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Europe must lead the way to Sustainable Prosperity We should put more trust in our own strength and knowledge

By Dr Anselm Görres, President GBE

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► **Digital version under www.foes.de/pdf/2014-11-05-EuropeAsLeaderToSustainableProsperity.pdf**

Abstract

A short run through the economic history since Adam Smith shows examples of positive sum games. Whether through competition and free enterprise, social reforms and the welfare state, or Eco taxes and emission trading: It is possible to improve the welfare of nations without paying a terrible price in another dimension. All these innovations were opposed to the conventional wisdom of their epochs and so may appear as positive paradoxes.

Unfortunately, there are painfully real paradoxes in recent environmental policies of the European Union. Since the crisis in 2008 and afterwards, the EU has lost momentum and confidence, and is under-using the powerful tools it has created. We are still the continent with the most progressive environmental policies in the world, but we could and should do much better.

We could build upon powerful advantages. We invented most existing politico-economic systems, often copied by others, but we also tried every possible aberration of these systems. After treading many wrong ways, only the goods ones remain open to us: A wise

GREEN BUDGET EUROPE (GBE) • GREEN BUDGET INTERNATIONAL AISBL (GBI)

Rue du Trône 4 (postal address) • Avenue Marnix 28 (visitor's entrance) • B-1000 Brussels

T: +32-2-58 85 760 • F: +32-2-58 85 766 • GBE@green-budget.eu • www.green-budget.eu

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combination of the three best currents Europe has created, namely market economies with socially and environmentally responsible governance, all of course based on democracy and humanism. This society model today seems to be most elaborated in the Nordic countries.

Introduction

Dear Ambassador Leikvoll,

thank you so much for your and your team's wonderful hospitality in your wonderful Norway House! To show my gratitude, I added two special sections to my paper; singing a lot of praise for progressive Scandinavia, a model region within and for Europe, if not for the world. If there was a Nobel Prize for civilizations, I think in most of the years, it would circulate mainly between Denmark, Sweden, your country and Finland. (Some people say that Finland is only Nordic but not proper Scandinavian, but never mind.)

This is a great week for the great European Union, but also for our much smaller association Green Budget Europe. In the EU, we have a new Commission getting started and we wish it every success in the world, and of course a clearer green commitment than we have recently seen.

Our renewed Green Budget Europe, after having been like a child for Green Budget Germany, is finally leaving home. Founded in 2008, within six years it has developed very fast, from baby to grown-up. We as parents are proud and happy and the small tear in the corner of our eyes, we wipe it off when no-one's looking.

Only since yesterday, we now have a new legal character of our own, namely AISBL (**Association internationale sans but commercial**) under Belgian Law, a new formal name, Green Budget International, new members, and a new management board. Only the new President is still the old one, namely myself. For the first time, we are independent from Green Budget Germany, FÖS is now only one shareholder among several others, except that we have two board members. So we are all full of expectations and it was a great day for us.

- ▶ **For environmental policy in the USA however, yesterday was a rather bad day. The victory of the Republicans will hurt Climate. It is one more argument why Europe should not wait for the US or any other continent, but should move forward with courage and determination.**
- ▶ **At least we here from Green Budget Europe are absolutely certain that environmental leadership is no competitive disadvantage, quite to the contrary!**

But I remain optimistic. A 100 years ago, German soldiers were stomping through Belgium and France until they got stuck in Champaign – I don't mean the beverage, but the province. Now we are sitting here most peacefully, Germans and Belgians and French side by

side, with people from many other Nations, all over Europe and beyond, to improve our continent. With so much progress in one century, how shouldn't we be optimistic?

A. Six positive paradoxes, eight painful ones

1 Positive paradoxes from markets, welfare states and green policies

Let me now look back not 100 years but a full quarter millennium. His **Wealth of Nations** appeared in 1776, but Adam Smith started to work on the book twelve years before, which was 1764 – so exactly two and a half centuries before our time. Adam Smith was probably not what you would call a dialectic mind, but he certainly possessed a good sense for paradoxes.

Let me start with two of his well-known observations of a market economy, the baker and the innovative industrialist.

1. The baker is not an altruist and no Harvard economist. His self-interest, plus the right signals from the price system, help him sufficiently to provide his village with just the right mixture of nourishing bread and tasty pastry.
2. The innovative industrialist, perhaps a bit greedier than our baker, comes up with better technology or other improvements in order to gain an advantage over his competitors. Alas, his benefit is only short-lived, because the competitors follow in suit and at the end, the consumer has a better product, or a lower price, or both, with no extra profit left for the investor.

In both cases, self-interest is not an obstacle but the very vehicle for the common good.

- ▶ **This is not a small revelation after almost 18 centuries of Christian culture, which had no high opinion of commercial motives and discriminated against the self-interest of small people and burghers in favor of the selfishness of clerics or nobility.**
- ▶ **Today I am sure, the positive role of self-interest in any economic system is no paradox but only pragmatic realism. But in 1764, it certainly went against conventional wisdom.**

Already here, we can also recognize the paradox character of the market and its dynamics, namely to provide both good things and bad things. Smith does not talk about the possibility of other bakers losing their jobs or other industrialists losing their factories. He concentrates on the positive effects, in both stories.

Not without some justification. Over the course of the following 250 years, I believe the positive effects of Smith's model have prevailed and the worldwide advance of capitalism has created much more wealth than poverty.

Let us take one more look into the past, this time into 19th century Germany and 20th century Scandinavia. Again, I want to point out two positive paradoxes, no. 3 and 4 on my list.

3. In the first half of the 19th century, my country lagged behind more advanced competitors, in particular the UK. But in the second half, Germany became not only a leading industrial economy, but also a country with relatively strong unions and successful social democrats. In

those years, we saw a conservative government (after failing to stop the worker movement through harsh suppression) enacting bold social reforms, mainly under Count Bismarck. From 1883 until 1891, comprehensive insurance systems for sickness, invalidity, and age were introduced. Health insurance reform in the USA came over 130 years later.

4. A similar success story took place in the Scandinavian countries, only that it began a few decades after Germany's. In the 19th century, millions of Scandinavians had to emigrate, many of them to Minnesota, Kansas, or Illinois. In their home countries, they didn't find bread nor jobs.

But from the 1920s onwards, the famous Nordic model of a progressive welfare state developed and today the Scandinavians are world leaders in many disciplines. They are not only top of the list for most economic indicators or social welfare criteria.

They are also model citizens of the world when it comes to peacekeeping missions, taking in immigrants from distressed countries, or fulfilling UN development aid targets.

And last but not least, they even get good scores in international happiness competitions. In some surveys, they come right after the Islands of the Caribbean.

Today, both Scandinavia and Germany are examples that you can be economically potent and socially progressive at the same time.

- ▶ **I don't think this is a paradox for most Europeans, because most European countries have learned and proven that social reform and economic prosperity can go hand in hand.**
- ▶ **But it certainly is a paradox for the gloomy type of radical market economist. For the conventional wisdom of our days, there always must be a tradeoff between growth and all the other good things in life. For these people, there never exists a free lunch.**

I'll get into this later – but let me continue my list with two further positive paradox examples from more recent times, using cases of environmental progress now.

5. My next positive paradox are eco-taxes. Even today, after twenty years and more of positive experiences, many citizens and even politicians believe in the fairy tale that eco-taxes are a poisoned fruit for the economy. When we introduced eco-taxes in Germany from 1999 to 2003, there was an awful amount of dire predictions.

But in truth, we all know for certain that eco-taxes are a positive sum game. Many of our GBE experts and friends were involved with the famous COMET modelling studies.

Surprise, surprise: Countries with large eco-tax reforms had better growth and less emissions.

- ▶ **What more can you ask, what better evidence can you expect?**

6. Emission trading is a positive paradox, not only because it is very seldom that the Americans invent something and we Europeans put it into action.

It is a fantastic instrument, because by controlling the emissions of only 5,000 companies, you get hold of 50% of the emissions in the EU.

Again, we heard the usual moaning about bureaucracy, but in truth, the administration of ETS affects only less than one thousandth of all the companies in the EU.

- ▶ **So I pointed out six paradoxes, two to show the benefits of markets, two to show the benefits of courageous social reforms in Europe, two to show the benefits of progressive environmental policies in the EU.**

But unfortunately, these paradoxes and all this positive evidence does not rule the day. There are some painful paradoxes that throw us back and seem to eat up our courage.

2 Eight painful paradoxes and the loss of European Courage

Europe was an environmental policy leader when it passed and raised energy taxes, but the last time this happened was on the eve of the enlargement. Preparations for the first energy tax directive had begun already in 1997.¹ According to an anecdote, the last necessary decisions were taken on New Year's Eve of 2003. 2004 was the year of the big enlargement.

One year later, 2005 we launched the ETS – a huge step. In recent years, we have achieved considerable progress in efficient design and in many other fields.

But over the last four to five years, since the 2009 crisis, there has been a strong impression of loss of ambition and courage, of fatigue and depressiveness, and of growing resistance.

Let me again point out some characteristic paradoxes, this time the rather painful ones.

1. When I was invited to Milan in July, to the first joint Council of the ministers for labor and ministers for the environment from the entire EU, Connie Hedegaard spoke about the **paradox between our enormous knowledge and our lack of action.**

▶ **I couldn't agree more with the commissioner. She has been very supportive of our work.**

The fact is that we don't only know more than we need to about the scientific causes and problems. We also know enough about the solutions, we Europeans more than any other continent. We even have most of the necessary technologies already installed or available here in Europe. But we fail to draw the right conclusions and take consecutive actions. We have strong tools and we don't use them or care for them.

2. The most disappointing paradox for me is the decay of the ETS. We introduce an innovative new system, and then we neglect it to the point where it becomes useless.

We failed to be ambitious and retire emissions when the carbon price plummeted as it became clear that business-as-usual in the recession was delivering emission reductions – agreeing instead on back loading emissions until 2019. We did not stop the corruption of the system with VAT-rebates in which even Deutsche Bank was caught. We did also not control the abuse through sometimes dubious elements like Joint Implementation and the Clean Development Mechanism in essence, exporting emissions reductions outside the EU – and we failed to clamp down on fraud within the EU ETS quickly enough when it came to light in 2011.

▶ **The Europeans and their ETS are like a hunter who has a beautiful rifle. Only he forgot to lubricate the rifle and didn't buy ammunition. So it's rusty now and unloaded.**

▶ **But instead of going out to hunt for those damned carbon emissions, he is staying home and arguing with his wife when and where they should buy new ammunition to finally backload their rifle and catch some carbon.**

3. We have the most comprehensive system of Eco taxes on this planet. Every EU country has the minimum taxes prescribed by the ETD and then on top, some Eco taxes of its own. From taxes on plastic bags, batteries, fertilizer and nitrous oxide.

¹ For more details, see www.transportenvironment.org/sites/te/files/media/2011%2005%20briefing%20fuel%20tax%20and%20the%20etd_revised.pdf.

- ▶ **But we are not really selling this great arsenal of MBI-instruments well enough, neither to our own societies, nor to the world outside the EU. We are going hush-hush about it, as if it were something to be ashamed about.**
4. We have seen in the crisis, with debt levels rising in all EU countries, that Eco taxes can be helpful to maintain fiscal revenues. But only a few countries that were really under pressure, like Ireland or Portugal or Spain and Greece, have actually expanded Eco taxes.
- ▶ **But in the majority of EU countries, the Crisis was more often used as an excuse for forestalling any progress with green taxes.**
5. **One sad part of the European malaise is the lack of a bold vision.** For many Americans, the free pursuit of liberty and happiness and the continued chase for economic growth may appear as sufficient societal goal, or at least as the smallest common denominator for a huge and heterogeneous society. This is certainly not the case for our continent.
- ▶ **As Europeans, I believe that we see more joint values and more responsibilities in society than just to maximize GDP and economic growth.**
- To simply pursue traditional “brown growth”, i.e. growth without consideration of collateral damages to the environment and the weaker parts of society, is no legitimate option for the majority of European citizens and governments.
- ▶ **Paradoxically, a process of green transformation is perhaps the only avenue that would provide us with reliable growth in the future. So our lack of vision means double losses, losses for our economic prosperity as well as losses for our environmental protection goals. We are giving away green growth opportunities and betraying our green goals.**
6. Another part of the European malaise is that parts of the business community and some European countries are falling in the trap of pseudo solutions from pseudo cheap sources of energy.
- It is true that the US economy seems to be enjoying some temporary gains through cheaper supply of oil and gas from fracking. But how long are these competitive advantages going to last? Do you really believe that more investment in unsustainable energy sources is going to be environmentally and economically sustainable?
- ▶ **Other countries are putting their money on a renaissance of nuclear energy or on a life extension for dirty old coal plants. How sustainable is that going to be? How long are these strategies going to last, against growing internal contradictions and opposition from their own citizens or from neighboring countries? Sustainable is something else in my book.**
7. Sometimes I wonder if the European Council is good in mathematics. If you keep up your goal of 40% less carbon, but at the same time reduce your goals for efficiency and renewable energy, how are you going to replace the reduced energy from fossil fuels?
- ▶ **Does this mean you are secretly hoping to create a gap which you intend to fill with nuclear energy? Or that you are secretly willing to sacrifice the first goal as well?**
- We all know that to an uninformed public, a reduction from a 30%-target to a 27%-target must appear no big deal, only 3% less. In truth, it means a much stronger reduction, since considering what we have already achieved. Already in 2012, the EU achieved an 18% re-

duction in greenhouse gas emissions². “However, 13 Member States need to make additional efforts to meet their respective national 2020 targets under the effort sharing decision.”³

Primary energy consumption fell by around 8% between the 2006 peak and 2012. A further reduction of 6.3% would be needed by 2020 to meet the target. Finally, up from 7.5% in 2000, the share of renewables already reached 14.4% in 2012.⁴

- ▶ **Overall, I have the impression that the principle of back loading is becoming far too typical for large parts of our European environmental policies, not only for the ETS. We are pushing back painful strategic decisions as far as we can, preferably until after the year 2020, so nothing will happen in the immediate future.**
- 8. This is my last and probably most tragic paradox. **We are putting too much blame on negative external developments and not enough trust in our own strength and competency.**
- ▶ **Even worse, we are allowing external crises - the US financial crisis from 2008 (!), Ebola, the Ukraine, the Syrian and ISIS-crises - to divert us from the only sane path of European regeneration.**
- ▶ **The biggest problem is not the outside world, the biggest problem is our own indecision and lack of unity and resolution.**

We are also looking far too much to the outside world when it comes to procuring energy. The biggest source for cheaper oil and gas is not abroad, but in the millions of tons of gas and oil we are wasting within European countries. We should tap these sources by improving our efficiency and by doing so, could reduce our dependency on energy imports from conflict areas.

Unfortunately, the past years have supplied us with a lot of excellent excuses. We have allowed ourselves to lose momentum on the important issues, in particular on the fight for climate protection and the search for a sustainable and convincing growth strategy.

- ▶ **We have a market of 28 countries and 500 million people with a GDP close to that of the USA. Who says we cannot generate sustainable prosperity within our own borders, without waiting for others?**

As I said in the beginning, the US fall elections send a very strong signal to the rest of the world that little environmental progress can be expected from the world’s biggest market, if progress at all.

² COM(2014) 130 final. Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of Regions: Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth”

³ SWD(2014) 16 final. Staff Working Document. Executive Summary of the Impact Assessment. Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of Regions: A policy framework for climate and energy in the period from 2020 up to 2030.

⁴ COM(2014) 130 final. Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of Regions: Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth”

B. The way out: Playing out our European advantages

The message from the six positive and the seven negative paradoxes is very simple. Basically, we have everything it takes to solve the problem: The knowledge, the tools, many positive experiences throughout Europe and so on.

Let me end by pointing out specific advantages that we have in Europe and that will help us to develop and go forward with a strong strategy for sustainable prosperity.

1 After so many wrong ways, we have only the good ones left

Europe has tried out and suffered through every conceivable political system and all conceivable aberrations. Basically, most political and social systems in today's world can be traced back to European origins. **We have invented visions both of paradise and of hell**, from the first democracy in Athens or renaissance Humanism to Fascism and Bolshevism.

Take liberalism: Adam Smith was one of its fathers. We've seen it go through Manchester-Liberalism and Social Darwinism to evolve into some moderated system in the 19th century. We have seen rather embarrassing combinations of liberal markets for the economic elites with authoritarian governments that held down the masses. We have seen a strange rebirth of anarchic-liberalism and de-regulation in the decades of Reagan and Thatcher.

► **In Germany, market liberals never became very influential. So with Guido Westerwelle's Lobby-Liberalism, we only saw a weak image of what happened in the US or the UK.**

Take socialism and the welfare state: Again, we have seen many variants, even quite horrible ones. Germany for instance, after being a leading country for gradual social democratic reform policies until 1933, has gone through the nightmares of National Socialism and later, the bad dreams of the Eastern European so-called Real Socialism, or realistic Socialism. While other European countries, the UK and Scandinavia have developed different versions of a more or less successful combination of welfare state and a strong market economy.

The rather young environmental movement has taken different routes but until today, never has been dominating. Perhaps this is why we haven't seen any perversions of the noble ideas until now, fortunately.

But the good message from all this is simple. We know these different systems from our own history and from many experiments, sometimes positive, often awful.

► **So here comes advantage No. 1 for Europe: All we need to do now is combine the best elements of the three main currents. Liberalism without monopolies, plutocracy and exploitation, a modern welfare state without regimentation, suppression and state dominance, plus the best contributions from the environmentalist movement.**

2 Europe has never fallen for voodoo economics

I have been stressing the many positive experiences with social reform we have had in most European countries, because today, once again, the same philosophy of gloom and doom is threatening our environmental reform in Europe.

Sometimes it even appears as if for neoliberal, radical market economists and politicians, the best drivers for economic growth are inequality and injustice.

- ▶ **George Bush the elder himself has called this thinking voodoo economics. But when I listen to some of our European debates even today, I feel there are still many voodoo economists on the roads.**

They are trying to sell us coal, fracking and nuclear, plus a watering down of policy instruments and policy targets as a good way to get out of the current crisis. Don't believe them, it's voodoo!

- ▶ **So here's advantage No. 3. I think our common European history works like a pretty good protective vaccination against any kind of radicalism, whether from anti-market radicals or from pro-market radicals.**

It can protect us from dangerous thinking. Perhaps not for everyone. But the majority of Europeans do not seem to be inclined to believe in all too radical solutions, whether from the traditional left, or the nationalist right, or the market-radical right wing.

In my view, most Europeans want something quite clever: A strong and competitive market system to grant prosperity. But also strong governments and states, to keep the market on track and keep it from hurting the weaker factors of production, namely labor or nature.

3 Combining the power of markets and states

I've given out a paper under that title at the recent GCET conference in Copenhagen. It's a better version of the paper I gave out last year at our GBE annual conference in Winterthur.⁵

Basically, this again means to develop two things that have been, at least partly, invented on this continent and have led us to a new model after World War II.

1. All European countries in this new evolution believe in strong and healthy competitive markets.
 2. But we also believe in a strong and healthy role for government. We do not believe in a weak, laissez-faire government that has no say in the economic development of the country.
- ▶ **So here comes advantage no. 3 for Europe: We do not believe in antagonist confrontation of government versus markets. Unlike some of our American friends, we do not feel we have to refight the ideological battles of the cold war again.**
 - ▶ **We are interested in a constructive cooperation between strong democracies with strong governments with a strong and competitive market system.**

⁵ The recent paper was given out at the 15th GCET in Copenhagen. <http://conferences.au.dk/gcet/>
For an older version of the paper, visit <http://www.foes.de/publikationen/foes-paper/>

Does anyone believe we can solve the immense problems of the future without the power of both sides, the power of the states, plus the power of the markets?

And obviously, to find the right balance of market and state, we need wisdom, Humanism and a strong democracy.

4 The positive examples from the Nordic countries

In a former GBE conference in Madrid, our good friend Ana Yabar⁶ criticized me for being too Nordic. Maybe she is right. I cannot deny my conviction that Denmark, Finland, Norway and Sweden have found a very convincing balance between

1. A very successful and competitive national economy
2. A very generous and comprehensive welfare state
3. And very progressive and responsible environmental policy principles.

Europe is big enough for everyone to look for his own examples, and each country can learn something from other member states.

▶ **For instance, most Europeans don't even know that we have city tolls not only in Stockholm or London, but also in Milano.**

▶ **Enrico Croci, who was one of the fathers, is here at the conference today.**

All I am asking you: take a close look at what the Scandinavians are doing. The Danes have just announced they will get out of coal within the next 10 years. The Swedish government seems willing to force Vattenfall to give up their very profitable coal plants and open-cast mines in Germany – whose emissions amount to 72 million tonnes of CO₂, more than the whole of Sweden!! So they seem to be more progressive than our German Länder governments of Brandenburg and Sachsen-Anhalt.

It always helps to have frontrunners. We should look to them and learn as much as we can from them. Adam Smith was one such frontrunner and the prophet of competition. He would have nothing against Europeans competing for the best environmental policy approaches within Europe.

⁶ Ana María Yabar Sterling is both a politician and a researcher. She was in the Spanish Congress of Deputies, first for the Liberals and the fort the Democratic and Social Center (CDS. In 2006 she was appointed Director of the University Institute of Environmental Sciences. She subsequently lectured in law at the Complutense University of Madrid.
http://en.wikipedia.org/wiki/Ana_Mar%C3%ADa_Yabar_Sterling

About the author

Dr. Anselm Görres is born in 1952, married, and father of three girls. He lives in Munich.

- 1972-1984: 12 years studies and research in universities at Heidelberg, Geneva, and Munich, also with the IMF in Washington, D.C.
- 1984-1994: 10 years as consultant with McKinsey & Co. from Munich and as MBI-Investor in East Berlin
- 1994-2014: 20 years provider of Interim Management solutions (since 1996 as owner and manager of ZMM Zeitmanager München GmbH - www.zmm.de); since 2004 also at industry level as founder and president of AIMP (www.AIMP.de).
- 1976-2014: Almost 40 years as protagonist of Market-Based Instrument and an eco-social economy. Since 1994 cofounder, board member and president of FÖS (Green Budget Germany). Since 2008 cofounder and president of Green Budget Europe. Since 2010 Cofounder and board member of “Eco-Social Academic Days” (www.hochschultage.org).