

Global Governance, Markets and Sustainability¹

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We are in a crucial situation globally at this moment. Many relevant aspects have already been mentioned in this meeting. I will concentrate myself in the following on essentials and restrict myself to two points. These are: **markets** and **sustainability** in the context of globalization.

We start from problems in **global governance**, e.g. concerning climate, energy, population growth and the gap between rich and poor. What is the core issue to overcome all the related problems? Essentially, this would require to bring about a sustainable future for the world as a whole. So let us ask whether the two concepts for which the world as a whole has opted, markets and sustainability, are compatible at all.

To emphasize the core issue: Humankind, over the last decades, has made two major global decisions concerning governance [10, 14, 17]. One is that we have, since the fall of the Berlin Wall, decided for humankind to do the **economy via markets**. We go for markets, we organise the production and distribution of goods and services in markets. The other decision we made is that we want to be **sustainable**. At least that is what we say. So, at least at the level of words, we have two main concepts, one is markets, the other sustainability that should guide our decisions. But in their present form, both concepts don't fit together. **The global economic system apparently leads to the opposite of sustainability.**

The question therefore is, whether we could have a global market system that is sustainable, or whether there are logical reasons why that is impossible? This is the basic question. May be it is impossible. When Prof. Stiglitz, Nobel laureate, was asked recently about the "invisible hand", he said: "I never saw one! May be there is none." It is possible that what we hope for is something that is infeasible. Maybe a world market system for 10 billion people that is sustainable cannot be realized.

It would be a disaster if that would be the case, because then we would have to make a crucial choice: either we want markets and thus wealth, goods and services that come along with it – however at the price that we destroy the world; or we don't destroy the world but there is not much in goods and services available for 7 to 10 billion people. A very frustrating choice if it would not be possible to have both.

Now I did not ask you as a group what you think concerning the question posed. However, recently, I found out that there are many people that are convinced that it is impossible to have both, even many people in leading positions from the private sector. But we from the Club of Rome, the Global Marshall Plan Initiative and the Eco-social Forum of Europe, we think that it is possible to have a rich world of 10 billion people organised via markets and still sustainable at the same time. The question then, of

course, is, how would it look like? **What is the nature of a global economy that is market oriented and sustainable?**

Before I say something to this, there is another question that is sometimes implicitly involved in our debate without being explicitly mentioned, namely the following: even if it should be possible to have markets and sustainability at the same time, we still might have **to pay a high price for it**. Maybe the rich part of the world has to give away a lot to share it with others to reach the aim. The argument behind this fear is that we have a limited cake and maybe we can do it, but that would mean that we will have to give up at least one third of our present level of consumption so that the Africans and the others can approach this level, too. Because people think that if the global economy is too much socially oriented, it certainly must be an economy that makes us poorer in the rich world: we have to loose, we have to share, we have to give away. Which most people do not like so much.

Our own econometric studies [5, 9], recent work by Jacobs and Slaus [4] and by Cornia and Court [2], as well as recent work in Great Britain of Richard Wilkinson and Kate Pickett [19] show, that at the level of OECD states more social balance **makes nations and the life of people better**. This may not hold for really poor countries which first have to develop to reach the basic needs level. But if you take all OECD nations, which differ among each other in average income at least by a factor of three, the quality of life in those countries is more determined by the social balance than by their average income. And the US is the best example of a rich country to show what might go wrong. It is in almost every social parameter more frustrating for its people than, let's say, the group of Northern European small consensus democracies to which the Netherlands belong.

So within the range of countries that you find within the OECD, more balance seems to imply a better world, a better country with better social parameters. The point is that if we might be able to combine markets and sustainability, this needs not mean that we have to get 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. It is not a strategy for losers. And Muhammad Yunus' work on micro credits and social enterprises are further indications in this direction [20, 21, 22].

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, e.g. the premium segment of society as a not so balanced society [5, 9]. Let me put it this way: Brazil or South Africa is for its elite in many aspects more attractive than the Netherlands is for its elites. This is also true with view to the power balance in democratic countries.

Because a developed wealthy democracy usually allows its people to organise themselves against the interests of a small elite while under the conditions of Brazil and South Africa the 90 per cent majority cannot really organise itself politically.

The mathematical reason is that 90 per cent of the people has only a small share of the total income while 10 per cent has such a large share that they can use that financial dominance to intervene and frustrate all political initiatives of the 90 per cent to better organise themselves. It is after all very easy for the rich to make it impossible for the 90 per cent to have a coherent strategy if the 90 per cent controls only 30 per cent of total income and the 10 per cent controls 70 per cent. In relative terms, the situation for the 10 per cent is so interesting and rewarding that many of their members 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 more formal sense and not in the sense that the majority of the people can organise the process, be able to look after their interests and **implement their social and economic human rights**.

What I understood with my economic and mathematical background is that globalisation resulted strongly from the rapid progress in **information and communication technologies**, much more so than from any political decision. However, the resulting globalisation process is a mechanism to make the democracies in countries like yours and mine less powerful by taking many essential issues out of the democracy at national level and putting them on higher decision levels such as the WTO or Basel III or the IMF. Globalisation took the decision to a level at which democracy is not anymore 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. It is true, in the end you can only say yes or no, but if you say no, you are not in the game anymore. So you have to say yes, but it will always be to something that could have been much better if the vast majority of people earlier had an influence on the process. Those who are part of the global elite always have their influence, but it is not a transparent, democratic influence, it is an influence by lobbying for special interest in the background where **a lot of money is moving around**.

Given that it is not clear where globalisation will end, in the analysis that we do we see a certain chance for an **ecological collapse**. We also see quite a huge chance for the **“brazilianisation”** of the world as the most probable outcome. But we also see a chance for a reasonable future for 10 billion people. So let me concentrate on that third case – a

balanced future. Because I think this is the issue you are dealing with: how to build a reasonable world for 10 billion people given our obvious resource limitations.

Innovation

The main issue here is **innovation**: this is nothing new, it is at the heart of economic theory, and the most important person who understood this is Schumpeter, the economist from Vienna [7]. He said: the real thing about markets is innovation and if you are able to deliver always new and major innovations, you can have a very good future for always more people in peace with nature. That means that, from the resources we have available in - let us say -seventy years, we will hopefully be able to create ten times the economic output we create today. So this means growth, enormous growth, but with zero growth in the use of resources, e. g. what we call **green growth** [1213, 16]. The point is that may be even with negative growth in the use of resources we can create that increased real growth in the production of goods and services.

This is an issue of technology first, but the problem with technology is that there is the so-called **rebound or boomerang effect** [8]. History shows that while we become always more eco-efficient, we still use more and more crucial and non renewable resources because the higher efficiency creates the possibility to have always more people with a higher living standard [10, 18]. So with always more people, consuming always more, we will always find us more in trouble. Whenever we have more efficiency, that just means that you have more people consuming more.

As mentioned, this is called the boomerang effect. The most disastrous example of the boomerang effect is the IT industry itself. Take for instance the paperless office. The idea is to have less resource use in the paper field to substitute for the resource requirements in the IT field itself. Unfortunately, it did not work. Everybody knows that nowadays the office is the place of the highest paper usage ever. It is always the same. And that is why we need **as much innovation in governance as in technology**, if we want sustainability in the future and the governance issue is more complicated to deal with than the technology issue. So the question is: can we have a reasonable global governance, a global governance to protect the **global commons**, a global governance for a rich balanced growth towards a sustainable future. Is that possible or is it not possible?

Global governance for rich balanced growth

In principle it is not so difficult to have global governance for rich balanced growth if for one minute we imagine that we would be a **global democracy** and that we have the same language and a global ethos [6] in our schools. Then it would not be so much of a

problem. But the problem is to organise global governance with 192 states, each of which is sovereign and each has its own history, problems, power and perspective. The main problem is in **global contract building**. It is difficult to establish for something like a **global domestic policy**. It is like we are in a kind of prisoner's dilemma situation.

Let me finish by giving a few examples of where there is also a potential, where we can do something. I think this is a crucial point in time because time is running out and 2012 is a very important year, if we want to go for sustainability. In 2012 we have **Rio plus 20**. This means we will have the global social agenda with the Millennium Development Goals, the Agenda 21 and related topics all on the table. In 2012, also the **Kyoto Protocol** will end and therefore we have the climate and energy issues fully on the table. Finally, for 2012 is scheduled the decision on the **future architecture of the global financial system**, following the global financial crisis. All together, these are three topics of central importance for global governance, and they are all at the same time on the table, and everything is connected with everything. So **2012 is a very crucial moment in time for the future of our world**.

Important are the following elements, and we need to work on them. One is to **extend global democracy**. I mention the idea of a **parliamentary assembly at the United Nations**. This is a powerful idea that has already received support from the European Parliament and other organizations. Many of the members of the European Parliament presently support the idea of a parliamentary assembly at the UN. In the beginning, this would be an assembly without any real power, except for the power to articulate a global position. I think it would be a big step forward if we succeed in establishing such a parliamentary assembly at the UN. Over the time, it will accumulate more power – as the European Parliament did as well.

The second point follows directly from the recent disaster in the global financial system [12]. We urgently need a **strict regulation of the global financial sector**. This must include certain elements of **harmonisation of taxes**. It cannot be that the most successful economic actors hardly pay tax. We need those taxes for financing global development. We need those taxes so that our states can repay the debt coming from balancing the financial crisis [12]. It is impossible to get rid of that debt at the national level today. This would directly drive our countries into brazilianisation. We have to tax the global economic transaction processes where the strongest actors make the highest returns and don't pay taxes, and we have in particular to **close tax havens**.

I am very happy that the **G 20 started 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 go for tax havens. But they should also go for harmonisation of taxes. And we

urgently need transaction taxes that bring income, but even more **transparency**. We need transparency for global economic processes as much as for national processes. Using that money, we can invest in the Millennium Development Goals, we can invest 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 the energy and climate issues. In fact, we may implement something as a **Global Marshall Plan** [3, 11].

The energy and climate issue

Many people are frustrated with Copenhagen. But this results very much from a position of the rich OECD countries that argue and talk negative about the position of India and China, in the sense that these countries do not want to really do something about the climate issue. But they are not the problem, the problem are *us*. The Chinese and the Indians made a big step in Copenhagen by offering that their future increases in CO₂ emissions will be **below their annual economic growth rate** [15]. The Chinese aim at less than 60 per cent of their economic growth rate, the Indians to less than 75 per cent of their economic growth rate. Take into account that the Indians have on average only 1.5 tons of emissions a year, the Europeans have 8-10 tons, the 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 make a contract out of their offer. We worked on such a contract and concluded that there is a reasonable chance now for a working contract if the states intelligently work on the basis of what was agreed in Copenhagen. You can combine Copenhagen with a **Global Reforestation Programme**. We think we should have a forestation programme of five million square kilometres [15]. It would bind 200 billion tons of CO₂ permanently. Such a programme is of the character of a Global Marshall Plan. Organizations, companies and individuals in the rich world will pay for it and then can put themselves **climate neutral**. We should now go intelligently into this contract, everything is on the table.

This needs a different mind set, though. In the last weeks, I talked to negotiators preparing the Tianjin and Cancún meetings. Unfortunately, even the Europeans are not willing to pay anything to the Indians and the Chinese so that they limit their emissions further. That is a crucial point. If we want to stabilize the climate, the main point is not primarily to invest in energy efficiency of our houses, though this is also important. But alone, this doesn't solve the climate problem. We have to put money into China and India and have to get more involvement of the US. This is like **global cooperation**. We have to open our mind and understand that we are **richer if we cooperate**, including money

flows, than if we try to solve everything at home where our money seems to stay with us.

It is like with the **European Union**: we put some money into Romania and that is good. If you do not put money into Romania, you cannot have a stable Romania in Europe that is impossible.

We should stand for all those ideas. If we communicate enough we may have a chance. Intelligent ways of dealing with **prisoner´s dilemma situations** play a role. They will often have a **double-strategic nature**, as has the impressive Simpol Campaign, promoted by the International Simultaneous Policy Organisation [1].

Taking such intelligent approaches and further crises into account, I think we have a chance of 35 per cent for 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. The wording is: **go "eco-social"**. Markets are the way to go and markets can be sustainable. But these are certainly not free markets but ecologically, socially and culturally regulated markets. So, go eco-social!

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