

NATIONAL AFFAIRS

Germany

Ecology and Economy

– An Outlook at the Beginning of the New Legislative Term –

by Werner Müller*

I. "... The presentation of an award is a happy event. But is it the right occasion for making serious remarks? I want to do just that. But to make things easier for all of us, I'll begin somewhat less formally and tell you a secret about my personal life.

Recent press reports that I've been known to jet across the Atlantic to New York just to attend a piano concert are not quite correct; it is, however, true that old books fascinate me.

When we look at a two-hundred year old book on science and mechanics from today's perspective, it is easy to see how far we have come since then.

As early as 1767, for example, a work of several volumes was published on the history of electricity.

Thanks to the dynamo, this history has developed dynamically since then, and has advanced far beyond the age of electrostatic machines.

Not that our society today would want to do away with electrostatic machines; we often allow ourselves, for example, to be titillated by electrifying news generated by a sensationalist press.

II. But nowadays society allows itself to be electrified by any discussion of reform, currently by tax reform and the environmental tax.

And when we now look at a two-hundred year old economics book, we can see that our economic thinking has failed to make any advances, that the ideas outlined in the old book have lost nothing of their relevance as topics for debate.

Allow me therefore, by way of introduction, to call attention to the fact that exactly 200 years ago a pamphlet was published by an author who cautiously sought to remain anonymous; his essay was received like a bombshell. Afterwards, the tract was enriched by additional material and published in numerous new editions.

The author, an Anglican Minister when he first issued his work in 1798, later abandoned his cautious anonymity; for in 1804 he was named to Great Britain's first chair in political economics.

In modern words, the contents of his 1798 pamphlet can be summarized briefly as follows:

The input of the factor "nature" in the economic process is (a) generally finite and (b) characterized by diminishing returns. By contrast, the factor "labour" increases by geometric progression. When we look at the quotient of the two processes, a fundamental crisis in the ratio of the two factors labour and nature becomes evident: In the long term, the economic process is then stifled by the limits on the factor nature.

The particular cause of furor when the work was published was the conclusion drawn by the initially anonymous theologian, namely Thomas Robert Malthus, from his simple analysis: The state must systematically impoverish the factor labour until it ceases to increase.

I want to point out that this two-hundred year old book was, so to speak, reissued in a modern edition in 1972 and again provoked worldwide discussion: I am referring to the Club of Rome's report on the limits to growth. And once again, the global discussion was overshadowed by a not-so-pretty aspect: zero-growth for the poor to sustain the wealthy's existing prosperity level.

Mahatma Gandhi's question "when a nation has to exploit half of the globe to make it what it is, how many globes would India need?" comes to mind in this connection.

But back to the Club of Rome's report on the limits to growth in 1972. The fact that it took 175 years until the factor nature again captured the attention of observers as a result of the "limits to growth" and of the oil crisis that directly followed, indicates that the limits anticipated by Malthus in 1798 had in the meantime neither become visible nor tangible.

For the factor "capital" had entered on to the scene and, by ever new technical ideas and corporate enterprise, had banned the limits of the factor nature from the minds of society. And the limits had been pushed so far out of sight that the mushrooming economic literature covered the factor nature under the collective term "free resources."

A Mr. Marx began to write. What Mr. Marx said about the writings of Malthus can well be applied to his own works. Marx claimed that Malthus' first edition of 1798 was nothing but a sensationalist pamphlet. He further

* Federal German Minister for Economics and Technology. Speech when awarding the Prize for "Eco-Manager 1998", on November 18, 1998 in Bonn.

posed the rhetorical question as to the inspirations for humanity that had resulted from Malthus's "diatribe," as Marx put it.

Marx diagnosed and forecast that the increasing impoverishment of the factor labour was not the result of nature's limits but was merely the consequence of industrialisation in conjunction with the capitalist method of production.

And I want to quote him once again with a sentence that, in contrast to many obsolete remarks, is still worthy of thought: "The limits of the factor nature are often understood as a curtain behind which the misery of the working class can be justified under the capitalist system."

The misery of the workers in capitalism did not occur where Marx's recommendations were not followed and where, instead, policymakers had the courage to make the social market economy the concrete basis for economic policy.

III. This particularly applies to the Federal Republic of Germany after the Second World War, where a democratic constitution and social market economy were fused in a symbiotic relationship that now stands as a model and as two sides of the same coin.

The classic conflict between capital and labour has been over in Germany for the past fifty years. But we are all responsible for ensuring that peace endures.

This will only succeed if all of us – policymakers, companies, trades unions – if society confronts its historical and intellectual task: We must expand our way of thinking about economic policy, which for more than two hundred years has focused on only two factors, and consider three factors: Two hundred years ago, labour and nature; for the past hundred years, labour and capital; and now labour capital, and nature.

Some interesting questions result: Does nature have the right to strike? What rules would nature have to follow whenever it strikes? And, in all humility, we must recognize that: Nature is going to strike; maybe it is already striking and we just don't know the rules.

In a declaration given at the Kyoto Climate Conference, a large majority of Nobel Prize laureates assumed that the ever more frequent floods, droughts, typhoons in the Pacific and hurricanes in the Atlantic with ever greater catastrophic results are proof that nature is beginning to strike.

Another question: A central element of our social market economy is the model of self-determination, which is traditionally two-dimensional. What does this look from the perspective of the three factors?

An additional question: Does the factor nature have a right to remuneration for the purpose of retaining its regenerative powers, just as is the case with capital and labour? And what would be the just wage?

And another question: Apart from borrowing, our national budget is traditionally financed in part by taxing output and in part by taxing input factors; and here – two-dimensionally – by taxation of capital and labour why not also taxation of the third input factor, nature?

IV. We have now moved from an anonymous pamphlet of 1798 to a chorus of printed criticism aimed at the new German government in November 1998: the key words are tax reform and the environmental tax.

I just want to let you know: Standing before you is a minister who can roll with the punches and whose first response is to look at things from a positive perspective.

When Germany's new government initiates more reforms in the short period of a few days than its predecessor did in four years, it is not surprising that it harvests in a very concentrated manner even more criticism in only a few days than the old government received spread out over four years.

And the fact that a government is actually implementing what its constituent parties promised in their election platforms certainly needs getting accustomed to by a good many persons.

Those seeking reforms must expect criticism from those who want to hold on to privileges; and the more decisive and fundamental the reform, the louder the criticism is going to be. While this does not always have to be the case, it is only human, and even more human is the fact that loud criticism does not always mean correct, wise, and fair criticism.

I heard, for example, before and during the CDU Party Convention a short while ago about the great need for reform – which I can support, and which is familiar. For these ideas – expressed under the caption "Dresden Theses" – had long ago been put down into writing by the SPD in the Autumn of 1997 and in the Leipzig Party Programme in the Spring of 1998. This was long before the election, and was the reason for the Party's victory.

Last week in the Bundestag, I heard many CDU speakers talking as though some of the good insights expressed at the CDU Party Convention had not yet reached the CDU group in the legislature.

Before the Convention, for example, one of the group – called the "Young and Wild" in the CDU said that the Party had made a serious mistake by blindly following the slogans of industrial associations such as the BDI (*Bundesverband der deutschen Industrie* = Federation of German Industries).

And now I am sitting on the government bench in the Bundestag and listening to the CDU mouth only the words of the industrial associations in reply to the speeches by the Chancellor and his ministers.

On the topic of the environment tax, I would like to quote two statements of the BDI and other industrial associations:

– First: the environment tax is unjust since German industry uses energy so economically that greater energy conservation would not be possible.

– Second, the environment tax is foolish, for the greater its impact, the more the tax base will be eroded.

Since I gradually have to return to the main topic of my speech – labour, capital, nature – I'll spare you from listening to a long list of foolishness and contradictions

by the industrial associations and try to approach even these in positive terms.

I by no means consider it to be normal that the major industrial associations have lost a good deal of their reputation over the years. I am seeking a renaissance of the properly understood social market economy. And this renaissance will again require strong labour unions and strong industrial associations with leaders who enjoy broad acceptance in our society.

This particular renaissance will succeed only if the associations and their leaders seek the well-being of the whole of society and place it above the understandable advocacy of individual interests.

And associations that seek to participate in a socially needed renaissance will find in me an open and fair partner, also in terms of their business needs.

This particularly applies to the future of atomic energy.

All of us who can read know that the new government will regulate the use of atomic energy for electricity production by law and without indemnification. Everyone, including the BDI, is free to voice an opinion as to whether they think this is good or bad.

But I do not think it is right for the BDI to repeatedly publish the sentence that

“Doing away with atomic energy will lead to an enormous destruction of economic capital in our country.”

If, as has been stated by the new government, a political goal is to be accomplished in a way in which the atomic power station operators will incur no damage, than we have to consider what the BDI sentence means:

- Either it is ignorant polemics, something I am not afraid to claim and in which case I would not choose to waste my time discussing the matter with the BDI, or
- The BDI is signalling to the German government that there are loss-free items on the business side that still cause the national economy a great deal of damage.

I would be willing to speak with the BDI at any time or place on this topic, for the permanent investments against the factor labour stand right in the middle of the conflict between business profit and macroeconomic loss.

V. But now I want to return to labour, capital, and nature. I left off at the question of imposing taxes on nature.

A stable social market economy requires a stable integration of capital and labour. That integration is no longer as stable as required by a secure future.

Owing to the laws of the marketplace, labour is departing from the process to an excessive extent since it is becoming too expensive as the result of taxes and charges.

In my opinion, taxation of factor nature would be constructive if this additional income were fully exempted from the taxes and charges on factor labour.

If this is not done uniformly throughout the EU, we cannot allow the German economy to suffer competitive

handicaps as the result of an environment tax. And this is now guaranteed.

The savings in non-wage labour costs are greater in the firms that are not quite exempted from the environment tax than is the sharply reduced increase in gas and electricity prices.

In considering these facts, we must keep the following in mind: The first stage of the environment tax that has been decided on is not particularly large in terms of volume.

And there is also criticism that the government should have taken a bolder approach and come up with a “grand plan”.

In looking at the criticism of the environment tax, I notice that it coincidentally satisfies two central points that have been demanded for years by all sides: First: now and in the years to come we need positive impulses for households’ purchasing power – without any increase in the price of labour. The gross costs of labour must be reduced and those of net wages must increase.

Second: a reduction of taxes/charges on factor labour shifting them to energy consumption satisfies the demand to replace government mandated consumption



Courtesy: Financial Times

(this is also a way of viewing non-wage labour costs) by private consumption.

For individuals themselves decide if and how much they pay for higher energy bills. If all of us reduce our consumption of nature, the revenues from the environment tax will decline.

But for me this can be no argument against its introduction.

For what basically happens when the environment tax unfolds its impact in the long term? The strong input of factor nature gradually removes itself by market means from the economic process. What for many years now has made life so difficult for us with factor labour will thus happen to factor nature in the distant future.

But there is a fundamental difference between uncoupling the economic process from factor labour and the

uncoupling from factor nature. The uncoupling from factor labour destabilizes the economic process, while uncoupling from factor nature does just the opposite.

Behind a step by the German government that would appear to be not very substantial in material terms there is a major move toward reform. But the frequent and public criticism shows that the German government must make this reform even more understandable. Perhaps we have to approach the matter in a more comprehensive manner and, for example, explain why factor labour is so expensive in today's economic process.

For slogans such as "ending the phase of modest wage demands" could be misunderstood.

As I have said, I fully favour more cash in the pay envelope, not by making labour costs more expensive, but above all by lowering government entitlements.

When society in its entirety becomes more modest in terms of its demands on the state – from subsidies paid to industry to the indiscriminate number of visits to multiple physicians – then and only then can the pay envelope grow.

There is no other way than to explain the interrelationships of such phenomena over and over again. Citizens realize that our country needs reforms. We must tell them where and why so that they understand that reforms occasionally require sacrifices, but at the same time they open up greater prospects for the future. And this greater future must be clearly visible, understandable, and perceptible for all individuals. Thus, instead of speaking about the burdens of environmental policy, we must talk more about the opportunities.

VI. I am delighted that there are far sighted businessmen who are working on concretely uncoupling economic growth from an increasing exploitation of nature by means of specialized products and/or special production methods. I congratulate the awardees and the magazine *Capital* for retaining this good idea.

Preserving the natural basis of life in connection with the renaissance of the properly understood social market economy can by no means be the task of a Red/Green government alone, nor can it be the task only of the government.

Rather, it is the responsibility of all of us; for this reason we need the competence, the initiative, the creativity, and the good will of all of society's forces.

I began my remarks by calling attention to a pamphlet published anonymously two hundred years ago. What Thomas Robert Malthus wrote had an enormous impact. The crisis in the relationship between labour and nature, which he described as insoluble, was one of the major reasons for the enormous wave of migration from the British Isles.

Flight was a possibility only then; today our only way out of the crisis in the long term is to overcome the problem by creative solutions.

As an economics professor, Malthus had rather radical views. I have always considered very thought provoking his thesis that the only kind of productive consumption is the destruction of wealth.

But that is something for you to think about on your way home; I will save my remarks on this topic for another day." □

UK

Environment Exchange

The first exchange in Europe for trading recyclable commodities, was launched at the end of November 1998, in London.

The Environment Exchange will promote trading in materials such as paper, plastic, metals and glass, and is a response to new European Union regulations that require member States to recover 50–65 per cent of waste packaging materials by the year 2001, and recycle at least half that amount.

The UK is the first country to enshrine the EU Environment Directive in national legislation, and it is estimated that the regulations will affect 19,000 companies by 2001.

Businesses with an annual turnover of more than £ 5m sterling and handling more than 50 tonnes of packaging must hold Package Recovery Notes (PRNs), to

prove they are fulfilling their packaging recovery and recycling obligations. Those that recover or recycle more than their required amount can sell their excess PRNs to other businesses.

The Environment Exchange will provide a publicly accessible internet bulletin board to match sellers and buyers. Trades will be completed via a telephone ordering service.

There are six types of PRN. Individual commodity recycling notes are issued for glass, aluminium, paper, plastic and steel, and a general note is issued for the recovery of non-specific materials.

The exchange has been set up in co-operation with OM Group, which runs the Stockholm Exchange and trades financial and Pulpex wood pulp futures and options in London. (MJ) □