



**Reaping the Benefits of Globalisation:  
The Importance of Public Policies.**

**Remarks by**

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**Foreign Relations Commission,  
Chamber of Deputies  
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Distinguished Members of Parliament, Ladies and Gentlemen:

It is a great honour to be here with you to discuss the question of globalisation. From the Romans and the Venetians thousands of years ago, to your active participation in today's world trade flows or your multinational football league: Italy is a historical epicentre of globalisation.

Let me share with you some thoughts on the nature of globalisation, the importance of effective policies to make the most out of it and the role of the OECD.

### **Globalisation: a synergy for progress**

A close look at globalisation reveals a major positive force which provides key contributions to global progress and prosperity. During the past decades, globalisation has: raised productivity and employment; helped lift millions out of poverty; revolutionised communications; fostered competition; boosted global economic growth and interdependencies through trade and FDI flows; and facilitated scientific discoveries which will help us lead longer and healthier lives.

Globalisation has also: enhanced education by allowing fast cross-country comparisons; exposed human rights violations in remote corners of the world; boosted international cooperation; encouraged international migration and remittances flows; and provided the basis for a global awareness, where crucial instruments like the Millennium Development Goals or the \$100 dollars Laptop Project have

flourished. The benefits of globalisation are measurable, numerous and precious.

### **However, many still cannot reap these benefits**

However a large part of the world still cannot profit from most of globalisation's positive synergies, because of major structural impediments and handicaps. The vast majority of the world's population lacks quality education and faces daily employment and income anxieties that diminish their capacity to profit from globalisation. More than 5 billion people live in developing countries; out of which nearly 2.8 billion people live on less than 2 dollars a day.<sup>i</sup> As I have mentioned in many occasions, poverty is the ultimate systemic risk.

Globalisation has facilitated the creation of enormous wealth, whilst inequality has at the same time increased. Today 1% of the world's adults own 40% of global wealth, while 50% own less than one percent.<sup>ii</sup> The "poor countries" of the planet are four times less productive than the rich ones,<sup>iii</sup> and experiencing a significant fall in the incomes *vis-à-vis* the developed world, an erosion of their competitiveness, structural unemployment and chronic disparities and insecurity.<sup>iv</sup>

This is not because globalisation is bad per se. But because globalisation is not occurring in a level playing-field. In addition, we have failed to produce policies that empower the people and diminish the risks. To date, globalisation has not been an inclusive process. We have to produce the instruments to make it so.

## **The first signs of a global backlash?**

Today, increasingly important sectors of the population in OECD countries are feeling excluded. As Larry Summers argued in a recent article: while transnational corporations have greatly benefited from globalisation by combining cutting-edge technology with low-cost labour, many middle-class workers and their employers are feeling left out; be it in Lima, Tokyo or Rome.<sup>v</sup> It is a global reaction. In the US, the average top manager pay has increased from 40 times the average wage in 1985 to 110 times in 2005,<sup>vi</sup> while the growth of median family incomes has decelerated. In Europe, Gallup reports that nearly 76% of Western Europeans think globalisation tends to favour the wealthy.<sup>vii</sup>

For an increasing number of people in OECD countries globalisation is closely associated with: growing uncertainty and insecurity in the job market; depressed wages; increasing inequality; reckless exploitation of irreplaceable natural resources; the transfer of political power to large multinationals operating outside of the democratic processes; and the sacrifice of cultural and other values to the diktats of the marketplace.

Such fears lay behind the rejection of the European Constitution, the stalling of the Doha Agenda or the initiative to build a wall between the US and Mexico. Fear is also fuelling pressures to set up new protective trade barriers: Morgan Stanley recently reported that 27 separate pieces of anti-China legislation have been introduced into the US Congress since 2005;<sup>viii</sup> the EU is also fighting to protect its

market from China's textile and garment imports; the German led negotiations to liberalize the European energy sector were buried last week.<sup>ix</sup> Such barriers and protectionist forces may not automatically disappear once the backlash is over.

International migration, one of the most complex aspects of globalisation, not only reveals huge global economic disparities, but also a growing sense of vulnerability among the population in the developed world. Such anxieties tend to pressure decision-makers to close, or at least seek to close, their borders.

Some of these worries are legitimate, but are often a product of ignorance. Many citizens just don't realise that they are actually living, profiting from and contributing to globalisation everyday. Political leaders and public policy have failed to explain what globalisation is about in concrete and understandable terms. This is dangerous. Allowing globalisation to become a scape-goat can have a boomerang effect on governments as citizens demand a return to dangerous protectionist policies which would make things worse.

### **It is policies that make the difference, not globalisation**

We must be careful not to rush to lump all blame for current ills on globalisation. Simplistic approaches will delay effective solutions. Blaming China or India or Poland for taking our jobs might be politically attractive, but it can also obscure our attention from the real structural problems which must be addressed. Governing is an exercise of continuous adjustments. One of the most efficient ways to

minimize globalisation's adjustment costs is to improve the efficiency of domestic policies.

It is hard to measure the impact of the dynamics of globalisation on employment and wage inequality. Education, technology and labour markets also play an important role in attracting or discouraging productive investments. This is especially the case when promoting structural reforms implies short-term political costs. As Italy has experienced lately, in a globalised fast-moving world, delaying reforms translates into economic underperformance.

Global competition highlights the importance of a flexible and dynamic labour market, a modern social security system and a well educated workforce. Freeing up labour markets (in the EU, for example), reforming the health care system (in the US, for example) and improving education (practically everywhere), are crucial factors that will influence future public support for globalisation.

### **The role of the OECD: a beacon for globalisation**

In many areas, the OECD has already become the hub of globalisation. We cover the whole range of issues related to foreign direct investment. We lead the fight against international bribery, with the OECD Anti-Bribery Convention being used as the benchmark for other initiatives. The DAC sets the standards for best practice in promoting development through international aid. Our Model Tax Convention is the basis for the 3,600 bilateral tax treaties worldwide.<sup>x</sup> The new Statistics Committee is already at the centre of a network of statistical organisations. PISA is the reference point for assessing

educational standards around the world. We are in the midst of an effort to become more global by enlarging our membership to new countries that will enhance our policy discussions and analysis.

## **Final remarks**

Ladies and gentlemen, globalisation does not improve our quality of life. It is the quality of public policies. Reaping the full benefits of globalisation will require a lot more than opening markets and explaining how they work. Governments must play a much more active role, not only to provide safety nets for the so called “losers” of globalisation, but in a more proactive way, in preparing their societies to participate and benefit from this irreversible process.

Globalisation is not “the mother of all evils”. Blaming globalisation for our national, local or personal problems would be as stupid as assuming that it is an automatic source of progress. To make globalisation a more inclusive process that produces wider prosperity we must level the playing-field; with innovative public policies and intelligent political compromises that facilitate structural reforms. And the only way we can achieve this is by reducing social fears about globalisation itself. We must de-dramatize globalisation.

The OECD is a laboratory for public policy improvement, a generator of global rules and consensus, but also a major source of debate, analysis and explanations on the main synergies of globalisation. Our Organisation will keep helping decision-makers like you in your efforts to make this a more balanced and human process.

Thank you very much.

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- <sup>i</sup> The World Bank, “Understanding poverty”. See:  
<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/0,,contentMDK:20153855~menuPK:373757~pagePK:148956~piPK:216618~theSitePK:336992,00.html#trends>
- <sup>ii</sup> Louka Kasteli, “The OECD Agenda for Globalisation – A contribution from the Development Centre”. Directors’ Retreat, February 2007.
- <sup>iii</sup> OECD, “The ladder of Competitiveness: How to Climb it”, Development Centre Studies. 2006
- <sup>iv</sup> UN World Economic and Social Survey 2006.
- <sup>v</sup> Larry Summers, “The Global Middle cries for Reassurance”, Financial Times, 29 October 2006. See:  
<http://search.ft.com/ftArticle?queryText=Summers+middle+class&aje=true&id=061029003963>
- <sup>vi</sup> Louka Kasteli, “The OECD Agenda for Globalisation – A contribution from the Development Centre”. Directors’ Retreat, February 2007.
- <sup>vii</sup> The Voice of the People 2006. See:  
<http://www.worldpublicopinion.org/pipa/articles/btglobalizationtradera/273.php?nid=&id=&pnt=273&lb=btgl>
- <sup>viii</sup> Stephen S. Roach, “Wrong time for gridlock”, Morgan Stanley, Global Economic Forum. See:  
<http://www.morganstanley.com/views/gef/archive/2006/20061109-Thu.html>
- <sup>ix</sup> See: [http://jurnalo.com/jurnalo/storyPage.do?story\\_id=18169](http://jurnalo.com/jurnalo/storyPage.do?story_id=18169)
- <sup>x</sup> Jeffrey Owens Memorandum “Moving from the Club to the Hub of Globalisation”, 24 January 2007.