade, China and India's exports alone have increased fivefold from just over \$210 billion in 1996 to over \$1.25 trillion in 2006. They have more than doubled their share of world exports from just over 3% to 8.5%.

It has unleashed a renewed movement of people, commerce, capital and innovation throughout the global economy; and powered the creation and transformation of markets, jobs and industries across the world, at ever increasing speed.

By 2000, the global economy had expanded to include 6 billion people and rising. More than 1.5 billion new workers had joined the world's workforce.

World merchandise exports are at an all time high both in absolute terms and proportion to GDP. In 2005, exports were 25% of global GDP, compared to almost 12 % in 1913.

Across the world, centrally planned economies that were once completely closed off and which starved their people of both ambition and basic resources are now taking huge leaps forward in trading with other nations. Free market economics are increasingly becoming the norm.

But as the pace of this latest wave of globalisation continues to intensify, the competitive pressures on individuals and industries can only increase. New technologies, ways of living and methods of working can appear to endanger the value of long-established industries, jobs and skills sometimes overnight.

And many question whether the risks of losing what we have in the developed world outweigh what we might gain from free trade and open markets. Others oppose globalisation from the opposite angle – arguing that it can only increase exploitation of poorer countries and our planet at the hands of the rich and the powerful.

The choices we face in this country and around the world in the years ahead are critical. They ultimately boil down to whether we view the role of government as being a shield to shelter people from the disruptive consequences of globalisation, or we see Government as a helping hand to give individuals the tools to overcome the challenges and maximise the new opportunities the global marketplace can offer.

You will not be surprised that I take the latter view – our whole approach as new Labour to government has been to recognise that you cannot stop and reverse these economic changes. Instead, the task of progressive governments is to give people – in every corner of the world - the support they need to manage and benefit from these forces of change.

If we take the opposite course – to close our economies either through tariff or non trade barriers – I think, we will merely delay the inevitable and make its eventual impact much worse.

So I want to argue tonight that, just as once those who were determined to build a fairer, more open country rallied around the need to break down the social barriers that held us back, I think, it is now time to forge a progressive consensus around a truly open economy.

This is the only way, I think, to deliver our shared goals of fairness and rising national prosperity – in Britain and around the world. Unlocking the talent and potential of every individual, every company, and every nation to succeed by breaking down the barriers that prevent our economy from being truly open. And at the same time explode, once and for all, the idea that those on the progressive side of politics must oppose free, open markets in order to defend democracy and social justice.

But if we are to lead and win the debate over increased openness across our own and the global economy fundamentally, we must do three basic things:

First, in economics and politics, honesty is always the best policy. To fully debunk the inaccurate myths that exist around globalisation, we must acknowledge there are downsides. People can lose out from globalisation. Any successful argument for an open economy must therefore accept this reality and offer solutions to equip people to succeed in the face of this turbulence.

Second, we must properly define what the role of government should be in the new open economy. How it can best enable greater openness, give people more support and – critically – be clear too, about the limits of Government intervention.

And finally, we must ask if government is currently geared up for the role it must now play.

Are our own centuries-old Government institutions and the world organisations, which are there to support trade and commerce, robust and fleet of foot enough to deal with the shocks, shifts and rewards of the new global economy? Are we fully equipped to choose between competing priorities, and offer sufficiently strong safeguards to resist the ever-present temptation to succumb to countless short term pressures to intervene.

## **The impact of globalisation**

An honest assessment of the scale of the global changes currently underway clearly shows the benefits that have already been secured for the world.

In a speech to the World Economic Forum in 2000, President Bill Clinton described what it meant for families in the developed world, "Imports... promote the well-being of working families, by making their dollars go further; they bring new technology and ideas... dampen inflation and spur innovation."

For example, according to the latest UK Family Expenditure Survey, falling high street prices for clothes and footwear have halved the level of household spending on these items from 10% to 5% in the last 50 years.

Do we wear less shoes or clothes? I don't think so.

Armed with technology and more open markets, consumers now have the chance to compare prices and purchase an increasingly diverse range of goods and services from across the world.

They can more readily share complaints and ideas with their suppliers.

It is also the case that examples of workplace abuses uncovered in developing countries – and of course, there have been those examples - have made all those employing low wage labour overseas subject to intense and highly damaging criticisms. Globalisation has only served to amplify the negative impact on corporate reputation of these kinds of practices. Businesses pay an increasingly high premium for any abusive behaviour.

But increased global trade has also changed the lives of millions of people in the developing world for the better. No country in modern times has lifted itself out of poverty without increasing its trade.

For many, the arrival of a multi-national corporation in their community can mean the chance of a lasting route out of poverty, and vital investment in local infrastructure and public services.

According to the UN, between 1990 and 2004, the number of people living in developing regions on less than a dollar a day dropped by just over 12 per cent. The poverty gap in most of these countries is also closing, with an overall regional decrease from 9.3 to 5.4 per cent.

And many of you probably read the recent Economist article stating that between 1999 and 2004, 135m people across the world escaped poverty. More people and more quickly than at any other time in history.

Now that is progress on an unprecedented scale – driven in no small part by the shifting patterns of trade and industry that globalisation and rapid technological development have unleashed.

A World Bank study of 19 poor countries concluded that every 1% increase in national income per head translated into a 1.3 point fall in extreme poverty.

It's not fast enough, nor sufficiently widespread. It certainly doesn't alleviate the need for governments to do more, sometimes much more. And yes, it's driven by a desire to increase global corporate revenues – but it's also making a genuine difference to the world's poorest people.

So for many people, faced with the choice between no job and no school for their kids, and a job in the new Coca-Cola factory and a place in a Coke-branded school, I think that for many people that decision is a no-brainer.

As Kofi Annan said, over ten years ago, open markets offer the only realistic hope of pulling billions of people in developing countries out of abject poverty, while sustaining prosperity in the industrialized world.

In Britain, opening our doors to foreign companies wishing to invest here has complemented and enriched home-grown talent, rather than stifling it as many have predicted. It has been a key factor in the unprecedented economic success that has seen 2.6 million more jobs created in the last ten years and 600,000 children lifted out of poverty here.

And it has seen foreign-owned companies like Honda, Nissan and Toyota – directly employing around 14,000 people across Britain and investing hundreds of millions of pounds each year in our country.

In total, foreign owned businesses account for around 9% of UK service jobs, 20% of UK production jobs and undertake a staggering 40% of business R&D.

But there are real downsides too. Money and opportunities flow to where a job can be done most-effectively, and the real-life impacts of this fact can devastate families and communities for years. Every single one of the million jobs in manufacturing, for example, that have been lost in Britain over the last ten years has hurt real people.

And regardless of the fact that unemployment has fallen to its lowest levels for 30 years, many who have found some of the new jobs still feel uncertain and insecure about their own future.

## **What governments shouldn't do**

Now faced with this reality, the strong temptation for many governments is to reach for the shield of protectionism. That means increasing domestic subsidies to prevent companies from relocating; introducing high tariffs and hidden non-tariff barriers that disadvantage cheaper goods coming in from abroad; implementing prohibitive new labour market regulations that sometimes make it harder to move jobs around; bringing forward restrictions on foreign ownership of companies; and

sometimes overcoming uncertainty around foreign labour market standards simply by counselling wholesale withdrawal from less developed countries.

But for me, the answers to all of these problems lie in increased openness, not less openness.

For example, we've built a world-leading financial sector here in London by embracing full liberalisation and open competition; welcoming foreign investment and international banking institutions; and ensuring we have the best skills, knowledge and expertise in this field.

As a result, we've created a global hub here in London for financial services, supporting now over one million jobs - that has grown rapidly over the last 5 years, and increased its share of GDP from 5.5% in 2001 to nearly 10% in 2006.

I believe the best way for us to tackle global challenges such as poverty, climate change and increasing economic competitiveness is not by limiting the success of those individuals and companies who do well, but by increasing the opportunities of all to do better.

Breaking down the barriers – both within and beyond countries– that hold people back to create what President John Kennedy described, as “the rising tide that can lift all boats.”

And then of course, there is the economics. One of the things you learn very quickly in Government is that you can only spend the same pound once. In opposition you can spend it several times over.

Spend it subsidising an uncompetitive industry and every year, you'll fall further behind more dynamic and open competitors. You'll delay or ignore altogether the chance to make your economy genuinely productive and successful. The gap your subsidy must fill will become bigger, not smaller. Tomorrow's success will be lost, only for false hopes today.

Maintain trade barriers and you miss out on the enormous potential of dynamic, new markets. The most striking message from my recent visit to China and India - with the Prime Minister and the heads of 30 of Britain's leading companies and universities - was not the scale of the threat these nations posed, but the massive opportunities they presented to us and them.

China continues to export in great volumes to Britain – keeping prices down for UK consumers and companies. But we're also stepping up trade of high value goods and services in the opposite direction as the aspirations and spending power of the Chinese people grows substantially.

London now ranks as the most popular destination for Chinese companies looking to expand into Europe. And the UK is the largest European investor in China with nearly 6,000 projects ongoing worth in total over \$15 billion.

There's potential here for even greater growth that can benefit both China and the UK.

A McKinsey Global Institute report estimated recently that Chinese urban consumer spending will grow more than five-fold in real terms from just over \$440bn per year in 2005 to over \$2 trillion in 2025, making it the world's third largest consumer economy.

Try and hold on to the jobs already located in Britain with more and more regulation, and you'll only make more companies think twice about investing or creating new jobs in this country. This investment is critical to our economy and people's lives in the future.

In 2006 – 2007, inward investment projects created 36,000 jobs and safeguarded a further 41,000.

Cut off trade with the developing world, or impose on developing countries British employment rights or wage rates as the bare minimum you will accept as a consumer - and you'll cut off millions of people's chances of a better life, and the chance to expose true work-place abuses to the glare of international condemnation and consumer pressure.

Speaking to an American reporter, in 2005, a young Bangladeshi textile worker explained how vital the country's participation in global trade was to her. She said, "Our living standards have improved thanks to the textile industry...with the salary I support a whole family...If we lose our jobs we will not belong to any class."

## **What governments should do**

If protectionist rhetoric and action offers a temporary and ultimately flimsy shield from change and competition, what should, therefore, our response be?

We can't ignore the changes globalisation brings and do nothing. Following the approach of governments faced with economic upheaval in previous decades – that was their approach: to do nothing.

Confronted by a worker who has just been told that his livelihood is being shipped overseas, it is not enough to just shrug and say they have to get over it, because the country as a whole is better off.

Nor is the long-established, narrow attitude of British free traders to simply remove legal barriers like international tariffs, quotas and restrictive standards enough to ensure that a global economy brings benefits to all.

Instead, the focus and power of government, working in partnership with business and others, must be to maximise potential in the British economy - enabling UK businesses, consumers and families to deal effectively with the impacts of globalisation – and to create even more opportunities by opening our economy still further.

We must treat the lack of guidance for a school leaver to get the skills he needs to progress up the career ladder, or limits to the chances for a budding entrepreneur to make her idea a reality, to be as big and serious a threat to a truly open economy, as any legal barrier to trade.

We must act so that as many of our people as possible can prosper through change and uncertainty, ready and equipped to use their talents and fulfil their ambitions whatever the challenges and opportunities ahead.

Now that is going to be the approach of this Labour government, and particularly of the new department the Prime Minister has asked me to lead.

Today, we've published a new document "Globalisation and the Changing UK economy" a paper that sets out what we believe are the UK's policy priorities for tackling globalisation. I think there are seven areas we have to do.

We must continue to work across the globe to open up overseas markets, drawing high-value inward investment to UK business and promote both UK private and public sector goods and services abroad.

The work of one part of my Department, Trade and Investment delivers an estimated and additional, financial benefit to UK businesses of around £2.5bn every year. It also helps us develop global business partnerships, trade routes and research relationships that will help us tackle some of the world's biggest problems - issues such as climate change, for example.

It's a fact that the world's rapid economic growth is still largely being powered by fossil fuels. Energy demand is soaring, and many argue that increased consumer demand and international trade is bound to destroy our global environment.

But it's also the case that global partnerships and trade are the best way for us all to build a more sustainable, prosperous future. As the Stern Review concluded this is a global challenge that demands global solutions.

Developing ambitious, but fair and achievable targets for countries to tackle climate change is going to be essential.

Strengthening international emissions trading schemes to drive cost-effective reductions in emissions, and promote investment in and the development of the best low carbon solutions will be crucial too.

Taking joint action to reduce deforestation, and help those countries most vulnerable to climate change adapt to a low-carbon future.

Whether it's working with the Chinese Government on the deployment of Carbon Capture Storage technology and building the new eco-cities in China, or with the EU on meeting their and our own ambitions for global leadership in this area; these are just some of the powerful, global measures the world can and must take to limit and deal with the impacts of climate change.

To further support growth at home, we must ensure our macroeconomic framework also remains strong and stable with the right tax framework to encourage investment and growth.

We should also support and encourage investment in infrastructure such as in liberalised energy and telecommunications markets and world class transport links – including Crossrail here in London.

Our labour markets must tackle the abuses and barriers that hold people back from a better and more fulfilled life. And ensure that as many of our people as possible can progress through work.

You don't have to trade economic success for social justice. Ensuring a progressive society – with access to basic employment rights such as a minimum wage, full entitlement to statutory leave and family-friendly policies like extended maternity and paternity leave – is one of the best ways to guarantee sustained and growing prosperity.

In a recent Work-Life Balance Employer Survey - 92% of employers said that people work best when they can balance their work and other aspects of their lives. And that's obviously right.

Whilst other research showed that since the introduction of family-friendly legislation, such as the extension of paid maternity leave, the proportion of mothers who changed their employer when returning to work has, in fact, halved from over 40% in 2002 to 20% in 2005.

In the years ahead, we also need in Britain a skills revolution, with a massive boost to skill levels across the UK workforce.

The loss of individual jobs and sectors, and the creation of new careers and industries mean that one of the most important interventions we can make is to help equip people for the uncertainty they face. And enable them to adapt, prosper and gain employment whatever future globalisation brings.

Now this is a social, as well as an economic imperative as we race to the top, competing against new economic leaders now spending more to boost innovation and skills themselves.

The progressive approach to immigration policy pioneered by this Labour Government must remain in place for the benefit of all our people – combining strong and secure borders with a recognition of the way in which properly managed migration can enrich our economy by bringing fresh talent to Britain.

Around 17% of current economic growth can directly be attributed to immigration, and £6 billion of output growth alone in 2006.

We must pursue rigorous competition laws that drive productivity and innovation in business - with a dynamic economy at home, equipping us for competition abroad. And that protect and empower consumers, giving effective means of redress and handing genuine power down to the lowest level as an integral feature of a vibrant economy and a fair society.

And because no-one and no country is above the natural instinct to fear change, we must ensure that those frameworks are strong and transparent enough to deliver a genuine level playing field that cannot be circumvented. Systems that offer protection against the natural instinct of benefiting from someone else's openness whilst closing your own economy off when it becomes under threat.

We should also foster the right environment for entrepreneurship, ensuring Britain is maximising the potential of its entrepreneurs. Although here we compare well with European neighbours, we still lag symbolically behind the United States – the world's most entrepreneurial nation.

Our aim should be to harness the talents of everyone, to stimulate higher levels of enterprise and help more entrepreneurs succeed at home and overseas. Recognising the fact that no country can expect to succeed and compete effectively without making the most of the skills and talents of all of its people.

Our Renewed Enterprise Framework, I hope will help us secure some of these goals and will be published in the spring.

Finally, governments must ensure all regions of Britain benefit from our open economy. I think, that means two things.

Firstly it means effective policies that support our outstanding examples of regional success and encourage new innovation.

The government is committed to supporting national assets such as our aerospace industry. Not through protectionism and subsidy, but through ensuring the right environment for research and development of new technologies that will underpin future growth.

And secondly, it means doing everything we can to enable people, communities and regions dealing with business closure and redundancies to develop the new jobs of the future. The Government's commitment to regeneration, strong regional economies throughout the country bolstered by dynamic regional development agencies, should mean I hope that there will be no repeat of the travesties of the 1980s and 1990s – where ministers sat back and watched whole communities, like my own spiral into deep decline following the closure of traditional industries.

With Government investment and support, employment has increased in all UK regions over the last ten years. And the latest figures show that all English regions have improved their economic performance compared with the EU 15 average.

## **The limits of intervention**

But perhaps above all – in a world where maintaining a competitive edge is the only way for Britain to prosper into the future – I think Ministers, Governments should have the discipline to limit our interventions.

We must be determined in setting our priorities as a nation – and taking forward only those that are both effectively targeted, support a competitive economy and are essential to our progressive aims. That means tough choices. To give one example from my own portfolio in Government: hundreds of fresh demands for employment regulations have been submitted to ministers over the duration of this parliament alone.

A decade ago, Bill Clinton surprised many of his own Democratic Party in America by proclaiming that the era of big government was over. Ten years on, any doubts over his assessment should be dispelled by the fluidity of the global environment we face.

And yes it presents a challenge of how does a progressive government - passionately committed to tackling discrimination and disadvantage - prioritise these demands for regulation, given the absolute necessity of making further progress on issues like tackling climate change, enhancing national security and strengthening our pension system; all of which have costs to the economy.

Costs that - unless effectively managed - could conflict with our vital national aim of keeping the UK as competitive as possible.

## Strengthening our institutions

This leads on to the third question I posed at the beginning of this lecture – which I know seems like a long time ago! - how we can strengthen our national and international institutions for the role we ask them to play in an open economy.

On a national level, we must continue to reform the heavy-handed ways in which laws can be implemented. We've already set an ambitious target to save businesses over £3.5 billion by reducing red tape and transformed how we scrutinise the impact of any new policy proposal on business and other sectors.

But in the challenging economic period we are entering, perhaps more important than simply better drafting of laws, will be the ability to withstand many of the countless pressures to intervene and say no to costly and unnecessary regulation.

Equally important will be ensuring our laws – particularly the UK's planning regime – do not hold us back from changing our country to face up to some of these new challenges. That is why it is vital we succeed in implementing changes in the planning bill that will avoid endless delays in improving our national infrastructure.

At a European Union level, we must continually question whether the EU is geared up to embrace the new global economy.

For example, average import tariffs between OECD countries are around 3%, but these tariffs are over 500% in the EU - with the highest tariffs levied on agricultural goods from the developing world.

We must also continue to push for an overhaul of laws on trade defence.

Designed to prevent unfair dumping in EU countries, these have failed to keep pace with what developments in the global economy and EU enlargement means for EU businesses and other interests.

And across the world - as Gordon Brown made clear in India last month, we should look again at the rules, purpose and structures of our global institutions - designed in a post-war world, for a very different international landscape.

We should be looking to make radical, but necessary reforms to global organisations such as the World Bank, IMF and the G8 that reflect the rise of Asia, our growing global interdependence and the increased flow of people, capital, goods and services across the world.

This includes extending the remit and investment reach of the World Bank, to help all countries work together to tackle the world's biggest challenges, and benefit from the opportunities it presents.

Refocusing IMF efforts to prevent, rather than just manage and resolve global financial crises. And enabling these global institutions and others such as the Financial Stability Forum to work more closely to promote and ensure political and economic stability.

We also remain committed to working with the EU, to achieve an ambitious and pro-development agenda through the World Trade Organisation. And we should continue to push for such an outcome, which I firmly believe is in our global best interests.

## **Conclusion**

So open economies recognise and enable the power of what Adam Smith described as “the natural effort of every individual to better his own condition ... a principle that it is alone, and without any assistance...capable of carrying on the society to wealth and prosperity.”

The role of any government seeking success in this uncertain, and increasingly competitive, world must be to help unlock that potential and talent, and enable all of its people to meet their ambitions.

Protectionist rhetoric may assuage what Alan Greenspan describes as “our inner couch potato”. But, in the long-term, closed economies harm far more people – especially the most vulnerable in society, than they help.

They offer little in the future to create or safe-guard jobs, raise living standards, boost investment, innovation and progress or help us tackle the big challenges of this century.

Now of course, competition is not easy. Not everyone in the global economy can win every time. But I strongly believe that by recognising that fact, and working to equip people to better adapt and deal with it, we can harness the benefits increased open trade offers individuals, business and countries.

And although I doubt that following this speech, poster sales for Adam Smith will rival those of Che Guevara, I hope and will continue to work on ensuring this country and others look outward to maximise the aspirations, discovery and innovation he recognised as inherent in all of us, and that has helped us throughout our history to make this country a great nation.

**[Check against Delivery]**