

Adam-Smith-Prize for Janez Potočnik, November 25, 2015 in Berlin

On the path to a greener and fairer society

We need markets *and* rules to work for the environment

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Introduction

When a prize is awarded in the name of Economist A. to Ex-Commissioner J. by Organisation F., then you, the audience, can safely expect that we will talk about A., J. and F. - and also about the visionary thinking that connects all three of them.

I will do this in the form of three theses:

1. The valuation of Economist Adam Smith strongly depends on geography: He is overestimated in the Anglo-Saxon world and by economic right-wingers. He is often underrated in continental Europe and by orthodox leftists.
And that even 225 years after his death on July 17, 1790.
2. Former Commissioner Janez Potočnik, deserves much more support and recognition for his work, from all political camps and directions!
We need many more green Liberals like him in Europe.



3. Our Organisation FÖS, the Forum for Eco-social Market Systems, has changed its name in 2008 for a reason. We are deeply convinced that our society needs not only green fiscal reform but much more: A transformation to a much more responsible, greener and fairer version of capitalism than we have today.

Allow me to go into all three points in a little more depth after saying a few words about myself.

I spent 12 years in academic institutions studying and teaching economics and one of my favourite subjects was *Wirtschaftsgeschichte*: The history of economies and economics.

For the next 10 years of my career, I was first McKinsey consultant from Munich and then, after the Wall had come down, MBI-Investor in East Germany. Since 1996, I run my own business as entrepreneur, providing companies with interim management for everything from harmless vacancies to dramatic turnaround situations.

So I know things a little bit from both angles, from theory and practice, whether we talk about macroeconomic transformations of entire societies, or about the microeconomic side of practical business life.

A. Adam Smith, a prophet both underrated and overrated

1 After 250 years, still an excellent recipe for prosperity

Adam Smith is perhaps the most underestimated prophet in world history, at least on this side of the British channel and the Atlantic. If you live in the UK or the US, you might come to think he is overrated.

- ▶ **So how we speak about Adam Smith depends a lot about which side of the channel you live.**

Let us begin with "Old Europe" where probably a large majority does not appreciate the merits of our Scottish hero as much as he we would deserve.

Probably one reason for this is his absolutely unprophetic style, partly owed to his natural modesty, partly owed to British understatement.

- ▶ **The other reason is a short memory for history.**

The capitalist part of the world suffers from an over-dominance of markets and their power and dynamics. Probably due to this very success of market economies, it gets difficult for many to recognize the true genius and prophetic foresight of Adam Smith, the first herald of free markets. In the second half of the 18th century, when Smith wrote his **Inquiry into the Wealth of Nations**, Europe's societies were still far from being dominated by markets. Most land was in the hand of aristocrats or the church, most trades and transactions were regulated, and farmers as well as townspeople were heavily taxed by bishops, dukes, or kings.

But with the sharp British sense for empirical observation of reality (rather than through deep speculations and interpretations of old texts and concepts as continental intellectuals often prefer), Adam Smith had a keen eye for the small pockets of market economy that were slowly evolving within the old feudal system. And he discovered their enormous potential.

Earlier and clearer than anybody else, he found the simple formula for prosperity.

- ▶ **Prosperity = the combination of economic freedom + competitive markets + customer sovereignty + innovative enterprise.**

Since Smith wrote his book, and more than any continent on the planet, Europe has experimented with almost every kind of economic and societal system. Many of these experiments ended in nightmares. Today we can say with some certainty:

- ▶ **No other known system is able to produce so much prosperity for so many people in such a short time as market economies.**

Look at the industrial revolution in the 19th century, look at Germany's or Japan's recovery after their total defeat in 1945, look at the Asian Tiger states, including China, and their incredible growth in the last decades. You get perhaps the best illustration if you compare the two divided countries of Germany and Korea. After 1945, South Korea was less developed than the North.

- ▶ **So to critics from the traditional left we can say: You will never be able to overcome poverty if you do not heed the lessons from Adam Smith, written a quarter-millennium ago.**

Taken all together, the script for world growth since 1945 clearly bears more the handwriting of Adam Smith and not that of Karl Marx.

2 We need Smith and the power of markets for a great green transformation

Turning our attention towards the green community, we don't find too many fans of Adam Smith here, at least in some countries I know. In particular, those who dislike Green Growth and prefer Post-Growth (wish usually means no or even negative growth of GDP) are often quite sceptical about free markets.

- ▶ **In our internal debates, we all agree that we need a great transformation. But how are we supposed to get there without the innovative power of markets?**

Next year on March 9, we can celebrate the 250th anniversary of **The Wealth of Nations**. That will be a good opportunity to honour Smith's contribution to growth and prosperity and to go deeper in all these issues.

But one thing should be clear right away. If we want to save the climate and resources fast, then we need a much faster process of transformation.

I know no economic model where you get dynamic change without dynamic markets.

3 Markets create many solutions but also many problems

On the other hand, many economic liberals, whether we call them Neo-Libs or Paleo-Libs, still have not understood that Adam Smith and free markets are only half of the necessary answer.

- ▶ **Give all power to the markets, give only weakness to governments, that is no recipe for prosperity but one for disaster. For good balance, we need strong markets, but also strong governance.**

A market without governance is like a motorcar without brakes and without traffic rules.

When you compare the growth of GDP since 1800 with the growth of emissions, there is a high correlation (see table next page).

- ▶ **Since the industrial revolution, market dynamics was the driver of unprecedented prosperity. But unfortunately, climate emissions grew even faster than economic prosperity.**

So when markets create prosperity but also most of our ecological problems, we obviously cannot continue with business as usual. We must find a way to maintain the good qualities of markets, but we also need them to drastically change their bad behaviour towards nature and resources.

IMPORTANT GROWTH DRIVERS FROM 1800 TO 2010								
		From	To	Years	Start value	End value	Factor	Growth p.a.
1	Population (bn people)	1800	2010	210	1,0	6,9	6,6	0,90%
2	GDP/Head (USD)	1800	2010	210	650	8.000	12,3	1,20%
3	CO₂-Output/ GDP (tons/USD)	1820	2008	188	0,02	0,17	8,5	1,14%
4 (=1x2)	World GDP (bn USD)	1820	2008	188	694	50.974	73,5	2,31%
5 (=1x2x3)	CO₂-Output* (mn tons)	1820	2008	188	51	31.981	624,1	3,48%

*CO₂-values in Maddison's tables are 3,666 smaller. He uses carbon (C), not CO₂.
Source: www.ggdc.net/maddison/oriindex.htm

- ▶ As Janez Potočnik always says, we need a total redesign of our business model.

If our long term goal is zero emissions and close to zero destruction of Nature, we obviously cannot strive for a GDP zero. We need to turn back our emissions and our resource depletion to the level of 1800. But the world cannot go back to the GDP level of 1800.

- ▶ The only realistic solution (in my eyes) is total decoupling of resource consumption from GDP.

This is a long term goal. Short term, the least we should fight for is five per cent decoupling year after year.

B. Janez Potočnik, a green liberal

1 Our meeting in Milan

Pictures: The author with GBE's Constanze Adolf (above); main meeting hall Milan Convention Center (below).

In the summer of 2014, I was invited to participate as one of very few NGO-participants and President of Green Budget Germany at the first joint meeting of the Council of Labour Ministers with the Council of Environment Ministers.

- ▶ Dear Janez: One of the highlights there was your short statement which immediately turned me into an absolute believer of JP!



You spoke in the newly erected architecture for the Milano World Expo 2015, very impressive and avantgardistic, but also technocratic, anti-emotional, and anti-communicative.

But you overcame all these technological and architectural barriers. Suddenly, the constant murmur of delegates from 28 EU countries subsided. Your voice came over clear, unpathetic, very modest but very convincing.

- ▶ You had about five minutes. You said everything that was necessary.

You talked about the necessity of an inevitable transformation, you talked about a new growth paradigm. Much sounded similar to what we also know well from Connie Hedegaard who was there as well.

By the way, your fellow ex-Commissioner Connie Hedegaard also comes from an eco-progressive liberal party.

I didn't find your Milan statement in the internet, but something very similar from 2012:

The Europe 2020 economic Strategy is the EU's growth strategy for the coming decade. It aims to deliver smart, sustainable and inclusive growth. These three mutually reinforcing priorities should help Europe deliver high levels of employment, productivity, social cohesion and at the same time meet environmental goals. Sustainable development is part and parcel of the EU's economic agenda.

Resource efficiency is about producing more value from less material input. In doing so, we will also help reduce our big environmental footprint, which is the essence of green growth. We want to de-couple economic growth from the use of resources and its environmental impacts. This will NOT ONLY give Europe a competitive advantage, but ALSO reduce its dependency on foreign sources for raw materials and other natural resources. If we do it right, it will help us deliver on many goals, from shifting to a low carbon economy and building a greener transport system to promoting innovation and protecting nature.



2 A rare species, almost like unicorns

What you and Connie said probably would be signed by everyone in this room here today. So it was not entirely new. But here in Germany, a Green Liberal like you, from a rather centrist party in Slovenia, is something very rare and precious. Our Forum was always on the look-out for Green Liberals like Connie and you, not with very much success.

- ▶ I know they invited you to the liberals in Berlin but I wish they would invite you to their next FDP national convention in Germany.

In the 70ties, there were some progressive liberals in the German FDP. That was in the times of their former General Secretary, Karl-Gerhard Flach, and of former Environment Minister, Werner Maihofer. Unfortunately over the years, most of these Ökoliberale, as we call them, must have fled the party. They went to the Greens or left politics altogether.

- ▶ But I am convinced: A good dose of Eco-Liberalism should be a natural attitude for anyone who studied Adam Smith and shares his sense of fairness and responsibility.
- ▶ Werner Maihofer, for instance, coedited a book with Guido Westerwelle under the title *From Lobby Politics to a Society of Responsibility*¹.
- ▶ When you read Adam Smith, you feel at once: This is a person with an unusually high sense of fairness and responsibility.

When I listened to Janez in Milan, in every word he said I heard the same fairness, the same responsibility. Both was evident for every listener, and both came from the heart.

I flew home from Milan hoping the we would meet soon again.

¹ Von der Gefälligkeitpolitik zur Verantwortungsgesellschaft: Wiesbadener Grundsätze für die liberale Bürgergesellschaft. www.amazon.com/Von-Der-Gefälligkeitpolitik-Verantwortungsgesellschaft-Bürgergesellschaft/dp/3612265202

- ▶ Thank you for fulfilling my wish and sharing this evening with us, only 16 months later.

C. About FÖS and our vision of a greener and fairer market society

1 In search of a Utopia based on gravity

In 1998, we changed our name from Förderverein Ökologische Steuerreform to what it is today: Forum Ökologisch-Soziale Marktwirtschaft.

We felt that the former name was too much instrument-oriented. Eco taxes are a great instrument, no doubt. Instruments are of great importance, no doubt.

- ▶ **But you do not reach the hearts of people even with the smartest set of instrument. To inspire people, you need a vision.**

Humans have invented many visions, from Plato's Philosopher Kings over Thomas More's Utopia until more modern texts like the Communist Manifesto and beyond.

For me, even the Bible starts with a utopic description, namely Adam's and Eve's life in paradise.

- ▶ **But here's the big problem with most of them. In order to work well, people must change. They must become altruistic and then everything will be fine.**

Take paradise. The lion is grazing next to the lamb. Do we really want lions to go vegetarian?

This is where Adam Smith comes in the picture again. His approach has the advantage to work with existing people.

- ▶ **His whole point was to show how the world can improve on the basis of egoism, not altruism.**

This reminds me of the history of flying. Humans have always dreamt of overcoming gravity. Just think of the story of Daedalus and Icarus.

But only when we developed modern physics, when we didn't try to out-trick Nature but studied her laws and followed them, then we could finally develop machines that could fly - through the application of science, not through miracles.

2 Five more reasons for the change of our Forum's name

We introduced the Adam Smith Prize in 2004. Our name change of 2008 was in the name of Adam Smith. But let me give you five more reasons why we want to transform our NGO in a protagonist of Eco-Social Systems:

1. I mentioned the manifold political experiments and aberrations our continent went through. We have seen everything from Manchester Liberalism over State Socialism and even something that called itself National Socialism which ended in a total disaster and destroyed Germany as a Nation.

Today, most European countries have achieved some state of social market system, or socially modified and mollified Capitalism.

- ▶ **I believe the natural next step is to go from here to an eco-social market system.**

2. Our Forum had a strategy debate today and one of the issues went about the differences and the necessary steps between Soziale Marktwirtschaft and Ökosoziale Marktwirtschaft.

A social market system has many rules and instruments to protect labour and the weaker members of society. Usually, this leads to quite a number of red lines.

Similarly, a green market systems means to have quite a few green lines.

- ▶ We all agree the market-based economic instruments are a very important keystone for green market economies. They are the Adam-Smith-Element: Prices must speak the truth. Not only economically, but also in terms of the social and the ecological costs involved.
 - ▶ But this is not enough. We also need many other tools, from direct regulation to changes in life style or less artificial growth incentives.
3. This is not something we need to start from zero. As a matter of fact, most of Europe is already on the path to such an eco-social model. They only call it a little bit differently from country to country.
- ▶ The strategy of both inclusive and sustainable growth is only Euro-speak for an eco-social growth model.
 - ▶ With Europe, I believe the Nordic countries, i.e. Scandinavia plus Finland, are the fore riders for an ecological and social evolution, like they are in many other fields.
4. Unfortunately, the well-meant strategies from Brussels are constantly superseded by new crises. First the financial and Euro Crises, then the problems in Greece or the Ukraine, since last summer the fugitives and since November the terrorists.
- ▶ Every new crisis diverts our attention for the perhaps gravest challenge, namely to live in peace with Nature. This eco-problem is older than all the other crises. It began with the early industrial revolution Adam Smith wrote about. We only became aware of it in the 1970ies. And since then, we always tend to forget it with every new crisis.
5. Eco-Social Market System, that may sound difficult to many. But in reality it is quite simple. We only need to combine three major traditions, all of them European inventions:
- ▶ Liberalism in the best spirit of people like Adam Smith, John Stuart Mill or Ludwig Erhard.
 - ▶ Democratic Socialism in the best spirit of people like St. Just, Karl Marx, Lord Beveridge or Willy Brandt. But also of progressive conservatives like Count Bismarck who created Social Security in Germany.
 - ▶ Environmentalism in the spirit of people like Al Gore, Sir Nicholas Stern, Ernst Ulrich von Weizsäcker, or Janez Potočnik.

Isn't it a wonderful coincidence that two of the persons I just mentioned are here with us tonight?



Picture: The author, the honoree Dr. Janez Potočnik and one of the jurors Hans Eichel.

Annex: We need to transform our economies (Potočnik in 2012)

Statement by Janez Potočnik, European Commissioner for Environment, at the opening ceremony of the ICLEI European Convention - Cities in Europe 2020 in Brussels, 12 September 2012

The two presentations you have just heard lead us to one conclusion: "business as usual" is no real option. We cannot continue to be obsessed with the growth imperative we have had until now. We need to look beyond Gross Domestic Product as the yardstick for measuring a country's development.

The Royal Kingdom of Bhutan is famous for having proclaimed Gross National Happiness as the guiding principle for its development. It makes us rightly think about what is important. I think we would all concur that the ultimate aim of government is to promote the happiness of its people and that there is more to life and to a country than Gross National Product.

Since the industrial revolution many approaches to development in the West have been concentrating on the means of increasing material prosperity with the belief that this would bring happiness. As a result, exploitation and wealth creation have become central pillars of our society. But THIS, unfortunately, at the expense of a greater wealth: that of those resources that underpin our growth and our quality of life.

In the 20th Century we increased our fossil fuel use by 16 times, our fishing catches by 35 times, and our water use by 9 times, whereas the population only increased by 4 times.

With a world population of 1.5 billion 100 years ago, this growth path was still fine. It gave us health, wellbeing and wealth. BUT with a population of 7 or 9 billion it is not fine. Around 200 000 more people every day are sharing a planet which will remain the same size. Unless we DO change the way we operate, we know that these trends will continue. They will be driven by further population growth and the aim to improve our living standards.

At this point in time, we still have a choice: do we open our eyes and anticipate these global conditions? Or do we choose the ostrich policy and we'll see what they bring?

The ongoing crisis has confirmed that we need to make structural changes in our economies. We have lived for too long on excessive debts and deficits. But we have also lived for too long on excessive use of resources.

We should not fight our way out of the one crisis by running into another crisis. We need to look at how our economies work and make sure that they are fit for their true purpose, namely equitable growth and enabling people to live sustainably within the planetary boundaries.

Part of this structural change IS managing the transition to a resource-efficient economy.

The quality and availability of natural resources will be one of the keys to determining growth prospects in the future. Europe needs to react to the massive increase in resource use that we are seeing.

Last year, Europe's leaders took steps to do this by agreeing on the Europe 2020 economic Strategy. That Strategy is the EU's growth strategy for the coming decade. It aims to deliver smart, sustainable and inclusive growth.

These three mutually reinforcing priorities should help Europe deliver high levels of employment, productivity, social cohesion and at the same time meet environmental goals.

Sustainable development is part and parcel of the EU's economic agenda.

BUT, the Strategy is not just about setting aspirations. It is underpinned by tangible actions that will be taken at European Union and national level. One of the flagship initiatives is precisely "Resource-efficient Europe".

² Source: http://europa.eu/rapid/press-release_SPEECH-11-570_en.htm?locale=en

Resource efficiency is about producing more value from less material input. In doing so, we will also help reduce our big environmental footprint, which is the essence of green growth. We want to de-couple economic growth from the use of resources and its environmental impacts. This will NOT ONLY give Europe a competitive advantage, but ALSO reduce its dependency on foreign sources for raw materials and other natural resources. If we do it right, it will help us deliver on many goals, from shifting to a low carbon economy and building a greener transport system to promoting innovation and protecting nature.

To meet such challenges and objectives, resource efficiency will require major changes in the way we organise our economies, at EU level and at national and local level. It will require a fundamental change of the foundations of the system in which we operate.

And ... only so much can be done at EU level. Strong local activity is essential. There is a lot of opportunity for innovative, bottom-up actions at local level.

The majority of Europeans live in cities - places where certain environmental problems are concentrated and where EU environment policy is put into practice. We will not succeed without involving local and regional authorities in reshaping policies.

To address the global challenges we face today, we also need to act locally and local authorities should play a key role. The provision of environmental services such as clean water supply, waste and waste-water treatment facilities, management of natural resources and biodiversity have a high priority in this context.

For example, what we call waste is often a resource. In some Member States 80% of waste is recycled. Other Member States have yet to harness the great potential for realising value from waste. IF local authorities change their perception of waste, and collect and process it as a resource, THEN the environment, the local economy and national finances can all benefit.

"Urban mining" is a way to reclaim compounds and elements from products and waste. There are sources in our cities richer in precious minerals than any goldmine. For example, there is 1g of gold in 25,000 kg of ore, and the same amount of gold in 5 kg of mobile phones.

Another area for action is to change patterns of behaviour, particularly on energy efficiency and mobility. We know that people are significantly influenced by other people. It is evident that transport is one of the main sources of CO2 pollution and noise. Here, for example, we need to find ways to encourage people to use public transport and bicycles more intensively. BUT beyond private behavioural change, local authorities also need to play an important role in addressing this issue - by renewing fleets of public transport and laying bicycle paths ... if we continue to use the same examples.

You might ask how the European Union can help. To advance on the "Resource Efficient Europe" flagship initiative that I mentioned earlier, the European Commission will present a Roadmap to Resource Efficiency in the next few days.

The roadmap sets out the steps that all of us, notably policy-makers and businesses, can and need to take. My key message for you is that improving the way in which we use resources can both save you money and deliver a better environment.

Research shows that a 10-20% reduction in resource and energy use is possible. Achieving this would deliver economic growth and jobs, at a time when they are very much needed.

This is not wishful thinking, this is realistic policy-making. There are many cases at local level where people have tested methods for improving resource efficiency and found that they pay off. For example, the City of Vienna's cross-departmental procurement programme "ÖkoKauf Wien" has improved green procurement. The estimated savings for the City are about €17 million and 30,000 tonnes of CO2 emissions each year.

To encourage and recognise the efforts made by cities to improve the environment, we established the European Green Capital Award in 2008. It rewards local efforts to improve the environment, the economy and the quality of life in cities.

Hamburg is the current holder of the Award, and taking over from Hamburg as European Green Capital for 2012 will be Vitoria-Gasteiz from Spain. Nantes will have the honour in 2013. And we are currently running the call for applications to select the city which will hold the European Green Capital title in 2014. Why not think about applying for your city!

Another area where the European Union can contribute is in proper measurement of progress. In addition to action, we need the tools to measure whether our actions are delivering the progress we strive for.

We want to move from concentrating on Gross Domestic Products statistics to a broader definition of economic growth and prosperity. Some alternative indicators already exist; more are being developed under the Commission's Beyond GDP initiative. Many Member States are looking into this too and work is advancing.

The European Union's role is about setting the strategy. The Europe 2020 Strategy represents a new way for the EU to work with Member States. Environment and resource efficiency are from now on an integral part of Europe's socio-economic agenda.

It touches on many different aspects, such as:

- Prioritising research, innovation, education and sustainable energy
- eliminating environmentally harmful subsidies and tax exemptions
- exploiting Europe's "first mover" competitive advantage in environmental goods and services
- and shifting taxation from labour to environment.

The European Union puts in place a policy framework that supports the transition to a resource-efficient and low-carbon economy. BUT all actors need to engage in this transition. Cities and local authorities have a major part to play in making this transition happen!

The required transformation calls for changes in our behaviour, in our way of operating and thinking.

I have already seen many good examples of people, companies and cities doing this, and being happy about the results. That's why I contend it is not just a wish, but a strategy anchored in economic and environmental reality.

I would be happy to see resource efficiency become Europe's way to ultimately contribute to our happiness. Happiness which would be based on sustaining our prosperity within the limits of our planet. Happiness about realising sustainable development.