



SPEECH BY TONY BLAIR

CHECK AGAINST DELIVERY

This is an immensely timely conference. I congratulate President Sarkozy and my good friend Eric Besson for organising it. I am delighted to see Chancellor Merkel with us. They are of course former colleagues of mine. They are still in Government. I am now in the fortunate position of being able to offer them brilliant insights and wise advice without the responsibility of carrying them out. It is a luxury I can commend but not too soon for either of them.

Let us start with the obvious. This economic crisis is the biggest, most complex, most delicate economic challenge of our lifetime. It is the most tricky intellectual challenge of any kind I have ever encountered. And it is still evolving.

It has brought home to us the other side of the consequences of globalisation with dramatic effect. It is rudely educating us as to the integrated nature of the world we now live in. It is putting into contention what seemed previously unshakeable orthodoxy. Conventional wisdom appears not just complacent but fundamentally in error.

The combination of all of this means we live in an era of very low predictability.

But certain things are clear. This crisis poses unique problems to policy makers. Normally, as a crisis erupts, a leader will seek advice. Experts are consulted. Their advice will be of varying shades. Some may differ. But by a process of analysis, a reasonable outline of a policy answer emerges.

Here you ask the experts; and the best and the most honest say: we don't know. The most frequent description is "unprecedented".

What is plain is that the financial system has altered in its fundamentals and can never be the same again. What is necessary is radical action to deal with the fall-out of the crisis. What is unavoidable in the longer term is a recasting of the system of international supervision. What is sensible is to ask, as

this Conference does: what sort of free enterprise system, what type of capitalism do we want for our future?

I will divide my remarks into these sections: the immediate solution; the longer-term measures; and the values which should underpin global capitalism.

In terms of the immediate solution, the policy debate has evolved as the situation has. At first, it seemed as if there were a divide between those who I designate "kitchen-sinkers" i.e. throw everything at it; and those who were in the "wait and see" category. Actually that division is largely gone. There is no doubt there needs to be radical action. It is sensible to target it, however, as we better see how the crisis has unfolded.

There is therefore an emerging consensus around four points:

1. The origins of this crisis lie in the changes in financial practice. The impact is now felt in the real economy. But, unless we fix the financial system, real economy measures will be limited in their impact. Here it is important not to confuse short-term and long-term. The cause of the crisis may have been irresponsible lending and a credit and asset bubble. The long-term solution is to regulate to ensure responsible practice. But the short-term problem now is not too much credit or incautious lending; but too little and too cautious. There is a profound lack of confidence in the financial system's viability. The crisis shook its fundamentals. People worry there are bad debts still to be exposed. This causes a crisis of confidence, not amongst those who lack the means to spend but even amongst those who don't. So consumers don't spend, businesses don't invest, banks don't lend.

This crisis of liquidity then impacts the real economy, which in turn feeds back into the financial sector. This spiral is what must be arrested.

The key is to do whatever it takes - whether by hastening the proper writing down of asset values and recapitalisation of bank balance sheets, and /or the underwriting of credit to get the blood pumping back round the financial system again. Failure to do this will outweigh colossally any fiscal stimulus. It must be got moving again.

2. Because of the impact on the real economy, traditional demand-side stimuli are necessary. There can be a debate about which stimuli. The only point I would make here, is that we should spend to build for the future. There is no advantage in "make-work" schemes. We don't live in the era of the 1930's or the post-war. I would invest in renewable energy, science, technology, education and innovation. Be relentlessly fixed on the future. Government can't predict the winners of the future but it can by investment, enable, empower and encourage.

3. There will have to be support and help for the victims of the crisis. There is no doubt that unemployment will rise and amongst some of the most skilled service sector employees. It may even be that we will witness, in time, a paradigm shift in economic activity toward modern manufacturing. Again it is hard to predict. But what is obvious is that the traditional welfare systems are not properly equipped to deal with the scale or nature of the Tsunami affecting us.

4. There will be many major challenges confronting the new U.S. President in less than two weeks time, as well as the domestic effect of this crisis. One such challenge we have all been dealing with this past 10 days is the Middle East. But somewhere near the top of the agenda I would put the U.S strategic relationship with China; and the same applies to us in Europe. Re-balancing this economic relationship is one of the hardest things of all. But it is utterly crucial. It needs to be worked on now. We must save more. China will have to spend more. We may think we are competing and at one level we are. At another our co-ordination and common understanding are of the essence.

This brings me to the longer-term framework we need in place. We need a better system of financial regulation, better co-ordinated. Ok we can all agree on that. I want to make a larger point. It arises out of, not just this crisis but my experience of 10 years of office at the highest level. We have mid 20th Century international institutions governing a 21st Century world. This is true of the global economy. The reform of the IMF and World Bank, of the financial regulatory system are long overdue.

But it is true across the board. Look at the G8. Reflect on its absurdity. In fact, take the G7, the so-called economic club of the world. Four European nations. No China. No India. No Brazil. No one from the Middle East. No one from Africa.

Take the global negotiations over global warming and a new accord post Kyoto. The UN negotiators are able, I would say, heroic, people. But be serious: 190 countries sitting round a table trying to hammer out a deal, with no global institution with the technical know-how, research capability and political weight to guide them? And this is in an area of inordinate technical complexity and political sensitivity.

Or take the awful events of the Congo. 6000 rebels on one side. 6000 militia thugs on the other. A UN force of 18,000 unable to keep people from being subject to mass rape, murder and pillage? Are we really that helpless? And don't think because the TV cameras have moved on, the suffering has.

And where have they moved on to? The Middle East. By luck, France has the Presidency of the Security Council. By his energy - to which I have referred before - the French President got the sides together.

But examine the absurdity. Here is a conflict whose supreme importance reaches across the world. It moves our politics, our economics, even our society and culture. With even the limited mandate I have, these past 18 months have been an extraordinary instruction. You know what is most frustrating? Not that it can't be solved; but that it so clearly could be. Is it really beyond our wit to grip this, to co-ordinate our international efforts and to see them bear fruit, so that Israel no longer has to fear for its existence and Palestinians have the justice of a viable state in which the two people can live side by side in a land less than half the size of France's largest region? If it matters that much, should our effort to resolve it not be commensurate with its importance so that innocent young children no longer live afraid or die needlessly?

What I am saying is that this economic crisis is vital in itself; but it holds a deeper, broader lesson for us. In today's world, no nation's governance, not even the most powerful, can work without a strong dimension of global governance.

Which brings me to my final point. One part of the debate over these next two days, will be about globalisation. Is it good or bad? There is a myth that globalisation is the result of a policy driven by

Governments; and can be altered or even reversed by Governments. It isn't. It is driven by people. Globalisation is not just an economic fact. It is about the internet, its power to communicate, influence and shape a world whose frontiers are coming down. It's about mass travel, migration, modern media. It is not simply an economic fact; it is in part an attitude of mind. It is where young people choose to be.

But what is absolutely apparent from the economic crisis is that it requires values to function effectively. Note that I say effectively, not just fairly. Yes, it has always been clear that globalisation needs values to be equitable. What has been less clear but now is clear, is that it needs values to work. If we want to keep our world economy open, and not lapse into protectionism, we must strive to make it just. If businesses want to succeed, they must embrace their stakeholders with respect; they must develop the potential of their employees not just exploit them. If the financial system is to recover, it must re-gain confidence.

To re-gain confidence, there must be trust. To have trust, the system as a whole needs to be inbred with values other than those of short-term profit maximisation. It must be about more than mere speculation and the clever bet. It must be also about investing and building. The best business people I have met, have been first and foremost passionate about what they are creating, rather than what they are accumulating.

The new capitalism is therefore not about a return to the past. The change we seek should not be about replacing the free enterprise system or the market but about sustaining them in a way that is stable and enduring.

Look upon this crisis not as an occasion to regress in policy or attitude of mind; but as a chance to renew, as an opportunity to open a new chapter in humanity's progress to a better future for all.

Speech by the Rt Hon Tony Blair, Paris, 8 January 2009