

# We're all in the same global boat

## Editor's note:

This is the second of a three-part article adapted from the author's speech at the Shanghai Overseas Returned Scholars Association's (SORSA) Forum on September 9, 2011. SORSA and the Shanghai Alumni Club of the Lee Kuan Yew School of Public Policy, National University of Singapore, contributed this article.

## Kishore Mahbubani

LET me tell you what happens if there is no global leadership.

One, the global economy will enter very dangerous waters. Now you already saw how dangerous that financial crisis was in 2008 and 2009. In fact, the whole world economy almost went over a cliff.

You know what saved the world in 2009? What saved the world was that we did have global leadership. And you know how the global leadership came about?

In April 2009, suddenly, all the leaders of the G20 countries panicked. They got very worried, so they came out of their cabins on the boat, went up to the top of the ship to the captain's cabin and they said, "Hey, our global boat is in trouble."

So the G20 leaders came together as a group and saved the world economy. And the man who played a very important role was the Prime Minister of the United Kingdom, Gordon Brown who got the world leaders together and said, "We must work together."

We're lucky that the G20 meeting succeeded in April 2009.

But I can tell you that as soon as the crisis finished, the subsequent G20 meetings were all failures.

The reason for this was that while the leaders went up to the top of the boat to take care of it when there was a crisis, they went back to their cabins when the crisis ended.

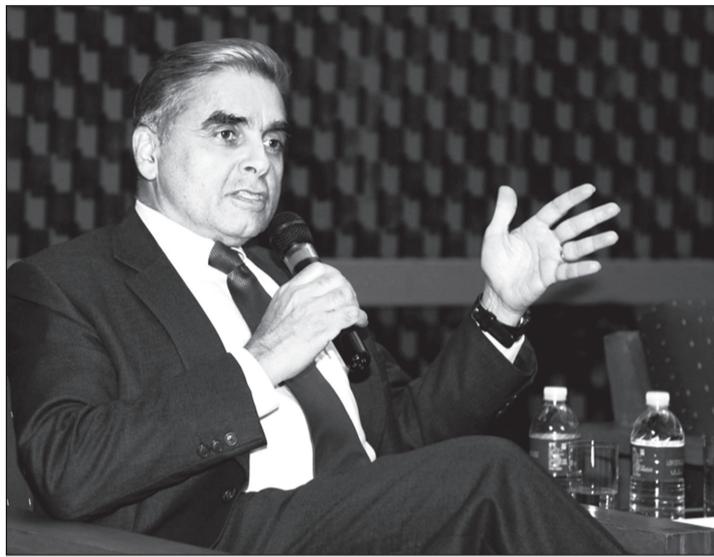
## Back to cabins

When they went back to their cabins, they were only interested in their national interests and not interested in global interest. So when the leaders only take care of the national interests, the world as a whole gets into trouble.

There will be more economic crises coming, I guarantee you, within five years or 10 years.

I'll give you some examples. Right now one big question is about the value of currencies.

The United States believes that the Renminbi (yuan) is under valued. They say the currency should become stronger; otherwise, it is an unfair advantage for China. They say that it gives China an



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unfair competitive advantage when the yuan is low.

I guarantee you some kind of struggle between the US and China about the currency value. If you don't have a system of rules, then there will be danger of direct conflict. But if you can create a system of rules that applies to everybody on how to value your currency, then you create stability for the world.

The second negative or bad thing that will happen if you don't have global leadership is that many global challenges will not be dealt with.

## Global warming

There is a danger of global warming. With global warming, all the countries over the world will suffer. Maybe not Canada or Russia, because finally they can have a warmer place to go to. But the rest of the world will suffer global warming.

To reduce global warming, we all have to reduce what are called "greenhouse gas emissions," we all have to consume less energy.

In order to consume less energy, everybody must make a sacrifice. But as you know, there was a meeting in Copenhagen and there was no conclusion.

The United States and Europe wanted China and India to sacrifice more, but China and India told the United States and Europe, "Excuse me, we're still poor countries; our people need electricity; we need to build more coal power stations. Don't ask us to deny our people electricity."

The third area where we could have problems is probably the most dangerous area. So far, it has been quite remarkable that we're now seeing the biggest

shifts of power ever seen in human history. Power is shifting from country to country.

And yet, surprisingly, there are no major wars. But this is unusual. Throughout history whenever you have major shifts of power, you have conflict of some kind or another.

In fact, it is quite remarkable that in the 20th century in the first 50 years you saw two big wars, World War I and World War II. But since 1945, no World War III. Why? Because the 1945 rules-based order created by the West created some rules for countries on how they should deal with each other.

## Rule breaking

The rules of 1945 said, "It is legal to use force only if it is an act of self-defense or it is authorized by the UN Security Council." Most countries want to obey these rules, but one country decided to disobey the rules. Which country was it? Which country has defied these rules about the use of force? Yes, it was America.

In March 2003, the United States invaded Iraq. That was not an act of self-defense because Iraq had not attacked America; and it was not authorized by the UN Security Council; therefore, the war was illegal.

The 1945 rules were maintained by the West. Now the West stops maintaining the rules. Who will maintain these rules? So my point of view is that you cannot assume that all these rules will continue if nobody sustains them.

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# Ideology and vested interests hobble growth in the West

## Joseph E. Stiglitz

THE year 2011 will be remembered as the time when many ever-optimistic Americans began to give up hope.

President John F. Kennedy once said that a rising tide lifts all boats. But now, in the receding tide, Americans are beginning to see not only that those with taller masts had been lifted far higher, but also that many of the smaller boats had been dashed to pieces in their wake.

In that brief moment when the rising tide was indeed rising, millions of people believed that they might have a fair chance of realizing the "American Dream."

Now those dreams, too, are receding. By 2011, the savings of those who had lost their jobs in 2008 or 2009 had been spent. Unemployment checks had run out.

Headlines announcing new hiring meant little to the 50 year olds with little hope of holding a job again.

People who moved in with friends and relatives have become homeless. Houses bought during the property boom are still on the market or have been sold at a loss. More than 7 million American families have lost their homes.

The dark underbelly of the previous decade's financial boom has been fully exposed in Europe as well. Dithering over Greece and key national governments' devotion to austerity began to exact a heavy toll last year.

This year is set to be even worse. It is possible, of course, that the United States will solve its political problems and finally adopt the stimulus measures that it needs to bring down unemployment to 6 percent or 7 percent (the pre-crisis level of 4 percent or 5 percent is too much to hope for). But this is as unlikely as it is that Europe will figure out that austerity alone will not solve its problems.

On the contrary, austerity will only exacerbate the economic slowdown. Without growth, the debt crisis — and the euro crisis — will only worsen. Moreover, the major emerging-market countries, which steered successfully through the storms of 2008 and 2009, may not cope as well with the problems looming on the horizon. Meanwhile, long-term problems — including climate change and other environmental threats, and

increasing inequality in most countries around the world — have not gone away.

The good news is that addressing these long-term problems would actually help to solve the short-term problems. Increased investment to retrofit the economy for global warming would help to stimulate economic activity, growth, and job creation.

## Inequality

More progressive taxation, in effect redistributing income from the top to the middle and bottom, would simultaneously reduce inequality and increase employment by boosting total demand. Higher taxes at the top could generate revenues to finance needed public investment, and to provide some social protection for those at the bottom, including the unemployed.

The worry, however, is that politics and ideology on both sides of the Atlantic, but especially in the US, will not allow any of this to occur.

Fixation on the deficit will induce cutbacks in social spending, worsening inequality.

Likewise, the enduring attraction of supply-side economics, despite all of the evidence against it (especially in a period in which there is high unemployment), will prevent raising taxes at the top.

Even before the crisis, there was a rebalancing of economic power — in fact, a correction of a 200-year historical anomaly, in which Asia's share of global GDP fell from nearly 50 percent to, at one point, below 10 percent.

The pragmatic commitment to growth that one sees in Asia and other emerging markets today stands in contrast to the West's misguided policies, which, driven by a combination of ideology and vested interests, almost seem to reflect a commitment not to grow.

As a result, global economic rebalancing is likely to accelerate, almost inevitably giving rise to political tensions.

With all of the problems confronting the global economy, we will be lucky if these strains do not begin to manifest themselves within the next 12 months.

Joseph E. Stiglitz is University Professor at Columbia University and a Nobel laureate in economics. Copyright: Project Syndicate, 2012. www.project-syndicate.org. Shanghai Daily condensed the article.



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