

Globalisation and Governance

The View from the Chateau de la Muette

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The Chateau de la Muette in Paris is the headquarters of the OECD, grouping the 29 most successful economies in the world. With its 2000 full time employees and 300-odd diplomats in the member-state delegations it looks at all aspects of the world economy, with the purpose of making recommendations to governments. As such it is an excellent vantage point from which to study Globalisation. This short paper summarizes in point form, my personal perception of this important phenomenon, after three years at OECD and expresses in writing some of the ideas I had the pleasure of presenting to CACOR at the luncheon speech in March 1998. A longer paper dealing with the same topic can be found in the summer issue of *Optimum* under the title *Can Globalisation be Managed?*

(1) "Globalisation as Historical Process" vs. "Globalism as Doctrine"

Globalisation is a historical process which started with the European Voyages of Discovery five centuries ago and has achieved tidal wave proportions today. It essentially describes the transposition of human activities from the older theatre of operations – the nation-state – to the world stage. Initially driven by trade and empire, it is now fuelled by Investment and Technology. One can either applaud this major historical process or lament it, but it is foolhardy to ignore it. When conferences on globalisation are picketed by NGOs they seem to mistakenly believe that if these conferences were cancelled, globalisation would disappear. Obviously, this is not so. King Canute could not stop the waves. To some extent we cannot stop globalisation, although we could at least try to manage its effects.

Globalism, on the other hand is a doctrine or ideology which views the process as a happy event and wishes to accelerate it. Globalisation is an empirically verifiable trend while Globalism involves a value judgement. There may be many versions of Globalism depending on ideology. At the extreme right, the famous historical conquerors like Genghis Khan, Alexander and Napoleon were in a sense globalists. They believed in one world under their control. At the extreme left, Trotsky was a globalist too, preaching the need for a world communist

revolution. At the centre-right you have Globalism in the form of multilateralism (such as the GATT now the WTO or World Trade Organisation) arguing in favour of more trade liberalisation. At the centre-left you have ecological globalism (Greenpeace, Doctors without Borders, Worldwatch type movements, perhaps the Club of Rome itself) advocating a better global management of the environment etc. You also have techno-globalism in the form of the **Internet** and its growing legion of aficionados. You even have sports-based globalism in the form of the World Soccer Cup seen and appreciated by approximately one quarter of Humanity or the Olympics, both examples of Globalism in sport.

Symmetrically we can identify Anti-Globalist doctrines deploring the process and wishing to slow it down. Anti-globalism can take the form of nationalism, regionalism, localism, tribalism, religious fundamentalism etc. As in the case of Globalism as doctrine Anti-Globalism can adopt rightist, leftist or centrist forms.

The confusion between globalisation and globalism was evident in the turmoil over the MAI (proposed multilateral agreement on investment negotiated at OECD). The MAI is a proposed response to globalisation which involves setting rules for investment flows similar to the rules for trade flows. In principle this is a good idea, except that bad rules may be worse than no rules at all. The objective should be to achieve a "good" MAI which responds to the legitimate needs of all stakeholders. In my view some of the concerns over the particular agreement of the MAI currently negotiated at OECD were legitimate, and Canada was among the leading countries, asking for a pause in the negotiations to consult with the stakeholders. This fact is not well known in Canada where, the Canadian Government was wrongly perceived as an unconditional supporter of the proposed accord. On the contrary the support expressed by the Government was very conditional and subject to a number of provisos including the defence of culture and the preservation of national sovereignty. But, more generally, the idea that there should never be an MAI of any kind is very short-sighted, because the absence of an MAI will not stop globalisation. The status quo is not that favour-

able anyway. It needs to be improved. The existing 1600 odd investment agreements create a wild and woolly situation which is not in favour of the public interest. The good well-balanced and equitable multilateral investment agreement is a desirable goal. If, for instance we were to negotiate an "MAILE" (Multilateral Agreement on Investment, Labour and Environment) instead of an "MAI", the groups presently opposed would turn around and be actively supportive. Social and cultural clauses could be included in a drive towards a rule-based world system, which is absent today. There are no global rules in many key areas of human activity and even where there are they are not really enforceable.

(2) Is Globalisation seen as a Historical process: Good or Bad?

The jury is out on this one although the most accurate answer today is "a bit of both". Dickens was right in his introduction to *The Tale of Two Cities*: "It was the best of times, it was the worst of times". The upside of globalisation (combined with technological change) is the fact that it has created enormous wealth. The capacity to produce has in fact outstripped the capacity to consume and in fact the economics of scarcity (the core domain of economics as science) should soon be replaced by the economics of abundance, where distribution questions become more important than production questions. In fact of the three fundamental questions of economics : what to produce, how to produce and for whom to produce, it is the third, "for whom to produce" which is becoming the most relevant, the first two having been, for all intents and purposes solved. There is no "production" problem in the world. We have overproduction in most sectors, primary, secondary and tertiary. We face a plethora of unsold goods and services not the penury of old. In fact we have what I like to call a "buffet economy" where those who have purchasing power can consume at very high levels and at very low cost, inflation being practically absent from all the leading economies in the world.

But with the buffet, symbol of abundance comes the "soup kitchen" symbol of scarcity. The two coexist. The new wealth is, unfortunately, not well distributed. The downside of globalisation lies precisely in the distribution problem. Abundance has not filtered down to the masses and one can reasonably argue that only about one-third of humanity is benefiting at all from the process of globalisation (perhaps the same third who watched the World Cup). Even then the benefits are very unequally distributed and this considerable "exclusion" as the Europeans put it. This "exclusion" either takes the form of unemployment (especially in the European

OECD countries with an average of 8% unemployed and in places like Spain over 25%) or low incomes in the United States and in Third World Countries. The combined employment and income gaps create dualities which are actually quite dangerous and are the source of great unrest. There is a serious possibility of social collapse in many countries because of the unequal pattern of income and job distribution.

(3) Is the System Self-Regulating?

Some have argued that Globalisation is self-regulating and that there are enough negative feedback loops to bring back equilibrium. Ultimately, the theory states, incomes will be equalised and masses of jobs created. But the evidence does not seem to confirm that hypothesis. The substitution of persons by machines is likely to continue with the amazing advances of technology and there is no clear indication that many new well-paying jobs will be created by the market. A cursory look at daily newspaper headlines reveal recurrent downsizing in the private and public sector. Very few industries are "upsizing" or even "right-sizing" as far as labour is concerned. Technology is allowing to do more with less, including more with fewer people. As a result, income distribution is not spontaneously becoming more equal. In the first place, the workings of global competition seem to favour, according to some authors, a "winner-take-all" situation, aided and abetted by natural monopolies and economies of scale. In the soccer World Cup, 32 teams entered the competition but only one became the grand champion. In a poker game the pot may be enormous but there is only one winner who takes all, even if her hand were only very marginally better than that of her opponents. According to Frank and Cook in their book *The Winner-take-All Society*, the globalisation of competition has had the effect of creating room only for world champions and is progressively ousting local champions. For every club tennis champion, so to speak, a Pete Sampras parachutes in and denies the local boy any bragging rights until he has beaten him. In most fields there is a Pete Sampras who will come in, which does not augur well for the beginner and intermediate players. Now world champions come and go, but a world championship situation is quite different from the permanently competitive situation still imagined in microeconomic textbooks. Competition, far from being a final state of human economic activity is a step towards the designation of champions. The purpose is winning not being competitive. It is ludicrous to suppose that athletes enter an Olympic event to be "competitive". They enter to win. Similarly corporations win by becoming monopolists or at least oligopolists. What this means is that although the identity of world champions

may change (i. e. Microsoft may one day be dethroned by another corporation) the assumption that competition will prevail as a permanent state finds little empirical support. In winner-take-all situations entrepreneurs will thrive but there will also be many losers who as the French say may be "laisser pour compte" – i.e. listed as casualties. What to do with the losers is becoming a major challenge of public policy.

Secondly even if, "ultimately" income equalisation were to occur by the pure interplay of market forces, a dubious proposition as we have seen, the process may take a decade or a quarter of a century. In the meantime, income and employment gaps would increase and we would have an exacerbation of the situation of poverty amidst plenty. The question that politicians throughout the world are asking is: can we both humanly and politically speaking afford to sacrifice a generation before everything settles back to normal, assuming, of course, that that will eventually happen? Most will answer no, if not on moral imperative at least on political expediency grounds. What in Europe is called the "social fracture" must be dealt with with some urgency. Automatic mechanisms do not appear to be sufficient to do the job.

(3) If the System is Not Self-Regulating, then What?

Who will manage Globalisation, if the Invisible Hand cannot do it all by itself? A number of players are wading into the new world stage claiming to represent Civil Society and to provide the countervail to globalisation by markets. The two leading actors here appear to be the NGOs (non-governmental organisations) and the IGOs (intergovernmental organisations).

The NGOs

On the whole, the NGOs are usually well meaning and do a lot of good in drawing attention to a problem and pinpointing dangerous or inequitable situations in the world. But their role as the new regulators of the world economy is necessarily very limited for the following reasons. First, because they have no teeth, and cannot really enforce anything, although they can be very effective at sensitising public opinion on various issues. But beyond sensitisation, they have no enforcement capability. Second, their claim to "represent civil society" is somewhat suspect. In most cases they represent special interests, some laudable and very worthy, others less laudable and less worthy. The "NGO" category is so broad that any organization which is neither a government, nor a corporation can basically qualify. This includes, not only Greenpeace and Save the Children but also the National Rifle Association, Islamic Jihad and the Sicilian Mafia! How an NGO is funded, how it makes

decisions, how it appoints its board and who ultimately controls it is of great interest to the General Public, but is not always known. There is a lack of transparency in the internal governance of many NGOs which is a limiting factor as credible counterweights to market forces. Their best contribution is at the level of consciousness raising and they play a valuable role as fair witnesses of what is going on in the world. But they cannot be entrusted with the difficult role of managing the complex process of globalisation.

The IGOs

The IGOs are the Intergovernmental Organisations set up by nation-states to manage international relations. The potential role of the IGOs is actually quite high. The policy capacity of governments acting individually has been eroded by globalisation and national jurisdictions are routinely leapfrogged by multinational corporations. The relocalisation potential of corporations and, more generally speaking, the very high transnational mobility of most productive factors, enhanced by the Internet and computer technology, make national policies less effective. In addition the intensity of competition forces social policies to converge downwards to the lowest common denominators and the degree of freedom of nation-state to choose their own societal destiny is increasingly limited. We no longer live in a multiple choice world where elected governments can do what they the voters want to do. At least, they cannot do that individually. However acting together and in unison, the collective capacity of governments is still very strong. Depending on the topic collective intergovernmental action can be decisive. In some cases such as the management of the Internet, there cannot be leaks in the system. Rules applying to some but not others simply do not work. Everyone has to abide by a rule if it is going to be applicable. In other areas such as the management of climate change, the collective action of the major players, i.e. the high-energy consumers for instance, may be sufficient to exert decisive influence.

The collective action of governments in the face of globalisation, is what is constantly being negotiated in the constellation of IGOs which emerged after the Second World War. This IGO secondly has now become very untidy and haphazard. Every week new groupings crop up, some regional some global, some universal in a variety of forms: free trade accords, sectoral agreements, regional customs unions etc. This messy secondly with its alphabet soup of acronyms in fact is becoming an impediment to effective world government. A fundamental redesign may be needed – in terms of mission, membership, scope of operations, internal governance, decision-making and division of labour. Without that

redesign the IGO system cannot adequately perform its role in the management of globalisation.

Conclusion : An Agenda for “Action-Analysis”

The asymmetrical nature of the historical process, known as globalisation and the realisation that it is not efficiently self-regulating, argue in favour of a countervailing force, outside market mechanisms to ensure that these same market mechanisms work for rather than against the public interest. This is the challenge of Global Governance. From my OECD vantage point, I would argue that it is one of the highest priority issues in the world today and its successful resolution (i.e. efficient and equitable global governance) will determine the future of the world system itself. To tackle this question will require concerted efforts by many groups, governmental, NGOs, academics etc.

What is needed is an “action-analysis” of a certain number of key topics. I prefer the expression “action-analysis” which I would interpret to mean “action based on analysis” to the more traditional “action-research”. After a long career in academics and consulting where “we must do further research” is, so often, the standard conclusion of learned papers and consulting reports, I am now inclined to favour much more concrete results. As some one said, “A good researcher is a person who **finds**”. Research is not an end in itself. Nor, for that matter action not based on thinking. In fact I would argue that there are too many actors who do not think and thinkers who do not act. An intersection of the two is needed.

There is some urgency in making sure that the world economy is sustainable efficient and equitable.

To this end, in the action-analysis agenda, I would propose two initial questions to be answered in sequence. The first is what are the right things for governments to do at the dawn of the new millennium. How should they interface with markets, NGOs and civil society itself? The question has acquired new meaning given the turbulence of globalisation. The answers will be partially ideological of course, but a mapping of positions on this

question may be quite useful and productive, even within the OECD itself, which accommodates within its “like-mindedness” Lionel Jospin at one extreme and Newt Gingrich’s at the other, in their opposing views of the world. Should the State be just a rule-maker and a rule enforcer? Should it accept a responsibility in income distribution, nationally or globally or both? Where should it become involved and where not? What are the criteria? What are the value judgements underlying the criteria?

The second question deals with the challenge of doing things right, after one has identified the right things. As someone said “things that are not worth doing are not worth doing well.” Question 1 must be answered before question 2. In this connection we must think about the configuration of what “Optimum Government” would look like, from the global to the municipal, with intermediate levels of continental-size governments (United States, China, Canada and the European Union) and smaller nation-state governments. In addition, some thought should be given to the modalities of involvement. Governments can intervene as regulators, catalysts, information providers, incentive-makers etc. The range of options should be carefully examined taking into account sector specificity, regional differences and above all cultural relativity. One size does not fit all. We must design flexible solutions.

Since I am writing for the Canadian Association for the Club of Rome let me end by suggesting that a focus on Globalisation and Governance along the lines suggested in this paper would be worthwhile for the Club of Rome. Obviously, a monopoly model is inappropriate here. Many organisations should look at this problem, the OECD, the World Bank the United Nations, the Government of Canada, academic think tanks etc. However, given the Club’s interest in the future of Humankind and its propensity to be at the cutting edge of issues, I believe this topic is certainly a worthwhile millennium topic. Accordingly, if it decides to move in that direction, it will have my active and enthusiastic support. There is some urgency in making sure that the world economy is sustainable efficient and equitable.