

Roots and Responses to the 2008 Global Financial Crisis

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Address by H E Andrew Mitchell, British Ambassador

I will argue this afternoon that in the world today global economic leadership means two things.

It means reform. Reform of our financial systems, of our economies, and of our system of global governance.

But it also means the ability to remain strategic, not distracted by today's crisis, however deep and troubling. But leading the struggle to confront and overcome the greatest long term challenge facing our world, the threat of global climate change. And at the same time recognising the opportunity today's crisis represents to speed the transition to a low carbon economy.

First, financial reform. The scale and speed of what has been happening to the global economy over the past three months takes the breath away. \$25 trillion has been wiped off global share values. World oil prices have lurched from \$50 to \$150 and back to \$50. In the developed economies inflation has soared, then plummeted. Interest rates have risen sharply, then fallen to record lows. Growth projections have collapsed and key economies entered a steep recession.

The need for reform is clear. But the need for reform comes not simply from the immediacy of today's financial market turbulence but rather from the bigger forces at work: the rise of Asia, a truly global capital market, the global sourcing of goods and services, pressures of a growing world population, anxieties about the changing world climate, volatility in energy demand and supply. And when the world changes – as it has in the transition from the old world of sheltered national economies to the new world of the connected supranational system – our

economies and our governance must adapt too. Global flows of capital need to be complemented by a global framework of transparency and supervision. This means increased transparency of financial institutions' exposures, improvements in the effectiveness of credit rating agencies and agreements for enhanced capital adequacy requirements. And it means that the IMF and the Financial Stability Forum must work better together, and with national regulators, towards a system that gives early warning of incoming global economic and financial shocks.

Rapid globalisation means that we must reform our economies too. Whatever the troubles of this year and next, the deeper trend is towards a massive global economy that is likely to double in size in the next 20 years and in so doing create a billion new skilled jobs. The challenge of reform is to create the economies and societies that allow us to benefit from the opportunities as Asia becomes not just a market of producers, but a market of millions of consumers too.

So leadership means giving us the means to equip ourselves for what the world is becoming. Investing in our talents, our technological infrastructure, our capacity for innovation - the high value-added products and services that are Europe's most successful guarantee of a global future. And in reforming we must build on the strengths that have been the foundations of our prosperity in the last 200 years. Free trade, open economies, global reach. And we must continue to recognise that the route to prosperity is an open, free trading, flexible globalisation that is also inclusive and sustainable.

But relying on the foundations of our past prosperity doesn't mean that we stand still. Quite the contrary, in fact. Extraordinary times require extraordinary action. All over the world leaders and policy makers are finding that we need to re-think our assumptions about orthodoxy. As we set aside conventional thinking to invest directly in our banking system, we now face the same challenge in monetary and fiscal policy, for two reasons. Why? First, because while the

orthodoxy of the last few decades has been that monetary policy is the only effective instrument for economic management, the financial system that is the channel for monetary policy has been damaged, so monetary policy will need to be complemented by fiscal policy measures if our response to recession is to be effective. And secondly because, while the founding assumption of policy after the Second World War was the avoidance of destabilising inflation, we face today the opposite threat - the prospect of radically declining inflation. New assumptions, new approaches.

So it must be right now to use all the levers at our disposal to equip our economies for the short run challenges of recession and the long run challenges of globalisation. But in doing so we have to recognise that the financial market crisis has thrown into sharp relief a problem of governance that goes wider and deeper than the current crisis.

When historians look back, I suspect that they will see that one of the most important aspects of the current crisis has been the development of the role of the G20. This was a crisis that the US could not manage alone, nor the EU, nor for that matter the G8. This is perhaps the world's first truly global financial crisis and as such provides a vivid reminder of the fact that most of the existing international architecture, created in the aftermath of the second world war, was not designed for the 21st century. We face new threats - from climate change and energy insecurity, failing states and global financial instability. The balance of power in the world is shifting. New governance needs to reflect the profound changes in the world order. We need a more equitable distribution of power, a structure that reflects the rise of China and India and the rising economies of the world in Africa, Asia, Australasia. Here too, we will need far-sighted leadership, and a leadership that has the courage to give up power in the interests of the common good.

This will be never more important than in the struggle to energise the world in the fight against the greatest challenge that we face, that of uncontrolled climate change. And there is a danger of a lapse in political concentration on climate change due to what's currently happening in the global economy. But let's be clear. However hard, the recession will pass. However tough the next three years, we will grow again. But climate change won't wait. And we cannot afford to delay. As the Chair of the UN IPCC Rajendra Pachauri said, "If there's no action before 2012, that's too late. What we do in the next two to three years will determine our future".

Climate change may be a shared dilemma - its impacts will fall indiscriminately upon all nations – but in the context of the current economic crisis I would argue that it is also a shared opportunity. The move to low carbon is already a driver for jobs and growth. The world market for environmental goods and services is set to grow by 30% over the next three years. Global sales from clean energy sources

like wind, solar and geo-thermal power and biofuels could grow to as much as \$1 trillion a year by 2030. The renewable energy sector alone has the potential to create billions of dollars in turnover.

The opportunity is clear. But so is the urgency. The economic case for an urgent shift to low carbon is compelling. The Stern Review found that climate change will be more devastating than both of the World Wars and the Great Depression. Ignoring it could reduce global GDP by as much as 20%. By contrast, Stern estimates that if we act decisively now the benefits would be of the order of \$2.5 trillion. A panel of experts commissioned by my Prime Minister has estimated that from water treatment to global carbon markets the UK's environmental industries are already worth more than £25 billion and that they already employ some 400,000 people.

But this is a challenge that requires international – indeed global – leadership.

The environment in general and climate change in particular demand effective international because pollution and climate degradation do not respect borders.

As the world's largest trading bloc and a unique example of countries working closely together, the EU is ideally placed to promote green jobs and growth and to act as a model to other countries around the world. And European leadership in climate change is essential. Today, European leaders meet in Brussels to tie up an ambitious package of measures that we know as the 2020 Package, a framework for the competitive, energy secure, low carbon economy of the future. It is crucially important that we succeed. If we do, the EU will be committing to reducing emissions by up to 30% by 2020, ensuring that by the same date 20% of our energy comes from renewables, aiming to make Carbon Capture and Storage the standard technology for all fossil fuel power stations in the EU by 2020 and effecting a 20 per cent increase in energy efficiency that would create around a million jobs. But perhaps as importantly, this would be a profound expression of

European leadership and a commitment of seriousness as we begin the process of negotiating a global climate agreement - with the new American leadership, with China and with India.

These are the opportunities. But we have to recognise that the gap between where we are and where we need to be is huge - the International Energy Agency estimates there needs to be \$22 trillion of investment in energy infrastructure between now and 2030. Achieving the low carbon transition - and therefore avoiding dangerous climate change - comes down to ensuring that those \$22 trillion build us a low carbon global economy rather than a high carbon one.

It is imperative that we continue to take the long term perspective, not just in terms of investment in technologies and infrastructure, but also by investing in our people. We in the UK have just become the first country in the world to

introduce a legally-binding national target for greenhouse gas emissions – of 80% by 2050, complemented by a series of 5-year carbon reduction targets that will ensure we remain on track throughout the period and maintain our scale of ambition. Last week in the UK we announced the biggest ever investment in training for scientists and engineers. We will spend £250 million to create 44 training centres and generate over 2000 PhD students. They will tackle some of the biggest problems currently facing Britain such as climate change and energy. The aim is to drive a modern economy, and tackle the challenges head on, at the same time investing in the next generation.

Only urgent and ambitious action will avert the threat of climate change. We need to show leadership. We need to draw on our intellectual and technological resources to build a sustainable low carbon economy and we need to persuade our partners around the world that it is in all our interests to work together to achieve it.

In the UK, between 1844 and 1851, nearly 250 new laws were put before Parliament to facilitate private sector construction of railways, at a total cost of £100m - almost 20% of the entire GDP of the nation. In the end, 6,000 miles were built over 7 years. That's the equivalent today of spending £180 billion in 7 years.

In 1943, the Chairman of IBM said that he thought there was a world market for 'maybe five computers'. There will be more than a billion PCs in use by the end of 2008; and another billion again by 2015.

In 1895, Lord Kelvin, president of Britain's Royal Society, said 'heavier-than-air flying machines are impossible' only 44 years before Pan Am made its first trial transatlantic flight from Baltimore, Maryland, to Foynes, Ireland using a Boeing 314.

In 1961, just one month after the first American had flown in space, and before anyone had been sent into orbit, John F Kennedy announced that that the US would commit itself to putting a man on the moon before the decade was out.

He was clear about the level of ambition: "No single space project in this period will be more impressive to mankind, or more important in the long-range exploration of space; and none will be so difficult or expensive to accomplish."

So I would argue that leadership in the context of the current crisis means the capacity to remain strategic. Yes, to manage and support our economies and financial system through far-reaching change. But yes, to keep our focus on the real global challenges – of tackling poverty and climate change. Indeed, I believe that the most productive response to the 2008 economic crisis will be in the decision to build the green economy of 2018. Crisis can be a great stimulus to reform.

We must not underestimate the scale and urgency of the challenge. But neither should we underestimate our ability to transform.

We have a unique opportunity to do in the 21st century way, what was done in the 20th century by the American New Deal. We can't afford to miss the opportunity.