

**AWARD OF THE KIEL'S INSTITUTE 2010 GLOBAL ECONOMY
PRIZE**

ACCEPTANCE SPEECH

KIEL

20/06/2010

**Pascal Lamy
Director-General**

Ein deutscher Freund erklärte mir neulich sein Verhältnis zur französischen Sprache :

"sie ist wie meine Frau, sagte er: ich liebe sie sehr und ich achte sie ungeheuer, aber ich beherrsche sie nicht".

Genauso ist sieht auch meine Verhältnis zur deutschen Sprache. Deshalb möchte ich sie heute nicht misshandeln. Gestatten Sie mir, jetzt auf Englisch fortzufahren.

[A German friend of mine was recently telling me about his relationship to the French language. "French", he said, "is like my wife: I love her very much, I deeply respect her, but I don't master her. That is my own relationship to the German language and the reason why I would rather refrain from misusing it today; allow me therefore to continue in English.]

I am, of course, extremely honoured to find myself among the winners of the Kiel Institute 2010 prize in a category that includes a number of illustrious people with whom I have had the pleasure of working in the past, such as Helmut Schmidt, Jacques Delors and Mary Robinson.

If I understand correctly I am being awarded this distinction for the role I have played throughout my career, including in my current position, in defending and promoting the principle of an open, socially oriented market economy.

This has been my conviction for a very long time. The fact that I remain critical of market capitalism is due more to the present mix of capitalism and market economy, which I regard as both unstable and unfair, than it is to the actual principle of open markets.

Market capitalism has economic virtues in terms of efficiency in the allocation of resources and in its underlying philosophy of openness which have proven their worth, notably in matters of development. Nonetheless, we have to admit that this model has been, is, and will continue to be, profoundly challenged by the rapid economic growth and major technological advances that are both a by-product and a cause of globalization. Mankind has witnessed such developments in the past, but never yet on such a worldwide scale and at such a rapid pace.

Globalization magnifies both the advantages and the risks of an economy based on the smooth functioning of markets. It enhances the advantages of

efficiency and growth resulting from the specialization and economies of scale produced by competition. But it also augments the risks of instability and growing inequalities, compounded by changes in the scale of environmental externalities.

The current economic crisis is a case in point not only in terms of its origins and the global response designed to address it, but also in terms of its seismic impact on the European continent.

In my view, the response to these challenges requires a mix of economics, anthropology and international policy; three different approaches, derived from separate branches of knowledge that need to be considered together.

I shall begin with economics, which is the main focus of your Institute, and in particular with international economics, Paul Krugman's specialty. I think his contribution to New Trade Theory and New Economic Geography is essential to understanding international economics today. I also think we must go further into a deeper analysis of the components of the international division of labour, that is, the "global production chain", the integration of goods and services, and its quantitative and qualitative impact on employment.

This is why I recently suggested changing the traditional ways of measuring international trade. Rather than using gross, cross-border flows, which give a distorted view of competitive reality, we should opt instead for an assessment of trade in terms of value added. The actual role of countries in international trade would be more clearly revealed by an assessment of the value-added content of their exports. We would also get a better overview of the labour content of trade. I would like to encourage the Kiel Institute to join our efforts in this regard under its research programmes.

Now to anthropology. It may appear somewhat strange to turn to this branch of the humanities for a better analysis of globalization. But I think this is the science that can help us decode a number of political attitudes towards globalization, and especially the feeling of threat to identities that has grown in its wake. And it would also throw light on what is at stake in market exchanges, if for no other purpose than to recognize that they must not lead to the stifling of other forms of exchange based on giving, on generosity, of which we see so many examples in the cultural activities dear to Liz Mohn and the Bertelsmann Foundation.

Lastly, there is political science, the science of governance of things and people, which we know must, from now on, transcend the intellectual borders of

the Westphalian order and master the interdependence of national structures. This is a significant challenge, to judge by the upheavals that have marked the building of the European Union, which nonetheless remains the laboratory in which this new form of governance is taking shape.

We may be seeing the very first signs of this in the triangle that has recently emerged, bringing together the G-20 leadership, the international organizations' capacity to mobilize expertise and financial resources, and the legitimacy of the United Nations system. This triangle needs to be consolidated and each of its sides drawn if we are to lend credibility to the idea that unfettered globalization does not prevail over politics. Should the opposite sentiment prevail, that is, if economic developments were felt to overrun politics, this would give rise to reactions based on identity that would pose a threat to democracy.

So there, my friends, are a few pointers that may help to reconcile the progress embodied in open and competitive economies with social models that will continue to mark different cultures and identities – a new architecture of political powers based on the principle of democratic legitimacy, which we know is difficult to achieve in the *supra*-national context. An arduous task

indeed, but a task that is commensurate with the worthwhile ambitions of institutions like the one that brings us together today.

Thank you for your attention.