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As evidenced by Martin Wolf, "globalization worked". It fueled an unprecedented period of rapid growth; simultaneously, a greater flexibility of labor markets in industrialized countries and the lowering impact of Chinese costs on manufactured goods prices delivered a long period of low inflation. This conjunction opened new options in the design of monetary policy which the Fed under Alan Greenspan was quick to seize. Yet these were, and could only be, extraordinary conditions. And the follow-up proved to be an extraordinary crisis. This is the background of so many recent discussions about a "Bretton-Woods II". The answers are naturally extremely different depending on the views one will adopt about the crisis: is this a cyclical adjustment similar to (even if more violent than) the many previous ones? Is this a more significant turning point which calls for structural transformations? In this presentation, I adopt the later view for two reasons: one, the deep roots and severe consequences of the financial crisis; second, the connection of different high profile challenges. An aggressive use of monetary and tax policies is certainly more than needed to avoid the risk of the recession turning to depression; but short-term measures will not be not sufficient to restart a vibrant international economy. More is needed in terms of global governance.

The easy and cheap financing of the US deficit is the most prominent demonstration of excess liquidity in the first decade of the XXIst century. The persistence of the so-called "global imbalances" has been one of the decade's major conundrums. Pessimists have prophesied a "hard landing," only to be regularly proved incorrect. As a consequence, the opposite argument, based on a savings glut, demography and the diversification of global portfolios, gained more credibility over time – perhaps too much. On the one hand, investors were in effect accumulating treasury paper to finance the deficit. On the other hand, liquidity was pushing demand to extraordinary levels, not only in the US ("the consumer of last resort") but in emerging economies, which were catching up at an unprecedented rate. Accelerated growth in emerging economies, above all in China and India, necessarily drew massively on world resources; a bottleneck slowly built up.

In short, asset markets as well as commodity markets have sent clear warnings. These warnings have been expressed in many occasions by central bankers (in particular the ECB and the BIS focusing on asset prices), finance ministers (in particular the German and French ones, emphasizing the inadequate pricing of risk at regular G7 meetings) or experts (both in Washington and Europe emphasizing the unsustainability of continuously increasing deficits). These warnings have been systematically put aside.

The whole story of economic growth in the last decade thus starts with excessive liquidity, which is at the root of both financial excesses in the US and soaring commodity prices. Faced with these unexpected developments, in 2008, many experts drew -during the first semester- a parallel with the 70's and raised the specter of "stagflation." Subsequently, as of September 08, commodity markets having turned down and the threat of recession growing more serious, parallels are more frequently drawn with the depression of the 30's. Anyway, macroeconomic disorder is the major aspect of the global outlook today; restoring an appropriate framework for future global growth is the first item on the international economic agenda which means: cooperatively fighting recession, reducing global imbalances, controlling global liquidity.

The recent financial turmoil has also brought into sharp relief the need to rethink many aspects of financial regulation and supervision. The broad concept of financial innovation should certainly not be imperiled. Innovation as always improves, in principle, the efficacy of financial intermediation. But nice principles have proved far from reality as the former chairman Greenspan candidly recognized in his testimony before Congress. The range of failures retrospectively appears wide-ranging: Imprudent behaviors when dealing with exotic products, perverse incentives, inappropriate regulations and negligent supervision allowing, in the most extreme cases, pure outright fraud. Recent events in the US prove that confidence in self-regulation and lax public oversight in a context of abundant liquidity has gone too far and allowed excessive risk-taking. The key challenge for financial regulation now is to strike the good balance between allowing innovation while keeping systemic risks under control. It is certainly well intentioned to warn against the potential dangers of a return to too rigid regulations but following the financial disaster, about which the complete credit freeze speaks volumes, confidence will not be durably restored without caution being more systematically embedded by regulation and supervision into financial flows and transactions.

An excessive faith in the virtues of self-regulating markets, the whole concept of self-regulation to which US authorities have been so strongly committed fore years, is severely damaged. The question of rules and enforcement has to be newly answered. In this process, governments are back; their support, in particular, is massively needed to rescue the financial industry. State intervention is welcome as far as it is the answer to the risk of a systemic crisis but with the size and range of this intervention come an extensive power of governments more and more interfering with the economy which raises increases the danger of "patriotic" or nationalist postures: all this could easily turn as a threat to open markets.

Finally, this survey of difficult challenges currently facing the world economy should have nothing to surprise anyone familiar with economic history. Even without referring to the first half of the XXth century, the last 40 years look like a golden age only if one forgets the breakdown of the gold-exchange standard, the oil crises, stagflation in the industrialized world, and financial crises everywhere in emerging countries. From a long-term perspective, however, what is fascinating about these episodes is the flexibility with which adaptations have occurred, offering solutions to seemingly intractable problems. This is where we are again, with higher stakes than anytime since WW II. But the economy will not today recover following previous lines, easy credit and cheap commodities, continuously increasing outsourcing and global imbalances. Globalization as we knew it has gone out of momentum; the financial crisis, commodity prices and protectionist reactions reveal the collision course between mutual dependence, with its costs and benefits, and the come-back of nationalism, with its prejudices and fears. We are definitely entering a new phase of globalization. We need a better governance of globalization; and we need it urgently.