

Introductory Remarks to GBE Annual Event in Copenhagen

## **A greener Europe will be a better Europe** **We urgently must find a new prosperity path for the entire EU**

By Dr. Anselm Görres, GBE President – September 15 and 16, 2011

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### **A. An exciting moment in the history of Denmark and Europe<sup>1</sup>**

#### **1. The timing for this conference couldn't be better**

It was extraordinarily considerate of the Danish Government to choose this event's opening day to hold general elections. I am optimistic our presence here will help to produce an even greener and fairer majority than they now have. But there are more important reasons why this is excellent timing.

<sup>1</sup> This is an extended version of my oral introduction, which was much shorter. It also comprises several remarks made in the course of the conference, for instance about the Energy Tax Directive.

Some people may argue that in the midst of a European and even global financial crisis, it may not be the appropriate moment to debate about higher eco-taxes, more ambitious environmental programs, perhaps also social reforms or new taxes like the financial transactions tax. Aren't all these proposals terrible burdens in a financial and fiscal situation that already provides burdens more than enough?

Most of us in GBE would tend to answer: Quite to the contrary. As part of a solution of the European debt crisis, we believe that to solve this crisis, we will need:

- more environmental ambition, not less
- more social fairness, even generosity, not less
- more controls of the financial markets, not less
- and also much more Europe, not less.

With the last point I mean: Stronger rules and institutions in Europe, and a far better coordination and cooperation within the Union, particularly within the Euro group.

## 2. We are in the midst of a continuous crisis, beginning at least 2007

Since 2007, we are in a crisis that doesn't seem to dissipate but only constantly changes its names. Starting seemingly harmlessly, under the name of *US real estate crisis*, this crisis has unfolded into global financial, economic, and social crises, leaving millions of people without jobs and most countries with much higher debts than before. For a short while, this first global crisis almost seemed overcome, but now we are suffering under a second global crisis, involving two major economic super powers – the US and Europe – both with ever increasing levels of debt.

- Obviously, our fiscal and financial systems are not organized to produce stability, let alone sustainable results.
- There is an incredible disproportion between the financial sector and the real economy. Worldwide, financial transactions amount to USD 750 billion, almost 15 times higher than the world GDP of USD 54 bn. In the US, the financial sector's share of total profits has doubled from about one third to two thirds in two decades. **But banks should serve the economy, not the other way round.**
- Despite of some progress in some continents, the overall environmental balance is not improving, but worsening. Almost every month, we have alarming weather catastrophes, or major accidents from unsafe sources of energy, or dubious and unsafe mining and exploration processes.
- ▶ **It is hard to deny: The present world order seems quite incapable of securing our future. It offers no good perspectives to the majority of the world population. Not even in the wealthy countries can it guarantee jobs or education for young people or the poor. In the US, one out of six people lives in poverty.**

### 3. We have to develop a new „business model“ for our future prosperity

The present world order seems unable to produce more welfare without simultaneously producing more destruction of unique resources and irreplaceable species. **Strangely enough, a lot of people’s only dream seems to be to return as fast as possible to the status quo ante.** Can that really be our highest aspiration?

- Does anyone believe that after this crisis, all we need to do is to return to “BAU” (business as usual)? **Should we really believe that the very growth path that led us into this crisis will also be the path to get us out of it?**
- Do you really think we can continue to build ever more and bigger cars, wasteful buildings, and rapidly decaying products that last only a few days, or be it a few years, before turning precious raw material into problematic waste?

Most of us are convinced: **The old prosperity model is dead.** Where it is kept alive, it is usually only working at tremendous costs in the form of perverse subsidies, unsustainable levels of environmental destruction, or ever-growing government debt.

- ▶ **We should not strive to reanimate the old prosperity model. It was based on extreme greed and a child-like degree of short-sightedness. We need the opposite: Mature behaviour of political and economic elites, long-sighted thinking of governments and a much higher degree of responsibility, from all society.**

### 4. Despite all problems, the situation holds a lot of hope for the world

Not everywhere, but in large parts of the world, people are beginning to see the hollowness of the neo-liberal promises of ever-increasing growth and wealth for everybody, where in reality, for millions, if not billions of people, the last decades have brought little or no improvement in real terms.

**Several decades after the “Reagan Revolution”, the promises of the so-called Supply Side Theory have been revealed as empty rhetoric.** They hold no truth, as little as the promise of pain-free nuclear energy.

- More and more, the wealth concentrated among a rich minority and in reality, never trickled down to the poor, as had been promised.
- Deregulation helped some industries, but in most cases not society or the economy as a whole. **It caused few benefits, or rather, benefits for very few.** And it created many more problems than it had promised to solve.
- The Reaganist ideologists told us, *government is the problem, not the solution.* But in the crisis, the government had to save many companies and entire branches of industry. The masters of the universe, those who always claimed they were the smartest men in the world when it came to economic issues stood there with empty hands, like the naked emperor in the fairy tale.
- ▶ **Fukushima has led Germany and several countries, not only in Europe, to move away from nuclear energy. Again, there was a promise broken. Nuclear energy is neither safe, nor clean, nor a cheap energy. It is unsafe, unclean, and extremely expensive.**

- ▶ **It now is very clear: The so-called Supply Side Theory never deserved the title „theory“. In reality, it was only a practical lobbying ideology for the better-off. Or at best: a collection of very nice fairy tales.<sup>2</sup>**

At this very moment however, Europe appears not only weakened under the attack from the markets, but also lacking orientation and a common vision. Another promise broken? But there are many indications that the crisis will lead to a stronger and more united Europe. In addition, the evident failure of the Supply Siders is helping to advance more critical views and opening the way for new thinking.

- ▶ **It depends on us, how we evolve from this crisis. There are many chances offered to us – but we need to grasp them.**

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## B. Still part of the problem, Europe can become the continent of hope

### 1. The world is looking at Europe

In the grip of reactionary Republicans, the US has more or less said good-bye to fiscal fairness, social justice, as well as to the Kyoto process and environmental progress. **The less we can expect from the US, the more the world will be looking to Europe to develop a growth model that combines prosperity and sustainability.** In some sectors and countries, most of those in the EU, it has already been possible to decouple energy growth from that of GDP.

More and more Americans seem to be dreaming of an economy with ever less taxes and an ever weaker government. Most Europeans don't share this dream:

- Europeans recognize that social security, good education for everybody, environmental progress, and a high supply of other public goods have their price.
- Europeans know that taxes are the price for a civilised society (Franklin Delano Roosevelt) and are willing to pay that price.
- Europeans are tired of the old ideological debate of plan versus market that has torn and divided our continent over decades, long even before 1945.
- We know that **we need a totally different, much more enlightened debate:** Namely how can we best combine the powers of the market and the powers of the state to the common good of all.
- ▶ **After centuries of illusions, we know that neither the State nor the market are gods. In an enlightened democracy, they are just instruments that need to serve the common good.**

So our debate is how to get the best form of governance and the most efficient form of regulation. It is certainly no coincidence that in the world map of climate protec-

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<sup>2</sup> See my essay *Wie Reagan die Sterntaler regnen ließ. Die Märchen der Angebotstheorie machen heute niemanden mehr satt*: [www.foes.de/pdf/Reagan+SterntalerVentureCapital%20Magazin2009-07.pdf](http://www.foes.de/pdf/Reagan+SterntalerVentureCapital%20Magazin2009-07.pdf).

tion, Europe is among the best-positioned continents.<sup>3</sup> Europe ought to be a lot more proud of its own successes. **While America moves backward, we go forward.**

- ▶ **We also know: Ecotaxes are an excellent example of efficient regulation. The Energy Tax Directive is an excellent example of how energy taxes can be improved, and how we can simultaneously strengthen the competitiveness of our economies, and generate fiscal revenues.**
- ▶ **Outside of Europe and the US, people and nations still try to copy the American life style – but they also seem to prefer the European philosophy of the State controlling the economy, not the other way around.**
- ▶ **If we work hard enough, our small Europe will become the continent of hope.**

## 2. The Energy tax directive: Part of a European Recovery Strategy

In our view, the Commission has done only a medium class job in explaining and defending the new ETD-proposal. This may be explained by the many pressing problems being debated in Brussels, and also by the technical complexity of such a directive. Over the many legal and technocratic details, also a lot of petty controversy, it is easy to overlook the usefulness, even brilliance, of Commissioner Algirdas Šemeta's proposals, through its two main elements, namely to distinguish between energy and carbon, and between stationary and mobile consumption.

### a) Distinction between energy and CO2-component

By this separation into two components, the draft makes it very clear that every energy needs to be taxed, even if it's production were 100% carbon-free.<sup>4</sup>

- Distribution of energy usually involves the use of societal networks including untaxed external effects, think for instance of ugly power lines cutting through forests and cities, or radiation from them. **By taxing energy, we compensate some of the external effects that are caused by any energy network.**
- Usage of energy usually goes hand in hand with consumption or transportation of other resources. The more energy we consume, the more resource use and transportation costs arise. As a rule, these resources are not taxed at all, or grossly undertaxed. **So energy taxation is a quid pro quo, or substitute, for missing or too low resource taxation.**
- If energy and resource consumption go hand in hand, then also energy and resource efficiency go hand in hand. **The higher you tax energy, the more energy and resource efficiency you will get.**
- ▶ **The principle of taxing every kind of energy – independent of its carbon content – makes it obvious that even green energy is not totally harmless and we are much better off if we learn to live with less energy, green or not.**

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<sup>3</sup> See the wonderful world map provided by Germanwatch: [www.germanwatch.org/klima/ksi2011.pdf](http://www.germanwatch.org/klima/ksi2011.pdf).

<sup>4</sup> This is quite improbable, for under present technological conditions, the production and distribution of energy will always involve some element of at least indirect carbon use.

But the separate treatment of the carbon component has additional advantages:

- In sectors within the emission trading system (ETS), no carbon component is needed.
- In sectors outside the ETS, the price for the carbon component can be loosely connected to the carbon price in the ETS.
- ▶ **As a result, a more or less unified carbon price throughout the economy can be achieved, even for the entire EU.**

b) The distinction between stationary and mobile consumption of energy

The rationale of this distinction (which already was in former directives) is very often overlooked, for instance when people calculate different energy taxes in terms of carbon units. **Naturally, they find huge differences, for instances between diesel as a road fuel and light oil for home heating, which then are often used to denounce the tax structure as “irrational”.** These people have understood very little, least of all the differences between stationary and mobile consumers of energy.

- In some way or other, all mobile consumers use networks provided by society, like the national rail system, or the roads and highways of a country or city.
- Even airplanes rely on airports and flight control, both mostly financed with heavy subsidies from governments.
- For these reasons not only in Europe, transport fuels have been taxed many decades before there was any debate about emissions and external effects.
- ▶ **This is why in transportation, taxation of fuels is not only necessary and justified, but also a very intelligent way to make vehicles pay according to their weight or speed. These factors usually correlate with network usage and wear.**

For the climate, it makes no difference where carbon is emitted. But for the social costs of energy use, it makes a big difference whether it takes place in combination with the use of transport networks or in stationary sources.

- ▶ **By the way, this problem has been largely ignored in the debate about electromobility. If everybody can refill his battery from the home or garage plug – who is going to finance the infrastructure consumption of electric cars – perhaps the poor pedestrians?**
- ▶ **If we accept that a litre of diesel in a car or truck must be taxed higher than a litre of oil in a heating furnace, why don't we agree that for a kWh in an electric stove one should pay lower taxes than for a kWh in an electric automobile.**

c) Some further progress, but also some remaining weakness

The ETD-draft holds more improvements and could help many countries to achieve higher national levels of energy taxes. **It's basic principles could well serve to remodel national tax structures.** Of course, some weaknesses remain, like the exclusion of aircraft fuel, fishery, or shipping. We'll talk about that some other time.

### 3. In the Euro debate, the green element is perhaps the most neglected part

In the recent developments about Greece and the European South, most of the attention has been centred on ever-more sophisticated – and all too often quite short-lived – solutions for debt-management and financial engineering. Of course these developments, like all first-aid-measures, are quite dramatic and most important for solving immediate liquidity needs.

But in comparison, **many other issues of less apparent urgency, but perhaps greater long-term importance, have been neglected**, among these the evolution of European rules and institutions or more innovative elements of national recovery plans, primarily for Greece, but desirably also for other endangered states.

- ▶ **The most neglected aspect in our view, however, was to which degree “green” elements can play a role within such recovery plans, and how we can move from desperate rescue reactions for some countries to a new prosperity vision for the entire EU. We will talk more about this at the coming GCET in Madrid.**<sup>5</sup>

To give just one example: Why doesn't Greece introduce a city toll for Athens and Saloniki? With less traffic, less air pollution, less noise in the city, and less oil imports? If some of the money is spent for new express buses, and dedicated avenues for buses and bikes, the toll would burden mainly the better-off, while greatly improving daily life for the poor, who do not own cars anyway.

### 4. The Green Covenant: Trading transfers for support to Green EU Strategies

As GBE, it is far beyond our competence to judge whether Greece or perhaps even other “GIPS-Countries” will need a haircut, a currency devaluation or even some “ordered insolvency”. **But everybody knows the Status quo is no solution.**

In one way or another, the countries with more fiscal discipline will end up paying a considerable part of the deficits accumulated in Southern Europe. **If such a transfer takes place within a European strategy for fiscal stability and a sustainable recovery of the European economy, it may well be justified as an investment in a better common future. It seems only fair, however, that countries receiving financial support from the community should also support the EU's environmental objectives.**

- ▶ **We should call for a Green Covenant for inner-European fiscal transfers. Receiver countries can be expected to support EU policies for greener growth, such as the ETD.**

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<sup>5</sup> 12th Global Conference on Environmental Taxation in Madrid, Spain, October 20 and 21<sup>st</sup>, 2011: [www.seatra.org/gesconet/Portal/InicioPortal.asp?ConID=68&NombreC=12th%20Global%20Conference%20on%20Environmental%20Taxation&Idioma=I&Apartado=Inicio&Pagina=Bienvenida](http://www.seatra.org/gesconet/Portal/InicioPortal.asp?ConID=68&NombreC=12th%20Global%20Conference%20on%20Environmental%20Taxation&Idioma=I&Apartado=Inicio&Pagina=Bienvenida).

## 5. **After so many broken promises and lost years: We need a new growth debate, combined with a debate about society reform**

There has been growing criticism of our growth model and the way we measure wealth and social welfare. This debate is overdue. But it should be extended to include the structures of our future economic system.

- After over two hundred years of social debates and conflicts, we know enough about capitalism, socialism, and other alternative models to draw some conclusions and improve our system. Capitalism “pure” doesn’t work. It needs checks and balances. The last two centuries have been filled with wars, revolutions and other catastrophes from which we could derive some lessons.

We simply need to combine the best of all worlds:

- Enlightened Capitalism means competition, entrepreneurship, and efficiency, but please no monopolies, no shareholder value ideology, and no domination of the real economy by hedge funds, stock markets and investment banks.

Modern corporations must be corporate citizens and care not only for their shareholders’ profits, but also for social and environmental responsibilities.

- Enlightened social policy means protection for the weaker members of society, by way of minimum wages, work time limitations or other forms of protections. It also includes comprehensive insurance against unemployment, sickness, or other times without income, like old age or mental illness.

At the same time, we need to avoid stifling regulation or bureaucracy, an overgrown public sector, or asymmetric Keynesianism that only builds up deficits without ever reducing them.

**A modern social state also combines “biodiversity of ownership models”, like family enterprises and corporations, but also public and cooperative forms of ownership.**

After 40 years of experience with environmental policy we also know enough about the best and most efficient green instruments. We need an intelligent combination of regulatory tools and market incentives within a Green Budget concept.

- ▶ **To combine all this knowledge, we need a EU-wide debate about a greener and fairer Capitalism, or Öko-Soziale Marktwirtschaft, as it is called in German.**
- ▶ **A renewed European Energy Tax Directive can be an important part of a reform path towards a greener and fairer market economy in Europe.**
- ▶ **The good news is: More than any other continent in the world, Europe is already on the path to an eco-social market system. Let’s continue along this path.**
- ▶ **If we are smart, even the present European crisis can help us to build a greener, fairer and better Europe, and thereby also a much more stable Europe.**