

Sustaining the Single Global Economic Space

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By John G. Ruggie

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History does not repeat itself; only historians do. But there is still great merit in Santayana's dictum that those who refuse to learn from the past may be condemned to repeat its errors. That is certainly true about globalization and its consequences. Some basic facts:

*The speed and costs of global communications are plummeting to a fraction of what they were a decade earlier.* The Internet? No, the laying of the trans-Atlantic cables in 1866, reducing the time to communicate between London and New York by 99.9 per cent—from a week to a matter of minutes.

*The ease of global transportation has increased by several orders of magnitude.* The latest Boeing or Airbus? No, the first Alpine tunnels, the Suez Canal and the Panama Canal opened in the late nineteenth/early twentieth centuries.

*Nearly 40 per cent of national product accounted for by foreign trade.* Japan in the 1980s? No, Britain a century earlier. Emerging economies booming and global markets integrating, thanks to massive flows of foreign investment. Been there, done that, too, as European capital built railroads in the United States, Canada, Australia and Argentina more than a century ago, and as beef, agricultural products and raw materials were shipped back to feed the industrial machines, and the stomachs, of Europe.

For the cosmopolitans of the world, the era from 1850 to 1910 was the first golden age of globalization. We did not need passports or visas, could invest anywhere and import at will from most places. Even more impressive, 60 million people left Europe between 1850 and 1914 to seek new economic opportunities and political freedoms elsewhere, something that is much harder to do today.

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And then it collapsed, horribly, into war and anarchy, followed, though not precisely in this order, by extreme left wing revolution in Russia, extreme right wing revolutions in Italy and Germany, militarism in Japan, the Great Depression, unprecedented international financial volatility and the shrivelling up of world trade.

Nor is that all. The social strains produced by those upheavals were so great that the world imploded into yet a second worldwide war in the span of a single generation.

And you know what? In some respects globalization was behind it all.

How so?

The Victorian version of globalization lacked adequate and sustainable political frameworks, internationally and domestically. Internationally, it was based on a structure of colonialism that denied opportunities, including market opportunities, to the colonized, while proving a long-run drain on the metropolitan countries. Domestically, it was based on a structure of power in which labour, and ordinary people generally, had little political say. To put it crudely, the colonial areas and the work force in the industrialized countries were the "adjustment mechanisms" of the first age of globalization: when things got bad, they got squeezed. And the system collapsed because it was incapable of generating more viable adjustment mechanisms.

As working people entered the political arena, they demanded social protection, which the political system soon transformed into economic protectionism. As previously colonized areas became independent countries, they sought to construct walls, which they did with a vengeance from which many began to retreat only recently. What is the lesson? That societies will protect themselves from unrestrained market forces by whatever means they can muster.

Industrialized countries were very slow to learn the lesson that markets must be embedded in broader frameworks of social values and shared objectives if they are to survive and thrive. When we finally did, we called this new understanding by different names: the "New Deal", the social market economy and social democracy. But the underlying idea was the same: a grand social bargain whereby all sectors of society agreed to open markets, which in many places had become almost autarchic, but also to share the social adjustment costs that open markets inevitably produce.

Governments played a key role: moderating the volatility of transaction flows across borders and providing social safety nets and adjustment assistance but all the while pushing liberalization. In the industrialized world, this grand bargain gave us the longest period of sustained and equitable economic expansion in human history, from the 1950s to the present.

So what is the problem?

I don't know if all good things inevitably have to come to an end, but this one has. The reason? The grand bargain presupposed an international world, with national economies engaged in external transactions, which Government could mediate at the border by tariffs and exchange rates, among other tools. We have come to live in a global world; global markets have left behind both States and grand social bargains.

Not that globalization today will end as its nineteenth century predecessor did; some of the fundamentals are very different. But here are my predictions for the day. One is that the present state of affairs is not sustainable. The gap between market and community will be closed—the only issue is how. We need open markets. Business needs them to maximize its opportunities. The world needs them because they make us better off and they provide the only hope of pulling billions of poor people out of abject poverty. But my second prediction is that roll-back, a shift away from globalization, is the more likely outcome unless we strengthen the fabric of global community. That is where corporate social responsibility comes in. By itself, it cannot carry the burden of globalization's many challenges. But the corporate sector can advance its own—and our collective—cause by embracing universal values and concerns in its own corporate sphere and weaving them into global market relations.

The Secretary-General's Global Compact is one initiative intended to promote global corporate social responsibility. It is a partnership between the United Nations, the business community, international labour and civil society organizations. Put simply, the Compact asks corporations in their global operations to adopt good practices identified by the broader international community in the areas of human rights, labour standards and the environment, rather than relying on their often superior bargaining position *vis-à-vis* national authorities, particularly in smaller and poorer developing countries. Our labour and civil society partners lend their expertise and support to designing and implementing these undertakings.

At this point, you may well ask, "why me?" "Isn't the business of business—well, business?" "Shouldn't Governments take care of governance gaps?" Of course they should. Voluntary initiatives in corporate social responsibility are no substitute for the actions of Governments. But we are in a bit of race against the clock. Globalization operates on Internet time. Governments don't and probably can't. And, by definition, no government has full and legitimate global reach; they have to engage in the even slower process of intergovernmental negotiations, the outcomes of which are often determined by the lowest common denominator.

So society—and the United Nations—looks to the business community to couple its new global rights with new global responsibilities. *First*, embrace voluntary initiatives that reduce the demand for action that Governments can't process fast enough and which they may not process entirely to our satisfaction. *Second*, help us devise a

broadly acceptable concept of corporate citizenship in the global community, with constructive stands on global issues. In the long run, markets will work only if they are made to work for all. *Finally*, advocate more effective global governance mechanisms. If you don't want labour standards to be thrown into the World Trade Organization, help strengthen the ILO. If you don't want environmentalists organizing consumer boycotts against your products, help create more robust global environmental regimes. The same is true of human rights and of poverty reduction. In short, you have created the single global economic space; only you can help sustain it. □

### Why the Backlash?

The backlash against globalization has grown in direct proportion to the widening gap between global markets and national communities. In particular, it is driven by three of its attributes.

*First*, its benefits are distributed highly unequally, both within and among countries. Large parts of the developing world are left behind entirely; countries where 1.2 billion people somehow strive to survive on \$1 a day, or nearly 3 billion on \$2 a day.

*Second*, the backlash is triggered by an imbalance in global rule-making. Those rules that favour global market expansion have become more robust and enforceable in the last decade or two. Rules intended to promote equally valid social objectives, whether poverty reduction, labour standards, human rights or environmental quality, lag behind and in some instances have weakened.

And *third*, there is emerging what could be called a global identity crisis. "Who is us?" is being asked with growing shrillness all over the world. "Who is in control of the unpredictable forces that can bring on economic instability and social dislocation, sometimes at lightning speed?" The answer, "no one", serves only to feed fear and even paranoia—apart from the fact that it is not, strictly speaking, accurate.