

Domestic Responses to Globalisation

Consultation Paper 90

This consultation paper is presented as the first stage in the development of Party policy in relation to UK domestic responses to globalisation. It does not represent agreed Party policy. It is designed to stimulate debate and discussion within the Party and outside; based on the responses generated and on the deliberations of the working group a full globalisation policy paper will be drawn up and presented to Conference for debate.

The paper has been drawn up by a working group appointed by the Federal Policy Committee and chaired by Lord Teverson. Members of the group are prepared to speak on the paper to outside bodies and to discussion meetings organised within the Party.

Comments on the paper, and requests for speakers, should be addressed to: Lord Teverson, Globalisation Policy Working Group, Policy Unit, Liberal Democrats, 4 Cowley Street, London SW1P 3NB. Email: globalisationwg@libdems.org.uk.

Comments should reach us as soon as possible, and in any event no later than 30th April 2008.

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1. Introduction

Liberal Democrats welcome many aspects of globalisation, including open borders, the exchange of goods, services and ideas, and the movement of peoples, across national boundaries, and the closer links between communities and nations that this leads to.

Nevertheless, we also recognise that it brings challenges, including, for the UK:

- Redefinition of the role of the state to provide macroeconomic stability, training and welfare; in order to maximise the capacity of all citizens to benefit from globalisation.
- The need for the British economy to continue to develop and innovate, generating new opportunities for employment and prosperity as older industries migrate to developing economies.
- The need for these new developments to be environmentally sustainable.
- The problems faced by areas of the country are excessively dependent on declining industries.
- The problems faced by lower-skilled British workers subjected to competition from economic migrants, and the social tensions that can result from large movements of migrant labour.

Economic globalisation also means that problems which would once have been contained within a single national economy now have often highly unpredictable impacts elsewhere – for example the subprime lending crisis in the US leading to the first run on a British bank since the mid-nineteenth century.

Recent governments' failure to meet these challenges adequately has contributed to a feeling of helplessness in the face of globalisation, and hostility to many of its aspects, including trade liberalisation and immigration. Liberal Democrats need to remain overwhelmingly positive about these, while seriously addressing people's concerns about their declining sense of control over their own lives. To achieve this, we want to take positive lessons from the ways in which other nations with open economies have responded to globalisation, as well as from successful sectors within the UK.

It is also important to envisage scenarios in which globalisation might be reversed; that is to say in which cross-border trade, production and investment might decline, putting pressure on national governments to take a protectionist stance. Liberal Democrats need to consider how the UK should prepare for such an eventuality by devising systems to anticipate, prevent or mitigate it, and ensuring that Britain and Europe remain committed to global openness under all circumstances.

This consultation paper is solely concerned with domestic policy in response to globalisation; that is to say with issues arising from the real or perceived impact of globalisation on the UK economy and society. It will not, therefore, directly address questions of international security and crime, aid and development, the role and structure of global institutions, or international trade.

Issues to consider:

1. What have been the main drivers of globalisation? Are these likely to change?

2. What would happen if the spread of globalisation were to reverse? What could or should the UK government do to prevent this?
3. Which aspects of globalisation require a response?
4. Who are the key stakeholders in the UK most likely to be affected – both positively and negatively – by globalisation? Which regions or sectors have most to gain and which are in danger of being bypassed?

2. The role of government

There is a consensus among major British political parties in favour of globalisation, with good reason. Britain has the highest ratio of exports and imports to Gross Domestic Product within the G8 and therefore stands to gain a great deal from globalisation – and indeed to lose a great deal should globalisation decline.

Liberals have always believed in the potential of free and open markets to enable wealth creation and individual fulfilment. However, they have also long understood that markets will never benefit everybody, especially if they are untrammelled. Public action is required to plug gaps and regulate excesses.

Liberal Democrats believe that national and local governments are not impotent in the face of globalisation, contrary to much recent political rhetoric. In particular, government needs to pay attention to how best to tax and regulate multinational companies (both UK domiciled and overseas based) without discouraging inward investment; supporting individuals and communities who have yet to benefit from globalisation; ensuring that the UK economy as a whole remains stable, flexible and competitive; and working to prevent a reversal of international trade and cooperation, particularly in the event of future periods of recession.

It is essential to recognise that, as in all areas of policy, UK responses to globalisation need to be made at different levels. Some issues clearly fall within the remit of the EU and Britain's role can only be to lobby and persuade. Many others are best dealt with at local levels, through reinvigorated local authorities and town and parish councils. The Scottish Parliament, Welsh Assembly, GLA and councils all have as important a role to play as the UK parliament. The Liberal Democrat principle that decisions should be made as locally as practically possible is of the utmost importance if people are to feel that they can gain from globalisation, rather than being bypassed by it.

Issues to consider:

5. What should be the aims and objectives of different levels of government in response to globalisation?
6. What are the real limits to different levels of government capacity to respond – proactively or reactively – to the impact of globalisation?
7. To what extent and in what forms should multinational companies be regulated? Should 'state-owned' funds which are effectively organs of overseas governments be treated differently to other multinationals?

3. Responding to Economic Impacts of Globalisation

It is imperative that the UK economy remains stable and robust, while at the same time becoming increasingly flexible in the face of on ongoing – and anticipated – shifts in global patterns of supply and demand. While state direction of, or participation in, the economy has been shown to be unhelpful, only governments have the broad perspective and capacity to ensure that these twin goals are kept in sight. Liberal Democrats argue that UK authorities should recognise and embrace their responsibility in this regard. They also call for the strengthening of regional and local government, in order to help communities to respond to globalisation sustainably, in different ways, appropriate to their circumstances.

Over recent decades, the UK economy has moved away from an emphasis on industry and focused increasingly on the service sector. This has made the most of our areas of comparative advantage and recognised sectors where overseas competition is stronger. In recent years, our traditional competitors in Europe, America and East Asia have been joined by the rapid rise of large emerging economies such as China, and India. This has further increased the need for the UK economy to develop in highly specialised areas, as unskilled production becomes ever less viable and white-collar ‘backroom’ jobs also face competition via outsourcing.

The 2006 Leitch report, commissioned by the government, acknowledged that “our nation’s skills are not world class”, threatening our future prosperity. While greatly improved investment in education and training has always been a Liberal Democrat priority, it is important to remember that people with a well-rounded education are often the most innovative and flexible. To what extent should Liberal Democrats share Leitch’s – and the government’s – emphasis on “economically valuable” and “demand-led” skills, for example, in the light of British success in the creative industries?

The government’s response to economic aspects of globalisation can be characterised as building on existing strengths. This includes, for example, the notion of ‘clustering’ – encouraging firms in particular sectors to concentrate around pools of skilled labour, networks of experts and markets. This can help regions to become globally competitive, but can also create risks, should global demand decline in those sectors. Liberal Democrats need to consider whether this is the right strategy; or whether it would be preferable to encourage greater local diversification.

Issues to consider:

8. What roles should different levels of government take in responding to economic aspects of globalisation?
9. In a liberal, globalised economy, what can or should government do to help communities or regions badly affected by the sudden closure of a major employer?
10. What infrastructural and technological developments are needed to enhance UK competitiveness?
11. What role should government play in delivering them? What are the risks of state intervention in this area?
12. What should governments do to help British companies to attract investment and compete in global markets?
13. What range of skills should we seek to develop? What should the role of employers be in maximising the skills of their employees?

4. Responding to Social Impacts of Globalisation

Globalisation has an uneven impact, regionally and socially. This has been seen very clearly in the UK in recent years, with relatively steady economic growth offset by sustained income and wealth inequality. The current government has shied away from some progressive tax options for fear of provoking the emigration of wealthy individuals. Liberal Democrat tax policy is outlined in Policy Papers 75 *Fairer, Simpler, Greener* and Policy Paper 81 *Reducing the Burden*. The key strands include increasing green taxation and removing tax breaks which primarily help the well-off in order to cut income tax for low and middle earners. For business, we propose to simplify corporation tax by removing complex reliefs and cutting the overall rate of tax; and remove unnecessary regulations by moving to a General Anti-Avoidance Rule.

It is important that all people as well as governments should take responsibility for their personal and collective future. However, poorer or peripheral communities are often remote not only from good employment opportunities, but also from markets, social networks and information. The aim of national, regional and local governments should be to facilitate individuals and communities to find their own ways to regenerate through participation. Liberal Democrat policies to promote local regeneration are set out in Policy Paper 77, *Green and Prosperous Communities*.

No matter how much education and training is available, some people will be short of suitable skills, at any given time, in a fast-changing global economy. The government currently proposes to enable people to enhance their employability through a programme linked to individual learning accounts called 'Train to Gain.' It remains to be seen how much choice and flexibility this will offer to individual learners.

There is also a need to think more widely about the role of the welfare state in a globalised economy. It has often been assumed that high welfare spending can create disincentives for individuals and lead to economic stagnation. However, evidence from smaller, yet more globalised economies – like the Netherlands' – suggests that it may also provide a buffer, supporting individuals to retrain and develop different skills, instead of falling back into unskilled jobs.

Globalisation has also increased international economic migration, both to and from the UK. Truly free markets, as envisaged by Adam Smith, would include free movement of labour. Liberal Democrats celebrate diversity and the greater international outlook that it brings to society, but we recognise that large-scale immigration can have major impacts on local communities, including additional pressures on social services and housing, and rapid changes in the cultural environment. There is also a set of concerns around effects on the labour market and added competition for employment opportunities, particularly for low-skilled individuals. It therefore remains important for national governments to manage the social impact of immigration.

Issues to consider:

12. How best can local communities be empowered to benefit from global economic opportunities?
13. What are the best ways to provide training to people with low skills?
14. Is increased welfare spending a threat to the UK's global competitiveness?
15. Might increased welfare spending help individuals and groups to gain from globalisation, who might otherwise not do so?

16. Should more or less economic migration be encouraged? How can diverse communities best be encouraged to accommodate each other?
17. Is there more we can do to promote community cohesion?

5. Responding to Environmental Impacts of Globalisation

One of the main characteristics of globalisation is an increase in international trade. This causes some direct environmental impacts, through emissions from transport, both of freight and people. More importantly, though, trade is a magnifier: unsustainable patterns of pollution and resource use tend to be scaled up as a result of its expansion. The world's population as a whole is now living beyond the capacity of the earth's ecosystems to regenerate; the resources and absorptive capacity of about one and a third planets are now needed for sustainability. If everyone in the world lived like we do in the UK, we would need three planets.

The problem cannot be met, however, by simply reducing international trade – such a step, even if it were possible, would tend to reduce the efficiency of resource use and deny market access to the products of poorer countries. What is needed is a substantial increase in the efficiency with which economies use resources and generate pollution, decoupling economic activity from environmental destruction.

Models of sustainable production and consumption need to be developed as a matter of urgency. This covers a very wide range of issues, including energy use and climate change (covered in detail in Policy Paper 82, *Zero Carbon Britain*), but also the use of non-renewable resources such as metals, minerals, chemicals or plastics; the use of renewable resources such as water, timber or food and textile crops; and product design to encourage recycling, reclamation and reuse. In the long run, this will mean far-reaching behavioural change, so it is essential that government, business and individual consumers operate within a fair and equitable framework of incentives to move towards sustainability.

This will have implications for the competitiveness of British products abroad. Of course there will be cost implications of moving towards higher environmental standards faster than other countries. However, studies do not suggest that this need harm competitiveness in the long, or even the short-run; to the contrary, it can help to open up new export markets for green technologies (as Germany and Denmark have seen in renewable energy technologies).

It is also important that the UK does not adopt sustainable models of consumption and production simply by outsourcing its environmental impact to other countries. This is already happening to a certain extent; imports from China, for example, where the environmental impacts are often much worse than in the UK, are rising massively (a quarter of China's greenhouse gas emissions are accounted for by the production of exports to the West). At the same time, we do not wish to close British markets to exports from developing countries, which may rely on trade to escape from poverty. This will be a very difficult balance to reach.

Issues to consider:

- 18 What steps need to be taken to reduce the UK's impact on the environment, without simply outsourcing its pollution and resource use?
- 19 How can this be done in a way which maximises economic benefits, e.g. from exports of new technologies? Are there specific green technologies in which the government should invest or facilitate investment?

- 20 How can models of sustainable production and consumption be promoted while at the same time remaining open to developing-country exports?

6. The Politics of Globalisation

Environmental impacts of globalisation are important politically. Though often inconsistent and incoherent, green thinking is perhaps the closest there is to an ideological reaction to globalisation, barring the extreme nationalist fringe. It is not unreasonable for people who are worried about the impact of distant, impersonal forces on their local communities to translate their concerns into distrust of globalisation – and especially of some of its drivers: big business and unelected global institutions.

Liberal Democrats are well placed to respond to the concerns of such people, while at the same time retaining support for globalisation. The slogan “Think global, act local” is consistent with the Liberal Democrat approach, which seeks to return real power to local communities and protect the global commons at the same time as enhancing prosperity for all.

Issues to consider:

21. How best can Liberal Democrats respond to the concerns of people who feel threatened by impersonal globalisation?

7. Successful Responses to Globalisation at Home and Abroad

It is not necessary to reinvent the wheel in all these areas. Developed countries have a range of overall policy responses to the challenges of globalisation. These fall into three broad categories: the Anglo-Saxon Model; the Continental European Model; and the Nordic Model. The Anglo-Saxon model has emphasised deregulation, especially of labour markets, and low taxation as the keys to continued prosperity, but these economies have also seen growing inequality. The Continental model has sought to protect workers from the adverse consequences of globalisation through legal employment protection and a degree of resistance to trade liberalisation, however growth and unemployment performance in these economies has generally been poor. Positive examples of liberal responses to globalisation can be found in the ‘Nordic Model’ countries (which include Canada and Holland as well as Scandinavia). This model combines exceptionally open economies with more or less successful welfare systems and high levels of social cohesion. Care must be taken not to exaggerate their similarities with the UK, which has a far larger economy and a more heterogeneous population, but detailed exploration of some of their policies may prove beneficial.

The UK also has some brilliant success stories in responding to globalisation. It would be interesting to explore the ways in which many sectors, cities and regions have responded to globalisation’s various challenges and opportunities, looking both for successful strategies and particular challenges. Examples that stand out are:

- London – both a successful region and a global leader in the financial services sector. Issues include increasing inequality for example in the extreme polarisation of property in Central London between social housing and luxury flats with almost nothing in between.
- The creative industries (music, film etc.). Issues include the protection of global copyrights and the retention of both human resources and profits.

- Liverpool –now successfully regenerating under a Liberal Democrat administration in a region that has not previously done so well out of contemporary globalisation, due to the decline of traditional industries.

Issues to consider:

22. Do very high City wages worsen services and slow the regional economy as a whole (e.g. by pushing up property prices)? Or is it to Britain's credit that we have attracted talent from all over the world in the financial services sector, helping to stimulate our economy? Or both?
23. What lessons can be learned from the success of UK creative industries? What has been the role of government and how should it differ?
24. What specific successes and difficulties has Liverpool experienced? How does it compare with other towns and cities in the UK?
25. What more can be done to encourage local and regional governments and businesses to share ideas and positive examples of responses to globalisation?