

## **Ralph Miliband Lecture Series**

### **A Critical Debate about the Nature of Globalisation**

**Speaker: David Held, Professor of Political Science, LSE and  
Co-Director of the Centre for the Study of Global Governance**

#### **Professor Michael Cox**

Good evening, my name is Professor Michael Cox of the Department of International Relations here at the LSE. Welcome to this Ralph Miliband Lecture and welcome to our speakers and welcome to you. The discussion tonight is a critical debate about the nature of globalisation. For those seriously interested by the way, looking back historically, and I was thinking about the study of international relations before 1989 and before the collapse of the Soviet Union, only one thing was really important and that one thing was the Cold War. The third great war of the 20<sup>th</sup> century, or the great contest, as it was once referred to by Isaac Deutscher. And there were two things people were never interested in then; I can remember because I was there. The first thing most people who studied real international relations were not interested in was international political economy, perhaps one of the very few people at that stage who thought that economics was about strategy and about security of course was one of the former professors of this university, Susan Strange. But for most of us of course international political economy was what people who couldn't do economics proper did, namely economists who couldn't add up became international political economists. The second thing people didn't talk about, and I frankly can't ever remember the word ever being used, was globalisation. Being a kind of nerd who surveys websites I went back and found out how many times the word globalisation appeared in titles of books in the 1970s and the 1980s, lots of other words appeared like integration and interdependence but you won't find the word globalisation. I found actually a couple of articles and one or two books with the term globalisation before 1989. Well how life changed after 1989 and 1991.

As one of the critics of the globalisation thesis has put it, globalisation in the 1990s in the post Cold War era became the Zeitgeist of that particular époque and the debates thereafter were defined very much around the issue of globalisation, how old was it, when did it begin, what did it mean for international relations and in fact did it mean the end of the State and the withering away of the State. For some of the those old Leninists who always believed in the withering away of the State, at last the State was withering away but not for the reasons that old Leninists thought that it should; it was withering away under the impact of globalisation. So for literally 10 or 15 years one could say globalisation became the dominant motif, the dominant theme of those studying international relations. Since 9/11 however many would argue that once again it has gone off the agenda. 9/11, the war on terror, the focus on American power has pushed it off the academic, if not off the real world, agenda. So in some ways, in many ways, I think the debate for tonight it is extremely important, because the death of globalisation has been announced too soon and we shall see why tonight. The debate continues, and it gives me great pleasure to introduce two of those that have been central to the debate on globalisation throughout the 90s and in the difficult days since 9/11 when people thought it had gone again, two speakers who are going debate the whole issue of the meaning and nature of globalisation. To go first will be Martin Wolf who has written in defence of globalisation in a powerful argument about why globalisation works and Martin will speak for 20-25 minutes, to be followed by David Held who has written more wisely and more regularly on this topic I think [laughter] than anybody else and I emphasise the wisdom rather than the regularity on this issue. So with no further ado from me I welcome Martin

from the Financial Times to open the discussion, a critical debate about the nature of globalisation, Martin you are most welcome at the London School of Economics, Martin over to you. [Applause]

**[\[Martin Wolf's Power Point presentation is available on PDF format\]](#)**

### **Professor David Held**

So let me start by saying how much I admire a great deal of Martin Wolf's work both as a scholar and as a journalist. I think 'Why Globalisation Works', his last major book, is a lucid and fine defence of the liberal approach to the global economy. His writings are always my first port of call in the FT and tonight's lecture is another example, if one was needed, of his clear and serious voice in the debate about globalisation. There is much common ground. We share Enlightenment ideals, something that Martin hasn't spoken of this evening but we do, and a commitment to a politics and policy approach that encourages and sustains the enormous enhancement of productivity and wealth that the global market and contemporary technology make possible. We would agree moreover that economic isolationism or cutting off countries from the world economy is not a way to ensure an economy prospers in the long run. But rather than dwelling on common ground I want to take a somewhat different tack in my 20-25 minutes this evening.

In brief, what I want to argue is that the current liberal approach to, and form of, globalisation has inherent weaknesses and that we need to grasp these if we are to contribute to a discussion of the sustainability of the global order itself. I want to suggest that Martin's own approach to these matters and his account of economic globalisation inadequately engages with the core problems of liberal globalisation, globalisation in its current form. I want to stress four difficulties. First, that global market integration is by no means the indispensable condition of development; second that their grounds for scepticism that liberal economic policies deliver on promised goods; third, that a market first approach to key transborder issues is an inadequate approach to those issues and, fourth, that liberal market philosophy is the wrong philosophy for the age in which we live. I want to suggest instead a cosmopolitan social democratic philosophy to guide a world of overlapping fortunes among countries; cosmopolitan because certain universal standards, human rights and environmental protection, are central, social democratic because markets and social justice need to check each other.

So let me start by quoting Martin, from his last book, on his key thesis: 'that a successful move to the market, including increasing integration in the world economy, explains the success stories of the past two decades'. Prospering, developing countries, notably the Asian, have all followed this path. But this account, I want to suggest, needs questioning in a number of respects. In the first instance, the experience of China and India, along with Japan, South Korea and Taiwan in earlier times, shows that countries do not simply have to adopt liberal trade or capital policies in order to benefit from enhanced trade and to grow faster. All these countries have grown relatively fast behind some kinds of protective barriers, growth which fuelled rapid trade expansion. Now it is true that as these countries have become richer, they have tended to liberalise their trade policies. China's deep tariff cuts are a particular feature of the past decade, as Martin's figure in this respect indicates. As Dani Rodrik has shown, the only thing that can be said with certainty is that countries tend to become more open as they become richer. It is not simply a matter of cause and effect, and the difference matters.

Furthermore, recent research has found that one of the key factors limiting the capacity of some of the poorest countries to develop is the rapid liberalisation of capital. What hurts developing countries faced with broad liberalisation agendas is not necessarily the pursuit of free trade but the free movement of capital. Capital account liberalisation in Latin America and Eastern Europe as well as in Asia has brought instability, volatility and, on more than one occasion, full blown financial crisis. Countries that have rapidly opened their capital accounts have performed significantly less well in terms of economic growth than countries that have maintained tight control on capital movements but cut tariffs. Now even, as of course Martin would know, the IMF admits how misguided was its earlier blanket support for liberalising financial markets without suitable institutions in developing countries.

Now while economic protectionism should be rejected as a general economic strategy there is much evidence to suggest that a country's internal economic integration, that is, the development of its human capital, robust national market institutions, and the replacement of imports with national production where feasible, needs to be stimulated by economic and industrial policy. The development of state regulatory capacity, a sound public domain, the ability to focus investment on job creating sectors, and the protection of infant industries, are more important than integration in world markets per se. In fact all of these elements seem to be critical for effective global integration. This finding should not come as a surprise since nearly all of today's developed countries initiated their growth behind tariff barriers and lowered these only once their economies were relatively robust.

Commenting in the FT on Martin Wolf's recent writings on the urgency of further trade liberalisation through the Doha round, Robert Wade, sitting over there, one of Martin's fiercest critics but otherwise a very nice guy [laughter], put the point, and summarises the issues, thus, and I quote his recent letter in the FT. 'A balanced reading of the empirical evidence does not strongly support Mr Wolf's presumption in favour of further trade liberalisation by all countries. The most successful developing countries of the past two decades, including China, India and Vietnam, have had high tariff and non-tariff barriers and a raft of other policies not consistent with the WTO Agreements. On the other hand, many countries that subscribed to trade liberalisation and the other policies of the "Washington Consensus", and enforced WTO Agreements, have been among the least successful compared both to East Asia and to their earlier performance under less liberal policies. Mr Wolf's analytical mistake is to take a static view, as in "a bias towards production for domestic markets guarantees a failure to grow up". East Asian experience shows this to be nonsense. East Asian trade regimes have been "strategic" rather than "across the board", integrated into larger industrial policies of transformation.'

In *Why Globalisation Works*, Martin accepts that there is much more involved in successful development than trade liberalisation and that financial liberalisation carries risks, and I don't think we need to labour those points this evening. But he doesn't seem to me to allow that these concessions have implications for the very basis of the liberal market approach, that's to say, its explanatory power, what's explaining what, and its prescriptive value.

The benign view of globalisation interprets it as stimulating growth and development around the world. Openness to trade and investment, so the story goes, boosts growth and growth raises the income of the poor and thereby reduces poverty. Good. As Martin wrote in his last book and has indeed again suggested this evening and I want to read this quote carefully, 'What the successful countries all share is a move towards a market economy... They choose,

however haltingly, the path of economic liberalisation and international integration. This is the heart of the matter. All else is commentary.' That is a very strong statement, and it does throw down the gauntlet! There are several grounds for scepticism about this view of the liberal market and the results of liberalisation, and I want to be sceptical for a moment.

As Dani Rodrik forcefully argued here at the LSE before Christmas, and in accord with Robert Wade's work, countries that have benefited most from globalisation are those that have not played by the rules of the standard liberal market approach, China, India, Vietnam and even Uganda. In addition, those that have, for example the Latin American and the Caribbean countries, have done worse judged by the standards of East Asia and their own past. In other words, the link between growth, economic openness and liberalisation is weaker than the standard liberal argument suggests. The widespread shift among developing countries to greater openness has coincided with a slow down in the rate of world economic growth compared to earlier in the post-war period, from 2.7% in 1960-78 to 1.5% from 1979-2000.

The link between growth and poverty reduction is also not as marked as the liberal argument would predict. Accounts of this type generally assume a catch up or convergence story whereby poorer countries, opening their markets and liberalising, are expected to grow faster and richer so that income differentials narrow over time. However, the evidence to support this is controversial. In the first instance, outside the phenomenal development of China and to some extent India, the reported number of people below the World Bank poverty line of \$1 a day, as Martin said, has actually risen in the two decades since 1981. In addition, there is a near perfect correlation between a group's relative standing at the beginning of the 90s and its real cumulative income gains in the years that followed. The evidence shows that gains at the bottom of the global income hierarchy were minimal or even negative, as the first, that's to say, bottom percentile, lost 7.3% and the second gained only 1%. Moreover, the World Bank's measure of absolute poverty, based on \$1 a day, is to a large extent arbitrary. If you take the figure of \$2 a day you can actually show the reverse trend from the one that Martin has focused on. But having said that, we have to ask as well what does that standard signify? We do not know to what extent it covers adequate levels of food, clothing, shelter and other vital goods. Now a recent study from Latin America that looks at poverty more broadly, looking at a poverty line based on calorific and democratic characteristics, shows poverty to be seriously underestimated by these conventional World Bank positions.

Examining and evaluating trends in income and inequality between countries, it is clear that much depends again on how China's economic success and subsequent reduction in poverty is treated, as indeed Martin asked and to some extent has gone along with this evening. If China is excluded from consideration inequality between countries can be shown to have increased since 1980. 1980 is an important date because it is often claimed to be the moment when income and inequality between countries reached its peak. Of course there is much to be said for including China in the account but then it has to be borne in mind that China's success has depended significantly on a host of factors, not all of which fit neatly into the liberal argument. For example, China has staggered and regulated its entry into the global market; tariffs have been cut, but after economic take-off, particularly heavily in the last 10-12 years; capital movements have remained tightly regulated; and FDI is locked into partnerships with significant political controls.

Moreover, looking at income distribution across the world's individuals or households highlights how the largest gains over the 1990s accrued to those already well off, and to the

newly better off in China. China makes the difference and what sense we are to make of it depends again on how this success is explained. The argument that inequality among individuals has been falling over the past two decades, often heard, depends largely on the performance of this one particular case.

None of this is to argue that trade and international capital flows do not provide important potential gains to many countries. The question, rather, is: under what conditions trade and capital flows (and what kinds of trade and capital flows) are introduced to maximise benefit. Thinking of globalisation as either an inextricably positive force or the opposite is likely to miss the core conditions for successful development and political change, which I think are closer to Martin's point 10 in his list than his points 1 and 2.

The choice is not I think between globalisation in its liberal free market form or no globalisation, rather what's at issue is the proper form globalisation should take. What is needed is proposals for thinking about the governance of national and international markets and for the pressing range of global challenges that we face. I want to turn now to these challenges.

There are many ways of conceiving and categorising the global challenges we must all tackle. Jean-Francois Rischard from the World Bank usefully thinks of them as forming three core sets of problems. Those concerned with sharing our planet, like global warming, bio-diversity; our humanity, like poverty, global infectious diseases; and our rule book such as intellectual property rights, trade, finance, tax rules and so on. Martin seems to think that global challenges such as these can be addressed by the current interstate order, albeit an order that needs some change, his points 3, 4 and 5 I think. But how pressing global problems might be resolved is far from clear; for the problem-solving capacity of the current international system is not effective, accountable or fast enough. Take climate change. According to Sir David King, the Government's Chief Scientist, it may be too late. According to Sir Martin Reece, the former Chief Astronomer, it seems highly unlikely that we will get through the next century without some major catastrophe. Take nuclear proliferation. Take the broad failures to meet the Millennium Goals. Each one of these is serious enough but, taken together, they are very challenging. Why? There are three main difficulties.

To begin with, there is no clear division of labour among the myriad of international institutions, functions often overlap, mandates conflict, aims and objectives too often get blurred. There are a number of competing organisations all of which have some stake in shaping many aspects of global public policies. This is true, for example, in the area of AIDS/HIV where the WHO, the Global Fund, UN Aids and the G1 have different and often competing priorities.

A second set of difficulties relates to an accountability deficit in the international agencies, those very agencies which set the core agendas. Multilateral bodies need to be fully representative of the states involved in them and they rarely are. Developing countries are seriously under-represented in a sleuth of international organisations.

And the third problem I want briefly to mention results from the issues which span the domestic and the foreign. A growing number of issues can be called, to use an ugly word, 'intermestic' – those issues which cross the *international* and *domestic*, intermestic, using James Rosenau's term. These are often insufficiently understood, comprehended or acted

upon and there is often a lack of ownership about such problems at the global level. Global warming? Bio-diversity? Whose problems are these exactly? Some leaders worry about them, others don't, but meanwhile they progress and deepen. The institutional fragmentation and competition leads not just to the problem of overlapping jurisdictions among agencies but also to the problem of issues falling between them. Bill Gates said recently in London that the failure to address the issue of malaria, where we know what we need to do and where the costs are not great, is simply a disgrace. Now I don't think we can be too optimistic about dealing with some of the pressing issues that I have mentioned, but is it idealism, as Martin implies, to raise these questions to begin to think through an alternative political theory to our dominant, failing political paradigm?

Finally, to address the problems of institutional fragmentation, competition and jurisdictional overlaps requires a wider vision of institutions and policy approaches than I think can be found in Martin's framework of markets plus liberal states. Clues to an alternative can be found in an old rival, social democracy. Why is it important? I don't wish to stand here and defend its record in all respects, but it speaks to the silence in the liberal approach and the silence is social justice. Traditionally, social democrats have sought to deploy the democratic institutions of individual countries on behalf of a particular project. They have accepted that markets are essential to economic well-being but have recognised that in the absence of appropriate regulations, they suffer serious flaws. These include the generation of unwanted risks for their citizens, and an unequal distribution of those risks.

Social democracy at the level of the nation-state means supporting free markets while insisting on a framework of shared values and common institutional practices. At the global level it means pursuing an economic agenda which calibrates the freeing of markets with poverty reduction programmes and the protection of the vulnerable. This agenda needs to be pursued while ensuring, on the one hand, that different countries have the freedom they need to experiment with their own investment strategies and resources, as my first set of remarks indicated, and, on the other, that domestic policy choices uphold certain basic universal standards such as human rights and environmental protection. So the question is, the big question is, the very big question is, how can self-determination, markets and core universal standards co-exist? You might not like my answer but I think the question is critical.

To begin with, it seems to me bridges have to be built between international economic law and human rights law, between commercial law and environmental law, between state sovereignty and transnational law. It is as if all these things refer to separate domains and do not speak to each other. This point was first made by Christine Chinkin. What is required is not only the firm enactment of existing human rights and environmental agreements, and the clear linking of these with the ethical codes of particular industries, but also the introduction of new terms of reference into the ground rules or basic laws of the free market and trade system. Precedents exist in the social chapter of the Maastricht Agreement and in the attempt to attach labour and environmental conditions to the NAFTA regime.

At stake ultimately are three interrelated transformations. This is my counter list to Martin, as it were. The first would involve engaging companies in the promotion of core universal principles, as the UN's Global Compact does at present. To the extent that this led to the entrenchment of human rights and environmental standards and corporate practices that would be a significant step forward. But, if this is to be something other than voluntary, vulnerable to being ignored, then it needs to be elaborated in due course into a set of more codified and mandatory rules. As Kofi Annan's Chief Advisor, John Ruggie, said on these

issues, we have no idea whether the voluntary nature of the Global Compact has any bite at all. So the second set of transformations would involve the entrenchment of revised rules and codes on health, child labour, trade union activity, environmental protection, stakeholder consultation and corporate governance in the articles of association of economic organisations and trading agencies. The key groups and associations of the economic domain would have to adopt in their very modus operandi a structure of rules and procedures compatible with universal social requirement, if these requirements are to prevail. Now, of course, it can be countered that poorly designed regulatory structures harm employment levels but countries with the strongest social democratic traditions, above all the Scandinavians, show that it is possible to be both business friendly and welfare orientated.

There are many possible objections to the scheme I have set out but I think most of these are misplaced. The framework of human rights and environmental values is sound because it is preoccupied with the equal liberty and equal development possibilities of all human beings. But it has to be conceded that without a third set of changes the advocacy of such standards descends into high-mindedness because it fails to pursue the socio-economic changes that are a necessary part of such a commitment.

So as a minimum, this means that development policies must, as I have already indicated, be linked to promoting the development space necessary for national trade and industrial incentives, including infant industry protection; to build robust public sectors nurturing political and legal reform; to develop transparent, accountable political institutions; to ensure long term investment in health care, human capital and physical infrastructure; to challenge the asymmetries of access to the global market which are often hypocritical and indefensible; and to ensure the sequencing of global market integration into a framework of fair rules for trade and finance. Moreover, this means eliminating odious unsustainable debt, and creating new finance facilities for development purposes. In addition, if such measures were combined with a Tobin Tax on the turnover of financial markets, and/or a consumption tax on fossil fuels, and/or a shift of the priorities from military expenditure, now running at \$900 billion per annum globally, towards the alleviation of severe need, direct aid amounts only to some \$50 billion dollars per annum globally, then the development context of the Western nations and Northern nation-states could begin to be accommodated more adequately to those nations struggling for survival and minimum welfare. The UN budget is \$1.2 billion plus peacekeeping, but the US or Europe spends vastly more on chocolate and bubble gum, alcohol, cars, pet food and so on. These budgets dwarf the amounts available for direct poverty alleviation and dealing with severe urgent diseases. The US went to war after 9/11; 9/11 was a serious matter, a crime against the United States and a crime against humanity. But everyday ten times as many people die as were lost on 9/11 of poverty, malnutrition and poverty-related diseases and, yet, there is no war, no cry, no demand for more decisive change. I believe the resources are there. The issue is politics.

In conclusion, the question before us is not why globalisation works but, rather, how can it be made to work better to bridge the gap between liberty and social justice, between economic rights and human rights, and between the accelerating affluence of some with the continuing poverty of the many. A political philosophy relevant to our global age must take this as its starting point and build an ethically sound and politically robust conception of political communities and the relations among them. I call this a cosmopolitan social democratic approach and I believe steps in this direction are feasible and practical. It is never a matter of everything or nothing. Liberal economic philosophy doesn't equip us adequately for this journey. Thank you very much. [Applause]