President Sarkozy,

Prime Minister Fillon,

Prime Minister Blair,

Guest Panelists and Discussants,

Ladies and Gentlemen:

I would like to thank the co-sponsors, and the organizers of this Symposium for inviting me to participate and share some thoughts in this Symposium. The topics we are discussing today have important implications for Africa, other developing countries, and the entire world.

The debate about the proper roles for markets and states goes back several hundred years to the beginnings of market capitalism and the Westphalia nation-state. The debate has been joined at the macro level in the century-long struggle between, on the one hand, communism and strong forms of socialism, and on the other, wide open neo-liberal economic systems. It has also been joined at the micro level in debates about import substitution; regulation of utilities; the effective delivery of health, education, and other social services; and most prominently today about the role of government oversight in the financial sector.

We have seen this debate play out in developing countries over the last forty years, with the pendulum swinging from one end to the other over time. In the 1960s and 1970s, the dominant view was the need for a strong state in order to overcome perceived widespread market failures and speed the pace of development. We saw governments become involved in a wide range of economic activities: large state-run farms and plantations, marketing boards, steel mills, manufacturing of many products, utilities, banks, and even retail trade and grocery stores. All these were brought together in ubiquitous five-year plans that envisioned the future direction of the economy and determined how to allocate investment and other resources to maximize growth.

History has not been kind to the strong versions of the state-centered approach. Advocates over-estimated the capacity of the state and ignored the role of personal and institutional incentives. In many countries investment fell, agricultural production stagnated, opportunities for corruption rose, and economic output deteriorated. Advocates also failed to appreciate the links between centralized state economic power and centralized state political power, and did not foresee how creating a strong economic role for the state would lay the groundwork for dictatorships and autocracies, and would undermine political competition, terms limits, and democratic systems.

In the 1980s, as developing countries around the world faced economic stagnation and massive debt, the pendulum swung hard in the opposite direction. Market optimists pushed hard for a rapid fall in trade barriers, sale of state-owned enterprises, removal of price controls, rapid deregulation of financial markets, and an opening of capital markets. Many of these changes were welcome and long overdue. No one today misses dual currency markets, corrupt agricultural marketing boards, or white-elephant industrial plants that demand protection and drain scarce government resources.

But in many cases the enthusiasm for deregulation and pure market solutions went too far. The Asian financial crisis showed the risks of overly-rapid deregulation of financial markets and capital flows when countries did not have the institutional capacity for prudent and appropriate oversight of banks and other financial institutions. In many countries, wholesale privatization of electricity, water and other utilities have simply replaced public monopolies with private monopolies, and left many poor consumers without access to basic services. And today's global financial crisis shows that even in the richest countries, sometimes completely open markets lead not to efficiency and equity, but rather widespread losses and global disruption.

History has shown us that neither of the extreme versions of the debate is right, and there are no absolutes. The proper balance differs across markets and activities, and evolves over time. For example, few would argue with the position that there should be only a minimum role for the state in retail trade and manufacturing. Utilities, however, are an altogether different issue, since many utilities are natural monopolies that require effective regulation and mechanisms for providing services to the poor. Health, education, and other social services require different strategies, with in most cases a combination of public sector and private sector providers.

Financial markets in many ways are the most complicated of all. The world learned long ago that financial markets left completely on their own lead to bank runs, financial panics, asset stripping, and other disruptions. We learned that we need effective central banks to establish prudential regulations, set the benchmarks for capital transactions, and act as lenders of last resort when necessary. The irony is that this core function of capitalist economies requires smart government intervention in order for markets to function more effectively and efficiently than they would on their own.

I don't pretend to know the answers on how to appropriately regulate global financial markets, nor about how regulatory approaches must evolve to match today's technologies and sophisticated financial products. But I do know that the debate should not be framed around extreme forms of ideology, or through simplistic slogans about the virtues or dangers of either open markets or regulation. While there are clear dangers in relying too heavily on open markets and self-regulation, today the greater danger for developing countries may lie in an overreaction that leads to closed markets or a reversal to heavy state control of markets. The last major retreat from globalization in the early 20th century went too far and ended in disaster.

Today I worry about a retreat from trade, when what most developing countries need is for the industrialized countries to open their markets, especially for agricultural goods.

I worry about a closing of financial markets as investors become very risk averse, when most developing countries are just beginning to reap the benefits of foreign investment and stronger competition.

I worry about a break in the development momentum in Africa where, for many countries, the benefits of sustained economic reform and private-sector-led growth are just beginning to be felt.

I worry about the impact of the crisis on both official and private foreign assistance flows, since millions of people are still trapped in poverty and may not be

reached by programs aimed at achieving the Millennium Development Goals that are supported by official flows.

Let me suggest therefore, that instead of strong ideologies, the debate should be about finding practical and pragmatic solutions to the problem at hand. The issue today is not about more or less regulation per se, or whether regulation is good or bad. It is about finding the right kind of regulation to foster effective and efficient markets as a foundation for dynamic, sustainable, and equitable growth. It is about finding ways for governments to avoid meddling in markets and instead to be smart about market interventions to provide the foundation for effective market transactions. And it is about designing a regulatory system that better synchronizes prudential regulations and financial sector policies across borders, and better reflects today's non-bank financial institutions, funds, and other evolving financial structures.

As well stated by His Holiness Pope Benedict XVI for the celebration of the World Day of Peace on January 1, 2009, and I quote: "A similar reflection may be made in the area of finance, which is a key aspect of the phenomenon of globalization, owing to the development of technology and policies of liberalization in the flow of capital between countries. Objectively, the most important function of finance is to sustain the possibility of long-term investment and hence of development. Today this appears extremely fragile: it is experiencing the negative repercussions of a system of financial dealings – both national and global – based upon very short-term thinking, which aims at increasing the value of financial operations and concentrates on the technical management of various forms of risk. The recent crisis demonstrates how financial activity can at times be completely turned in

on itself, lacking any long-term consideration of the common good. This lowering of the objectives of global finance to the very short term reduces its capacity to function as a bridge between the present and the future, and as a stimulus to the creation of new opportunities for production and for work in the long term. Finance limited in this way to the short and very short term becomes dangerous for everyone, even for those who benefit when the markets perform well".

The Pope's words have special resonance for us today. Let me thank you once more for inviting me to participate in today's symposium, and I look forward to the rest of the discussion.