

SPEECH TO AWARD KLAUS TÖPFER THE ADAM SMITH PRIZE FOR ENVIRONMENTAL ECONOMIC POLICY

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We are delighted to welcome conference participants from every continent, from 50 different countries, and not only from academic institutions, but also from businesses, from international organizations, from national governments, and from national and international NGOs, to this conference in Munich.

I don't know if Adam Smith would have come to this conference – he was a rather shy and modest person, who seldom left his home and never got married, his sister kept the house for him. But I know he is present here in spirit.

Let me start with a little joke. A man is driving with his wife on the Autobahn from Munich to Stuttgart. Suddenly, they hear the traffic news: *Achtung, Achtung*, car drivers, watch out! There is a *Geisterfahrer* – *someone driving the wrong way* – on the *Autobahn* to Stuttgart!

The man turns to his wife: *Just one Geisterfahrer? There must be hundreds of them! The people on the radio have no idea what's going on here!*

Adam Smith could also be called a *Geisterfahrer*. He never owned a car, perhaps not even a carriage, **but he drove against the mainstream current of his time.**

If we define *Geisterfahrer* as a progressive and unconventional person, most of you in this room are *Geisterfahrer* – you too are progressive and swim against the tide, perhaps misunderstood by the people around you.

The Adam Smith Prize is *the prize for such progressive and successful Geisterfahrer* like Klaus Töpfer.

For more than 30 years now, Klaus Töpfer has fought for the protection of the environment and I am sure, he must have felt very lonely many times during those 30 years. Driving all by himself on the wrong lane of the autobahn – with so many others driving against him.

Already in 1978, he was a member of the German Council of Experts for the Environment and at the same time, Director and Professor of the Institute for Planning and Land Use at the University of Hannover. Since that time, he has fought for the environment in many roles, not only as former Minister for the Environment in Rhineland-Palatinate and then for the German federal government, but also, until recently, as Head of the United Nations Environment Programme in Nairobi.

Green Budget Germany is proud to present the 2007 Adam Smith Prize for environmental economic policy to Klaus Töpfer in recognition of his courageous fight to use market based policies to protect the environment and the climate.

Why did we found the Adam Smith Prize?

231 years after the appearance of the Wealth of Nations, 217 years after his death, you may certainly ask: Why do we have to hand out a prize in the name of Adam Smith? Everyone believes in the power of the market, even most of the former socialists and communists!

- Hasn't there been an almost complete victory of free markets and free enterprise in most corners of the world?

- Do not even those countries that are still far from western democracy build their development more and more on a market-based economy?
- Why do so many countries, so many politicians, that otherwise loudly proclaim market-based economic policy, dislike market-based environmental policy so much, and even fight against it?
- And finally, why is it that people who fight for market-based instruments of environmental policy so **often feel like Geisterfahrer, driving the wrong way on the Autobahn?** Why are we still a minority in most countries?

Let me try to give you three answers to these questions:

Answer no. 1 has to do with our ambivalent attitude to competition

The fact that most of us owe most of our prosperity to the dynamics of free markets and the forces of competition does not mean that we enjoy competition ourselves. Rather, most people feel: Competition is good for everyone else in the market, not for me.

- It's wonderful to have many workers competing for jobs, that will drive wages down. It's wonderful to have suppliers competing for our contract, that will keep their prices down. And it's most wonderful if my customers find my product desirable and compete for it, that will make it more attractive.
- But no company wants to be in fierce competition with other companies. To take a recent sample from the light bulb industry: We are only twenty minutes walk from Siemens headquarters. The Siemens-subsidiary Osram is Europe's largest producer of light bulbs. Unfortunately, they're still making most of their money with conventional light bulbs, and their energy-saving light bulbs have a hard time competing against cheaper ones from Asia. So how do you fight such unpleasant competition? You don't fight it in the market, like Adam Smith would prefer. No, you fight for tariff protection in Brussels.

To do justice to the EU: Osram wanted a five year extension, Brussels only gave them one year. In the interest both of the European consumer and the environment, we hope the EU will not extend the tariff next year!

- We all have to learn: The paradox of the market is that for the individual market participant, **competition is the last thing that he seeks. We are a rent-seeking society, not a competition-seeking society! Adam Smith knew all this already in the 18th century.**
- We are like soccer players. Of course we want no fouls, we want the referee to punish the competing team when they play foul. But with our own fouls, we hope the referee won't see them and if he sees them, we try to deny them and get away with it. Market participants are just as human as soccer players.

So when you go back from this conference and tell people that market based climate politics are sound, innovative, and efficient, they won't rejoice and say *wow, why didn't you say that before!* *Let's introduce green taxes and emission trading starting next Monday!* Instead, most of them will start calculating: *Will it help me, or will I be one of the losers?*

This leads me to answer no. 2: The asymmetric perception of winners and losers.

We have seen a lot of this in Germany. Ecological change means much more than just some cosmetic brush-up on the surface. The transition to a sustainable prosperity – like any great societal change – implies a process of creative destruction.

If our present prices are misleading us, because they are far from telling the ecological truth – then the allocation resulting from these prices is simply wrong. And that means that the majority of present products, of present behavior, of present patterns of production and consumption are not sustainable – they need to be changed or they will have to disappear.

So, a lot of people are afraid. They do not realize that in the process of transition, most probably many more new jobs and products and entire industries will be created than will be destroyed. **They see the dangers, not the opportunities.**

The worst influence is that of the lobbies, particularly the lobbies of old dinosaur industries, for traditional fossil-powered cars, or energy-intensive materials like steel. What is more, the lobbies for the new industries are still small and weak. They are barely beginning to form themselves and get organized.

Answer no. 3 has to do with the role of government, and the anti-government mainstream in current economics

When we talk about environmental politics, we are talking about government intervention in the form of conventional instruments like command and control, or market-based instruments. In both cases, we need the government to step in because the market has failed. We need the visible hand of the state to guide the invisible hand.

Unlike perhaps in other fields, in the case of the environment, it is totally impossible to blame government intervention for the problems we have – **because there hasn't been any government intervention!** Over the last fifty years, we have seen explosive growth in the consumption of fossil energies in almost every country in the world. Growth that was driven by a similar explosive growth in the number of cars, in the production and consumption of material goods, and energy-intensive services like transport.

Not an excess of government intervention, no: the very success of the market-based economic dynamic has brought us the climate crisis. **Our problem is governance abstinence, not government overactivity.**

And the problem at this point has to do with Adam Smith – not himself, but with many who claim to be his successors. **Adam Smith was not an enemy of reasonable government intervention, quite to the contrary.**

But many of the self-appointed Adam-Smith-disciples are radical economists who are anti-government, anti-taxes, anti-regulation. They have had a very strong influence on economic thinking and policy, at least over the last twenty-five years or so, perhaps starting 1980, when Reagan was elected President for the first time.

This is much more true for the US than for Europe, and this is one reason why Europe is outperforming the US not in many fields, but certainly when it comes to mature and responsible behavior towards the environment.

Historically, it is certainly true that the early bourgeois liberals had to fight against the feudal state, the gentry and the government to establish the freedom of competition and enterprise. The freedom to make contracts with everybody else, the freedom to establish a company or the trade within and without the countries – all these liberties had to be acquired in centuries of struggle.

But to protect the environment, we have to fight for more, not for less government. This is a paradigm shift that obviously asks too much of the intellectual capacity of some opponents.

So now I can summarize the three main obstacles to applying the spirit of Adam Smith to the fight for the protection of the climate:

- We like the fruits of the invisible hand and competition, **but we do not like it when these principles are applied to ourselves.**
- We tend to overestimate the losses and understate the opportunities. This goes hand in hand with **strong alliances of the losers, blocking the still weak alliances of the future winners.**
- And we have to overcome the typical ideology of many liberal economists and business people, **that markets are always good and governments always bad for prosperity.** This is a childish simplification that is particularly detrimental when we talk about climate protection.

Because of all these three factors, we tend to have much less environmental intervention than we actually need, and within the political mix of instruments, regulation tools are over-represented, in contrast to MBI.

This explains why so many of us often feel like *Geisterfahrer*, the only ones on the road driving forward to a sustainable future when the majority is driving backward.

How can we turn the tide?

One of the most positive effects of the last one or two years is **the rediscovery of conservation by the conservatives.** I never had understood why in Germany, for instance, the majority of the conservative voices were missing in the fight for climate protection – at least until very recently.

In every country, there are many blends of conservatives, some more progressive, others truly reactionary. We've had our share of the latter sort in Germany.

One of these reactionary conservatives was William II, the famous Kaiser, who was Queen Victoria's nephew and crazy about building a large Navy like the British. This and many other foolish acts helped Germany stumble into the First World War. Just last week, the German-Jewish-American historian Fritz Stern likened William to another famous or infamous politician with a big W in his name.

When William II took power, one of his first acts was to fire Count Bismarck, who had brought Germany national unity and – against the fervent opposition of many conservatives – had introduced social security.

To tackle the social challenge of the 19th century, mandatory state insurance against sickness and age was about as important as ecotaxes and emission trading are to the environmental challenge of the 21st century. And in both cases, some of the opponents are people who abuse the name of Adam Smith to prevent social or environmental progress.

In the Germany of the 1980s and early 1990s, Wolfgang Schäuble and Angela Merkel could have become **the ecological Bismarcks of the Christian Democrats, the German conservatives of today.** But at the time, they merely flirted with ecotaxes and lacked the courage to stand up against Helmut Kohl.

Back in the last century, shortsighted conservatives ruled the day. There was no Bismarck and no Angela Merkel to pull them out from their ideological trenches. So they continued to fight MBIs. They proclaimed that they were in favor of climate protection, but they did not propose any strong measures to bring it about. One could see them fighting fiercely against eco-taxes, partly also fighting against emission trading, but one could very seldom see them fighting FOR anything.

Klaus Töpfer has been a notable exception to this rule. He has stood and defended MBI time and again, often against bitter opposition from his own party colleagues.

He stands in the tradition of responsible and far-sighted conservatives like Bismarck, and not in the tradition of the reactionary “Ws”.

I remember that in the 1990s, he was invited by the Christian-Social Party of Bavaria, to give a speech at the Bavarian diet, the *Bayerische Landtag*. I was told that after his speech there was a lot of silence and very little applause. Part of the audience must have been very unhappy about what he said, particularly about the Ökosteuer, the much hated ecotax of the Red-Green government.

Dear Professor Töpfer, I am sure that today in Munich, the audience will be most happy about what you have to say and there will be no lack of applause. We are very proud and happy that you have come to our conference and have accepted the prize.

Author's Postscript

Eleven months after the GCET 2007, the world is becoming more and more skeptical towards the ideology of laissez-faire. The US-centered financial crisis is owed to many factors, but certainly to cheap money and weak financial regulation. Just like the climate crisis is a result of many causes, but foremost of cheap energy and meek environmental regulation. So one of the best things the subprime crisis has brought, besides many grave and bitter consequences, is an unusual and refreshing lowering of volume from the usual mouthpieces of free market rhetoric.