



Transatlantic relations and globalization in time of crisis?

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“Transatlantic Economic Challenges in an Era of Growing Multipolarity”
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I want to start by thanking Jean Pisani for inviting me to address this important Conference. I am particularly grateful for his kind words of Introduction and for his friendship and support over the years. We had (and still have) an excellent tradition of cooperation.

It is my privilege to open this Bruegel – PIIE Conference “Transatlantic Challenges in an Era of Growing Multipolarity”. I would like to reflect with you on likely trends for transatlantic dominance of globalization. I will first comment on some long term trends leading to shifting patterns of power at global level. Second, I will argue that the current crisis will likely accelerate these trends. Finally, I will suggest that, in this context, transatlantic cooperation is crucial for a smooth transition at the global level and conclude.

I am just back from Washington where I participated in the World Bank – IMF annual meetings. It is a long standing tradition that the leadership of the World Bank is entrusted to an American, while the Managing Director of the IMF is a European. This state of affairs reflects the balance of world economic power that prevailed in the 1950s when these multilateral international organizations were starting. In 1950, Europe, the United States and other Western Offshoots (using the expression of Madison) represented about 57% of World GDP – at the time the 27 member states of the European Union represented 28.2 % of World GDP and the United States 27.3%. The Transatlantic dominance was even more pronounced if measured by shares in world trade or finance. In terms of population the shares were much lower at 14.8 % and 6.2% respectively, reflecting the relative patterns of prosperity and deprivation around the world.

It is impressive to compare these indicators with the prospects for 2050. Such long term perspective suggests a profound long term change going forward. In the century from 1950 to 2050 the share of Europe and European Offshoots will have fallen from about 57% to about 40% of world GDP. Western Europe will have fallen from 26.2 % to 17.9% and the US from 27.3 % to 19.6%. In the same period Asia will have moved from about 18.4% to 36.5%. To a very large extent these trends reflect the reversal of the Great Divergence that took place from the mid-1700s to the mid-1950s and led to dominance of World Trade and Finance by Europe and European off-shoots. The shifting patterns of power going forward are clear. Effective cooperation and coordination in the global economy require that governance of multilateral organizations and groups adapts to these changing patterns. The process of transition may be characterized by growing multipolarity as in the theme for this Conference. There can be no guarantees that the transition will proceed smoothly. A cooperative and multilateral approach (that I am tempted to label the European approach) is only one possible way to conceive the transition. But, in whatever way it occurs, the transition at global level will have profound effects on transatlantic political, economic and financial relations. Global transition is a powerful undercurrent that persistently influences transatlantic relations.

This undercurrent operates today in an environment dominated by the Global Crisis. The Crisis is often referred to as the first crisis of Globalization. If that were the case it would be without historical precedent. However, I think it is the case that our crisis is one of few crises on record that affected the very core of the international financial system. Dates that come to mind are 1825, 1873 and 1929. In all these cases history bears witness of profound changes in economic and financial regimes. The same can reasonably be expected also this time around.



In Washington the sovereign debt crisis in the euro area, together with banking fragility, was lively debated and widely regarded as the single most important risk for the global economy. At the same time developments in the United States are also a cause for concern with persistent high budget deficits and increasing debt ratios combined with a weak economy. Risks affecting global developments are identified as centering in the north Atlantic area. Specifically, the IMF in its World Economic Outlook identifies the two main risks for world economic prospects as: "The first, that the euro area debt crisis runs beyond the control of policy makers, notwithstanding the strong political response agreed in the July 21, 2011 EU summit ... Leaders must stand by their commitments to do whatever it takes to preserve trust in their national policies and the euro." And the WEO continues: "The second is that activity in the United States, already softening, might suffer further blows—for example, from a political impasse over fiscal consolidation, a weak housing market, rapid increases in household saving rates, or deteriorating financial conditions. Deep political divisions leave the course of U.S. policy highly uncertain." And the WEO concludes "Either one of these eventualities would have severe repercussions for global growth. The renewed stress could undermine financial markets and institutions in advanced economies, which remain unusually vulnerable. Commodity prices and global trade and capital flows would likely decline abruptly, dragging down growth in emerging and developing economies. The extent to which this could lower global growth is illustrated in more detail in a downside scenario—the euro area and the United States could fall back into recession, with activity some 3 percentage points lower in 2012 than envisaged in WEO projections. Damage to other economies would also be significant."

It seems to me very likely that the fact that Europe and the US are now perceived as at the root of the two most important sources of risk for the global economy will accelerate the shifting in patterns of power that would likely occur in any event. Relative positions are changing rapidly and a new paradigm seems to be closer. It is clear that in this context the world governance model will need to change. Europe and the US should be prepared to work constructively to adapt global governance as required

The financial crisis has represented a turning point for global governance, both politically and economically. The crisis has spread globally through strong economic and financial linkages. In fact, the inter-linkages and the spill-over effects across countries were evident as never before. In this context, a new willingness to engage in multilateral co-ordinations and co-operation became apparent.

However, further progress is necessary. The economic and political power will need to be reorganized so that it can include rising powers. This change will inevitably require the involvement of more countries in the center of world's decisions. The G-20 meetings are a clear example of this change. This is a further example of the relevance of the reference to multipolarity in the Conference's title.

The United States and the European Union have a lot in common. Fundamental values range from democracy and human rights to the market as the predominant resource allocation mechanism. A recent survey of the German Marshall Fund (released in July 2011) contains much interesting material and illustrates many important points. Let me give you just a few examples. To the question "How desirable is it that US exert strong global leadership?" 85% of Americans find that desirable and 14% undesirable. For the EU 12 the balance is also positive with 54% and 39% respectively. When the same question is asked about the EU 69% of Americans are positive while only 20% find it undesirable. The corresponding proportions for the EU 12 are, respectively, 76% and 18%. Interestingly the answer to the question "To what extent do you agree with the following: economic power is more important than military power?" 85% of respondents from EU12 agree while the majority in agreement in the USA is also quite impressive at 71%.

Clearly there is a lot to build on to deepen transatlantic cooperation.



In 1754, Adam Smith wrote in his *Theory of Moral Sentiments*¹:

"Independent and neighbouring nations, having no common superior to decide their disputes, all live in continual dread and suspicion of one another. Each sovereign, expecting little justice from his neighbours, is disposed to treat them with as little as he expects from them. The regard for the laws of nations, or for those rules which independent states profess or pretend to think themselves bound to observe in their dealings with one another, is often very little more than mere pretence and profession. From the smallest interest, upon the slightest provocation, we see those rules every day, either evaded or directly violated without shame or remorse."

It is in my view of central strategic interest for the parties on both sides of the Atlantic to show that we are well past the pessimistic realism expressed in Adam Smith's quote. In the early days of the crisis, in the autumn of 2008, the US and the EU pushed strongly for cooperative solutions at the global level. In current circumstances it is vital to frame transatlantic relations in an inclusive multilateral global framework. Today's conference will contribute greatly to the debate on transatlantic relations and their place in the global context. I am looking forward to learning from the papers presented and the subsequent debate.

Thank you for your attention.

Vítor Gaspar, September 27, 2011.

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Adam Smith, *The Theory of Moral Sentiments*, in Online Library of Liberty: Glasgow Edition of the Works and Correspondence of Adam Smith, volume I, part VI, chapter II, 3, page 239-240, available on line at <http://oll.libertyfund.org>.