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Summary

The aim of this short paper is to devise policies to avoid that the present course of globalization becomes so unstable that it would lead to a general rejection in both rich and poor countries.
If we try to disentangle rhetoric from reality, globalisation is not exactly what we think it is. It is happening in a world populated by Nation-States whose main function is to protect its population. The Nation States of the world are alive and well: the hyper power of the United-States, the super power of Europe, Russia, China, India etc…
Hence for globalisation in the effective sense, not the rhetoric one, to be sustainable, it has to become acceptable. For that it has to achieve a more balanced emphasis between competition and cooperation (or solidarity).
The reason why welfare state building has to be pursued and protectionism refrained in developed countries has to do with the nature of our growth regime. Social protection is not charity, but insurance, i.e. risk guaranteeing and innovation stimulating. Combined with a reactive macroeconomic policy, it protects individuals and firms by maintaining a high degree of economic activity. Yet if plain protectionism should be prohibited for developed economies, it has some merits for potentially emerging and emerging one.
The locus of solidarity at the global level is the provision of global public goods. Cooperation leads to a clearer design of the future because it raises the level of solidarity between nations. Furthermore, the provision of global public good, like health, education, environment and energy should be an engine for growth. The paper focus on the provision of two public goods –environment and knowledge– to show that contrary to common wisdom they may be the engine for growth of tomorrow, if they are provided with the help of a global public found mainly financed by developed countries.

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Economic integration brings openness. Openness triggers volatility. Volatility fuels insecurity. Insecurity requires protection. The central problem of globalization, now and then, is thus how the demand for protection resulting from economic, social and environmental insecurity is met. It is why the most urgent tasks for government in the world in which we live is to devise the future, in a way to invent it so as to unveil what is considered by a large majority of our fellow citizen as an obscure road towards tomorrow. Otherwise if the present fog continues to prevail, we will have great difficulties to be actors of our own destiny.

In other words we need new utopias to show the way. These utopias, unlike ideology and religions, have to be sustainable *on earth*.

By sustainable utopia, I mean a system which is both feasible and acceptable. For example, globalisation as a process is a feasible utopia, but for a large fraction of the populations it is not acceptable, because of the huge inequalities – both between countries and inside countries – it apparently leads to.

If we try to disentangle rhetoric from reality, globalisation is not exactly what we think it is. We have in effect to recognize from the outset that the phenomenon of globalisation is happening in a world populated by Nation-States without any emptiness in between the Nations. And what could be the function of a Nation if not to protect its population? More than ever the Nation States of the world are alive and well: the hyper power of the United-States, the super power of Europe, Russia, China, India etc…

Hence the rhetoric of globalisation clashes with the reality of the phenomena as power and protection are putting strict limits on the interplay of free markets. For example, the selling of a nuclear plant by a country to another (in a context where such a trade is allowed) depends much more on the interplay of power than on economic considerations. The same can be said about the trade of energy, airplanes and the like. Trade between countries often obeys geopolitical considerations rather than sheer economic ones. There are political externalities to economic trade. Most of the time, trade between countries stems at the boundary between economics and diplomacy. Whatever obvious this assessment is, it is necessary to belabour it to shaken the certainties of the free market believers. In such a setting free trade is more an ideological construct than a description of the state of the world.

Another example of utopia is democracy. It is a utopia because democracy is always unfinished and has always to be reinvented. But, contrary to globalisation, democracy is both feasible and acceptable. It is an acceptable utopia because it accomplishes inside each nation the right (with respect to the will of the people) mix of competition and cooperation which helps the system to survive. It is not a kind a doctrinal construct, but a pragmatic one because if the mix achieved is not acceptable, the system through election has the capacity to change the government, hence to change the policy. As a meta-institution, democracy is thus a self correcting institution, which learns from its own mistake. Its interplay with globalization implies that the latter can't be a transcendent mechanism imposing its rules whatever they may be to political regime.

Hence for globalisation in the effective sense, not the rhetoric one, to be a sustainable utopia, it has to become an acceptable one. For that it has to achieve a more balanced emphasis between competition and cooperation (or solidarity).

A progressive globalization policy means essentially confronting the two challenges of economic insecurity and environmental destruction without resorting to either the protectionism of the riches or the growth limiting of the income of the poor.

To protect: a social democrat trade policy

For reasons said above which pertains to the main duty of a Nation-State, globalization forces countries to define an optimal degree of protection (or at least an acceptable one), where benefits surpass losses for the economy such as it becomes possible for the winners to compensate the losers inside each country. Otherwise either globalization would have a detrimental effect or, absent redistributive measures, the country would face political instability.

There are two policies through which governments can reach the optimal degree of protection: welfare state building, i.e. social protection, and protectionism. Both have been implemented during the 20th century with divergent fortunes. The rise of protectionism has lead to the end of the first globalization and the world disasters of the first half of the 20th century. At the contrary the rise of the welfare state has gone hand in hand with the internationalization of the economies of the world that is with the progressive dismantling of barriers to trade. The contradiction of our times lies precisely with the fact that – for doctrinal and/or vested interests reasons, knowing that lobbyists are expert in the art of using doctrine to persuade politicians that their interests confound with general interest – politically correct policies are calling for welfare state (public education, social protection, public housing) retrenchment and hands off macroeconomic policies (rules rather than discretion) to better confront economic integration.

Yet, it is a reasonable assumption to think that the end of the first globalization occurred because of a choice made among industrialized powers to opt for strategic protectionism instead of welfare state building in order to meet the demand for protection triggered by economic insecurity. Absent a welfare state, protectionism was so to speak, the protection of the last resort. The disastrous effect of these non-cooperative choices was only overcome by the development of the welfare state after 1945, which in turn made it possible for globalization to re-emerge progressively afterwards. But it seems that we have come to the end of this cycle: social protection is seen as a brake to competitivity and hence as a handicap in a global world. It is why it exists a mounting discontent of the people *vis à vis* globalization and a call for protectionism above all (but not exclusively) in rich countries. This attitude is logically consistent: if it is the satisfaction of the demand for social protection which has fuelled the globalization process, what would happen if once globalization installed, common wisdom tries to persuade people that social protection has to be leaner…because of globalization? If you persuade the people of rich countries that they are handicapped in the globalization game because….they are rich, there is no wonder that they are no more wiling to play the game.

Fortunately we know that either welfare retrenchment or protectionism (by rich countries) are non cooperative policies which for this very reason can't be sustained through time.

The reason why welfare state building has to be pursued and protectionism refrained in developed countries has to do with the nature of our growth regime. Social protection is not charity, but insurance, i.e. risk guaranteeing and innovation stimulating. Combined with a reactive macroeconomic policy, it protects individuals and firms by maintaining a high degree of economic activity.

In a global environment, it exists on the part of the curve which is relevant for a developed country, an inverse relationship between risk aversion and protection: the less protected, the more risk adverse people are. Risk taking would become otherwise a question of survival. That may explain why small economies which are the most open economies are usually more socially protected.

Benefits from globalisation are linked to the capacity of the people to take risk for building the future. For example, investment and/or innovation are risk taking activities. In other words the higher the propensity to innovate (to take risks) the higher will be the benefits to the country accruing from globalisation. Globalisation becomes a win-win game only for those countries which develop the right strategy.

Such a strategy should have at least two components: one geared to the protection of firms, the other to the protection of workers, i.e. social protection

a) Protection of firms. They are three instruments of such a protection:
- The first is fairly general and it may be termed a « collective insurance » of activity. It implies that the government will not let growth slowdown, but for very

short period, i.e., that it will use the instruments of economic policy. Such a guaranty has two effects: to reduce the uncertainty linked with investment, and hence to foster it; to increase the dynamism of the labour market.
- A non dogmatic doctrine of competition so as to allow more investment and innovation by firms, without fearing a too restrictive interpretation of competition laws.
- Institutions amicable for entrepreneurs, especially a well functioning financial market.
b) Protection of worker (social protection). Without such a protection, workers will most likely oppose change, because they would not be willing to take risk without being insured that if they fail they will get a second chance. To take just an example, globalisation increases the risk of delocalisation and externalisation. These phenomena can be seen as opportunities for firms, and also for emerging countries, but they put the workers of the country of origin under stress. Without a well functioning social protection system, they will lead to huge welfare losses not only for the workers but also for the territory where the firm was installed. These two components of protection are complementary. Without the first, the second would become too costly as the spending on social protection increase more proportionally than GDP when growth is under potential. But in such a situation, decreasing social protection will have a detrimental effect on growth (which, by assumption, is already too low).

Welfare state building is also the most efficient answer -- from the point of view of social cohesion, to the development of inequalities that globalization could lead to. The greatest challenge emerging countries face is indeed the explosion of income and social inequalities stemming from their access to globalization. It seems plausible, when one thinks about countries like China, Russia or Brazil, that this development of inequalities could trigger a political instability such that ultimately development would be jeopardized (and openness with it). By now, it has been widely recognized that globalization is not that good for a substantial fraction of the wage earners; inequalities in rich countries have reached such a degree that it is hard to think that their costs are still worth to bear.

Yet if plain protectionism should be prohibited for developed economies, it has some merits for potentially emerging and emerging one. It has been established long ago that trade protectionism may help “infant industries” and so foster the long term rate of growth of developing countries. The integration of those countries into the world economy requires almost as a pre-requisite a richer industrial structure. Financial protectionism has also much to recommend to it in view of the catastrophic effect that capital market liberalization has had, continues to have and could have in the future for developing economies.
Today’s global imbalances are a threat for the world at large, but especially for developing countries. These imbalances turn around the increasing current account deficit of the United States. Consumption and investment have been growing at

excessive pace, while savings (private and public alike) were excessively reduced. This has a mirror image in the excessive savings of East Asian emerging countries and in Europe and Japan. While the former is justified by the absence of a functioning welfare state, and by the need to build up international reserves, in Europe and Japan excess savings reflect slow growth and aggregate demand insufficiencies.
Overall, these imbalances compensate each other, and the system is in a fragile equilibrium. Were this fragile equilibrium break, industrial countries retrenchment would lead to capital outflow from emerging countries hurting them according to their degree of exposure to capital market liberalization.

Let me add that there is no such a thing as a purely liberal trade policy even in the richest countries. Free trade is a matter of degree or to be politically incorrect, protectionism is a matter of degree. If we always find a modicum of protectionism in rich countries, it is because a grey area exists in each country where protectionism in some transition periods is an element of the social protection system of the *workers*. If we consider three coordinates, namely the level of development, that of social protection and the degree of protectionism, it theoretically exists in the most developed countries a trade-off between social protection and protectionism, but in actuality small economies have no freedom of choice, and this trade-off is only available in big economies. (It seems to me that the degree of (hidden) protectionism in the US is higher than in Europe). For rich economies the optimal choice lies towards the social protection end of the trade-off.

Such is not the case for developing countries where fiscal and social receipt are too low and the welfare state embryonic. Protectionism would then bring two benefits: to allow for a richer industrial structure and to provide through tariffs the necessary public funds to built a social system. One has to emphasize that this mix of protectionism and (almost) free trade which should characterize the world economy design a cooperative policy which is of an entirely different type of the strategic protectionism which has characterized the interwar period. Its aim is to allow for social inclusion on a broad scale – inside countries through the social protection system in the richest ones and among countries through the progressive catch up of the developing ones allowed by a regulated protectionism.

In a nutshell the general principles of a social democrat trade policy should be the followings: social protection and openness (especially to emerging countries products) in developed countries; trade protection for industrial development reasons but integration in the world economy for developing countries.

In achieving a more balanced emphasis between competition and cooperation (or solidarity) globalization could become a sustainable utopia because it would be an acceptable one. Regulating competition is the first step in this direction.

Promoting cooperation in order to decrease environmental insecurity should be the second.

To sustain: the new technologies of energy and environment

The locus of solidarity at the global level is the provision of global public goods. Cooperation leads to a clearer design of the future because it raises the level of solidarity between nations. Furthermore, the provision of global public good, like health, education, environment and energy should be an engine for growth. I will focus here on the provision of two public goods –environment and knowledge– to show that contrary to common wisdom they may be the engine for growth of tomorrow.

The good news brought about by the high rate of growth of large emerging countries (China, India, Brazil, etc…) is increasing our consciousness of the probable exhaustion of the natural resources on which our present growth model is dependant. It is also increasing our consciousness of the already disastrous effect that our growth model had on the environment and of the potential catastrophic effect it may have in the future, notably through climatic change.

To avoid these effects, some scholars or green political parties are promoting in the public debate the choice of another model of development, more "environment friendly" and less geared towards "material" growth. They sometimes refer to it as the "negative growth" model.

In a world characterized by such huge inequalities both between and within countries, and by a strong aspiration of the poor to access to a minimum level of dignity, the message of these scholars is hardly understandable. The development of the new technologies of environment and energy in the EU and the US, and the creation of a global market for those technologies seems a much more sustainable utopia.

By new technologies of environment and energy (NTEE) I design all technologies able to lower the energy content of our standard of living, all technologies leading to the production of energy from renewable resources, and all technologies helping to preserve, repair and ameliorate the environment.

Thinking about the interaction between economic processes and the natural environment, one has first to realize that no economy is a closed, autonomous universe, governed by rules independent from law, morals, and politics. Indeed, the most interesting economic questions are generally located on the borderline with neighboring disciplines. Nowhere is this clearer than in the interaction between economic processes and the natural environment.

The distinctive feature of this exchange is that it is governed not by the laws of mechanics, but by those of thermodynamics, particularly the law of entropy, according to which the quantity of free energy that can be transformed into mechanical work diminishes with time –an irreversible process culminating in "heat death." Numerous researchers, inspired by the late Nicholas Georgescu-Roegen's pioneering work on the relationship between economic processes and physics, tried –not very successfully– to formulate an "entropic" theory of economy and society, especially during the 1970's.

The entropic view assumes that economic processes produce irreversible consequences because of their multiple interactions with nature. We draw from stocks of non-renewable natural resources (for example, oil and metal ores), and we deteriorate or modify the quality of other resources (for example, water and arable land) by imposing on them a rhythm of exploitation superior to their capacity for regeneration. In fact, the exploitation of non-renewable resources frees the speed of economic growth from that of ecological renewal, aggravating the deterioration of the biosphere, including irreversible climate changes.

The law of entropy (which traces a time arrow) reminds us that we will leave to future generations a degraded natural patrimony, probably less adequate to their needs than what we inherited. Unfortunately, there are no simple answers. For the sake of what principle can we ask China and India, for example, to limit their economic dynamism so that they use smaller amounts of the planet's natural resources? After all, the advanced countries' slower growth is not the consequence of voluntary self-limitation, but of our superior standard of living – and of our incapacity to settle our own economic imbalances.

We cannot impose an ecological rhythm on people who are poorer than we are when it is the very fact that we freed ourselves from that rhythm that made us richer. Economic contraction, or even stagnation, is not a solution for the developed countries, either, for a similar reason: it would imply that we either accept existing inequalities or impose a regime aiming at an equal redistribution of resources. That choice boils down to an unbearable cynicism or a totalitarian utopia.

But, happily for us, our evolution is determined not only by entropy, but also by the accumulation of knowledge and technological progress – a process that is just as irreversible as the decrease in stocks of non-renewable resources and the degradation of environmental quality. It designs another time arrow which applies to the accumulation of intangible assets. Thus, the economy is entropic for resources and historical for the production, organization, and spread of knowledge, with the prospects for economic and environmental sustainability residing in the space left between those two dynamic processes: the level of growth we choose must be conditioned on a sufficient level of knowledge to ensure the system's survival.

Yet nature, like knowledge, is a public good that needs state intervention to be "produced" in sufficient quantities. The only way to overcome the finiteness of our world is to maintain as much space as possible between entropy and history by investing in education and research aimed at increasing renewable energies, reducing the energy intensity of our standards of living, and slowing the pace of environmental erosion.

It is widely believed that such a strategy would be useless if the only effect is to allow others to get rich faster by opting out. But if that strategy is conceived as mastering two dynamic processes, overcoming the ecological constraint could be an accelerator of growth.

The new technology of environment and energy may have as strong an impact on productivity as the new technology of information and communication. But they will at the same time help to produce a cleaner environment and thus a more sustainable economic system. As there is a growing social demand – not only for health reasons – for a cleaner environment, the satisfaction of it will lead to a sustainable increase of growth exactly like the satisfaction for a growing demand of services has been in the past. Let us assume that the utility function is of a lexicographic type: the increase of income will shift the structure of demand towards environmental goods. Those goods are becoming normal goods in rich countries but are still luxury goods in developing ones. The beauty of the thing is that the satisfaction of the demand for environment in rich countries requires the subsidization of the demand for a luxury good in poorer ones, as it is a global public good. (We should have understood earlier that the same is true for the demand for health).

Of course, the greatest challenge is to find practical ways to share the financing of these investments, ultimately aimed at the provision of global public goods among countries. A step forward will be to start with already existing institutional framework at the regional level. The European Union exists and a great way to reshuffle its future would be to implement the European Community for Environment, Energy and Research (EC2ER), exactly as the founding fathers of Europe created the community for carbon and steel (the most powerful means of the war) in 1951 and made it possible to prevent war through trade.

Here again, the relation between developed, emergent and developing countries must be strengthened. It is a known fact that developed countries are the biggest global polluters today while emergent and some developing countries could be the biggest global polluters tomorrow. It thus makes good sense to invest massively in the EU and the US today to develop those technologies and through technological transfer to make them available to developing and emerging countries. After all we will be the primary beneficiaries if we subsidize less advanced economies so as their growth model becomes more environment friendly.

A sustainable utopia would be to create a global public institution for this purpose financed mainly by rich countries which will make available freely to all countries of the world the new technologies.

Only democracy, through protection and sustainability, can stabilize globalization the way the welfare state has stabilized capitalism after 1945. Without a progressive globalization policy, the second globalization will soon be history.