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A Matter of Standards

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Mr. Secretary-General, Ministers and Delegates, honored Guests,

Thank you for the privilege of speaking here today. It is a pleasure to be among practical people, charged (as you are) with making one of our most basic systems work. That transport *does* work is attested to by the fact that I am here, having spent last night in Barcelona. (I wrote that line in advance, not without trepidation.)

Now what, in transport, is the essence of practical administration? Plainly, it is the strict application of effective standards. These ensured that my plane could fly. That I could breathe while on board. That we didn't run into anyone else. Strict and effective standards on these and many other matters preserve trust. They impart confidence. They enable markets to exist. Without them, the entire transport sector would collapse, and we'd be back, before long, to the horse.

Nowadays your task goes far beyond safe and efficient operation. It covers planning, fairness, urban development, the environment, and "green and inclusive growth." In each case, the practical substance concerns standards. What to require. When to require it. How best to enforce the rules. Your job, so far as I understand it, is to match what *can* be done with what *should* be done. It is to match the goals that can be *set*, with the goals that can be *met*. It is to marry technical capacity to social purpose.

In the spheres I know a little better – including finance, economic inequality and the yet-larger questions of policy – the same practical approach is fitting. As in transport, lives are at stake. But the connection is not quite so immediate, or so visible. And so an appreciation of the role and necessity of standards is not so clear and the practical approach does not always prevail.

In home mortgage finance in America for over three decades – as staff economist to the House Banking Committee in 1980 I was present when the debacle began – we succumbed to those who sought easy money from weaker standards. There was easy money in making bad mortgages. There was easy money in rating them. Easy money in selling them off, all around the world. In due course, fraud suffused the system. And when trust collapsed, the entire world credit system failed.

The rise of toxic finance drove the rise of unstable, unsustainable inequality. This is true in the US, in Europe, and in almost every country for which I have been computing inequality measures over 20 years. It is no surprise that inequality peaked

with the credit booms: in 2000 in the US and worldwide, in 2007 again in the US, and by our measures (for example) in 2008 in China. Rising inequality like rising blood pressure prefigures crisis. It's a warning sign. When it falls after the crisis – that's too late.

Can inequality be managed – as transport is and as blood pressure can be? Of course. And the basic means are the same. To manage inequality, to control it, requires strict, effective standards. These include social insurance, minimum wages, collective bargaining, and public goods including education, health, and the control of finance. It is hard to apply and sustain these standards in a world of open trade, fractured banking and taxes. It is hard to resist the predatory forces that seek easy money in breaking them down. It is hard to do all of this in the face of the digital revolution, which saves work and eases life but also concentrates incomes and wealth – and is bringing an end to millions of jobs. But that is what the control of inequality requires.

The largest task we face – together as the OECD – is to sustain, and enhance, our *standard* of life. Yet here again, the principle applies. Economic development – the condition that distinguishes the OECD – does not consist, mainly, in exclusive technology or superior education or big towns. These are everywhere, or can be. Economic development consists, much more basically, in strict and effective standards, competently enacted, fairly applied, and willingly respected for the most part.

Anyone who lives outside the OECD knows this. In the wider world, you have to struggle for the simple things: clean water, unpoisoned food, effective drugs, safe housing, paint without lead, appliances that don't catch fire. In the wider world, you have to deal with a culture of defiance, and resistance, and persistent defeat of standards. It makes life hard. It makes people poor.

Inside our region, we face confusion on this issue. The confusion is not accidental. It is deliberate, an ideology of entropy driven by the easy score. "Rent-seeking" – a term of art you all know – does exist. Of course it does. But it does not follow, in logic or in life, that every public standard is a matter of seeking rents.

Europe is a continent of high standards. But here the myth of standard-free self-organization has taken especially strong hold. This is partly an accident of timing. At its intellectual high-water mark, alas, that myth of self-organization under broad and meaningless rules was built into the foundations of the economic union. And the result, especially since the crisis, has been to bring some member states – the weakest members – to the brink of collapse.

Our challenges now include jobs, growth, fairness, the environment, the repair of damage done in the crisis. They are daunting. But in each case, let me suggest, the proper first step is a change of ideas.

As a one-time Marshall Scholar, it makes me proud to quote George Marshall, speaking at Harvard on June 5, 1947. These were, as you know, the remarks that would launch the OECD:

"the remedy lies in breaking the vicious circle, in restoring the confidence of the European people in the economic future of their own countries and of Europe as a whole.... Our policy is not directed against any nation or doctrine,

but against hunger, poverty, desperation and chaos... Its purpose should be the revival of a working economy... And yet, the whole world of the future hangs on a proper judgment of things."

Great though it was, Marshall's speech was the second, of that era, to signal the power of changing ideas. Let me end with a mention of the first. It was delivered in Germany, in Stuttgart, on September 6, 1946, by another American Secretary of State, James F. Byrnes. This was the "Speech of Hope." It held out, for the first time, the prospect of independence, democracy and economic recovery to a defeated German nation. I won't quote from it. It was the substance that mattered, and soaring passages are hard to find.

Yet, in that single speech, Byrnes on that day buried the Morgenthau Plan. He defeated schemes to pastoralize Germany. He ended the danger that Versailles might happen twice. In that speech, Byrnes reset the debate. He paved the way for Marshall, for the Marshall Plan, for European recovery and for the OECD. A change of ideas became a change of history.

That speech was written by an economist. His name was John Kenneth Galbraith. My father, as it happens. And so it's close to home. Thank you very much.

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