Eco-Social Market Economy for a Better World

In the face of global challenges, the key to a better future lies in the right combination of innovations in technology and in governance.

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In the following lecture, I will concentrate on essentials and restrict myself to the discussion of markets and sustainability in the context of globalization. Over the last decades, humankind has made two major global decisions concerning governance. The first, made since the fall of the Berlin Wall, is to run the economy via markets. The second is that sustainability should guide our decisions. But in their present form, markets and sustainability as concepts don’t fit together. The global economic system apparently leads to the opposite of sustainability.

Can a global market system be sustainable?

Is it possible to have a global market system that is sustainable, or are there logical reasons why that is impossible? Perhaps a sustainable world market system for 10 billion people cannot be realized.

It would be a disaster if that were to be the case, because then we would have to make a crucial choice: either we want markets, and thus the wealth, goods and services that come along with it, even if that means destroying the world; or we choose not to destroy the world but accept that there will not be much in terms of goods and services available to the 7 to 10 billion people on our planet.

There are many people, including those in leading positions in the private sector, that are convinced that it is impossible to both maintain current market activity and preserve the earth. But we from the Club of Rome, the Global Marshall Plan Initiative and the Eco-social Forum of Europe think that it is possible to have a rich world of 10 billion people, organized via markets, that is still sustainable. The question then, of course, is, how would it look? What is the nature of a global economy that is market-oriented and sustainable?

Before I say something about this, I want to draw attention to another issue that is sometimes implicitly involved in our debate without being explicitly mentioned, namely that even if it is possible to have markets and sustainability at the same time. We might still have to pay a high price for it. The rich part of the world may have to give up at least one third of our present level of consumption so that others in developing countries can approach this level too. People worry that if the global economy is too socially oriented, it will be an economy that makes us poorer in the rich world: we will have to lose, have to share, have to give away. And this is not a prospect everyone relishes.
Our own econometric studies, recent work by Jacobs and Slaus¹ and by Cornia and Court², as well as recent work in the UK by Richard Wilkinson and Kate Pickett³ show that in OECD nations more social balance makes people’s lives better. This may not hold for very poor countries which still have to develop before reaching a level at which the populations basic needs are provided for, but in all OECD nations, which differ among each other in average income at least by a factor of three, quality of life is determined more by social balance than by average income. The USA is the best example of how a rich country might not harbour good quality of life: in almost every social parameter, life is more frustrating for its people than, let’s say, for citizens of the group of Northern European small consensus democracies to which the Netherlands belongs.

So, within the range of OECD nations, more balance seems to imply a better world, a better country with better social parameters. if we were able to combine markets and sustainability, this need not mean that we would have to become poorer in the rich world. It may also not mean that we would have less growth. All these points are important for the political debate: more global balance is not a losing strategy, Muhammad Yunus’ work on micro credits and social enterprises⁴ are further indications in this direction.

However, there are mathematical reasons why a more balanced society is not as attractive for the small segment of the most successful people in markets. In other words, Brazil or South Africa are, for their elites, more attractive in many aspects than the Netherlands is for its elites. This is also true in terms of the power balance in democratic countries, because a developed wealthy democracy usually allows its people to organize themselves against the interests of a small elite, while in Brazil and South Africa the 90 per cent majority cannot really organize itself politically. In these countries, the elite 10 per cent holds such a large share of total income that they can use that financial dominance to intervene and frustrate all political initiatives of the majority 90 per cent. In relative terms, the situation for the 10 per cent is so interesting and rewarding that many of their members would rather have a society that is poor but very unbalanced than a society that is rich but balanced.

Democracy only works in a society that is comparatively balanced; otherwise it is only a democracy in a formal sense and not in the sense that the majority of the people can organize the process, look after their interests and implement their social and economic human rights.

To my mind, globalization resulted far more from the rapid progress in information and communication technologies than from any political decision. The resulting globalization process is a mechanism to make the democracies in countries like yours and mine less powerful by removing many essential issues from the national level and bringing them instead to the higher levels of the World Trade Organization (WTO) or Basel Ill or the International Monetary Fund (IMF). Democracy is no longer a central part of the process of building compromises. In the end, in a democracy you can, as a state, say yes or no to a global compromise, but as citizens you have no influence on the process of shaping the details of that compromise. Those who are part of the global elite always have their influence, but it is not a transparent, democratic influence; rather it takes the form of background lobbying in which a lot of money moves around.

Given that it is not clear where globalization will end, there is a strong possibility of ecological collapse. But we also see a chance for a reasonable Future for 10 billion people. So let me concentrate on that third option - a balanced future. How can we build a reasonable world for 10 billion people given our obvious resource limitations?

**Innovation**

Innovation is nothing new: it is at the heart of economic theory, and the most important person who understood this is Schumpeter, the Viennese economist. He thought that the key factor driving markets was innovation and that with new major innovations a bright future was possible. Innovation might be able to create 10 times the economic output we create today using the resources we have available in, let’s say, 70 years. Innovation could bring us green growth, enormous economic growth with no change in the use of
resources. Perhaps even with negative growth in the use of resources we could create increased real growth in the production of goods and services.

The problem with innovation in technology is the so-called rebound or boomerang effect. History shows that while we become ever more eco-efficient, we still use more and more crucial and non-renewable resources because higher efficiency creates the possibility for ever more people to achieve a higher living standard and therefore consume more.

That is why we need as much innovation in governance as we have in technology if we want sustainability in the future. Is it possible to achieve global governance that can protect the global commons and support rich, balanced growth towards a sustainable future?

**Global governance for rich, balanced growth**

In principle, it is not so difficult to imagine global governance for rich, balanced growth in a single global democracy with the same language and a common ethos. But how can we organize global governance across 192 sovereign states, each with its own history, problems, power and perspectives?

Let me give a few examples of where there is potential. In 2012, the Rio Plus 20 summit will take place. On the table will be a global social agenda encompassing the Millennium Development Goals (MDGs), Agenda 21 and related topics. Also in 2012, the Kyoto Protocol will end and we will therefore have climate and energy issues on the table. Finally, on the future architecture of the global financial system following the global financial crisis a decision is scheduled for 2012. These are three interconnected topics of central importance for global governance, so 2012 is a crucial moment in time in terms of the Future of our world.

We need to extend global democracy. The idea of a parliamentary assembly at the UN is a powerful one that has already received support from many of the members of the European Parliament and other organizations. Initially, this would be an assembly without any real power, except for the power to articulate a global position. Over the time, it would accumulate more power - as the European Parliament did as well. The establishment of such a parliamentary assembly would be a big step forward.

Secondly, we urgently need strict regulation of the global financial sector. This must include certain elements of harmonization of taxes. It should not be the case that the most successful economic actors pay hardly any tax. We need those taxes for financing global development and so that our states can repay the debt stemming from managing the financial crisis. It is impossible to get rid of that debt at the national level today. This would directly drive our countries into Brazilianization. We have to tax the global economic transaction processes in which the strongest actors make the highest returns, and, in particular, we have to close tax havens.

I am very happy that the G-20 began to work on these issues. If there is any positive outcome from the financial crisis, it is the new role of the G-20 and the fact that they are tackling tax havens. But they should also work towards harmonization of taxes and the fiscal transparency needed for global economic processes as much as for national processes. Using that money, we can invest in the MDGs and in education, as education is the key for a richer world. And of course, on the basis of a common understanding, we can also invest in energy and climate-change solutions. In fact, we may even implement something akin to the Global Marshall Plan.

**Energy and climate issues**

Many people are frustrated with the outcome of the Copenhagen talks. But this results very much from a position of the rich OECD nations arguing that India and China do not really want to do anything about the climate issue. However, India and China are not the problem: we are the problem. The Indians and the
Chinese made big concessions in Copenhagen by offering to keep the future rate of increase in CO2 emissions below their annual economic growth rate - less than 60 per cent of the economic growth rate in the case of China and less than 75 per cent of the economic growth rate in India's case. Take into account that an Indian on average produces only 1.5 tons of emissions a year, whereas Europeans produce 8 to 10 tons and US citizens 20 tons. If you take 75 per cent of the growth of the 1.5 tons in India over a number of years, you still have relatively low CO2 emissions per person in India.

So we should be grateful to the Indians and the Chinese and formalize their offer with a contract. We have worked on this and have concluded that there is now at reasonable chance for a working contract if the states work intelligently on the basis of what was agreed in Copenhagen. The Copenhagen outcome can be combined with a Global Reforestation Programme. Estimates are that we need a forestation programme of 5 million km²; to bind 200 billion tons of CO2 permanently. Such a programme has the character of a Global Marshall Plan. Organizations, companies and individuals in the rich world will pay for it and make themselves carbon-neutral.

To finalize such a contract needs a different mindset, though. In the past weeks, I have spoken to negotiators preparing the Tianjin and Cancun meetings. Unfortunately, even the Europeans are not willing to pay anything to the Indians and the Chinese to encourage them to limit their emissions further. But if we want to stabilize the climate, we have to put money into China and India and secure more US involvement. Small-scale measures such as investing in the energy efficiency of our houses, for instance, are important, but it won't solve the climate problem alone. We need global cooperation. We have to open our minds and understand that we will be richer if we cooperate than if we try to solve everything at home, where our money seems to stay with us. If we communicate enough, we may have a chance. Intelligent ways of dealing with prisoners-dilemma situations will play an important role, and they will often have a double-strategic nature, as does the impressive Simpol Campaign, promoted by the International Simultaneous Policy Organisation (ISPO).

Taking such intelligent approaches and further crises into account, I think we have a 35 per cent chance of a good future. The solution is not the free market: the solution is an ecologically and socially regulated global market, an eco-social market economy. Markets are the way to go, and markets can be sustainable, but only if they are ecologically, socially and culturally regulated markets. So, go eco-social!
Bibliography


