

November 5, 2011

Serà posible el Sur Verde? A Green Recovery Strategy for the European South (and the EU)





Dr. Anselm Görres, President Green Budget Europe (GBE)
Hohenheim University, Green Bug Lecture, 1st November 2011,
Europe needs new growth models, not only for the South

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2011.01.31

Versions of this paper




12th Global Conference on Environmental Taxation (GCET 12), 20-21 October 2011, Madrid, on Environmental Taxation: Market Instruments & Sustainable Economy

Hohenheim University, Green Bug Lecture, 1st November 2011, Europe needs new growth models, not only for the South

With many thanks to my fellow contributors: Paolo d'Anselmi (I), Nuno Dominguez (P), Yannis Paleokrassas (GR), Aldo Douran Ravazzi (I), and Ana Yabar (E)
(Sorry for not including small Southern countries like Andorra, Cyprus, Gibraltar, Malta, Monaco, San Marino or the Vatican State)



SERA POSSIBLE EL SUR VERDE?
Exhibit 3

¿Será Posible El Sur? – a melancholic piece by Mercedes Sosa

¿Será posible el Sur?
será posible tanta bala perdida
al corazón del pueblo,
tanta madre metida en la palabra loca
y toda la memoria en una cárcel

¿Será posible el Sur?
será posible tanto invierno
caído sobre el último rostro de mi hermano,
tanto salario escaso riendo con descaro
y en el plato vacío el verdugo esperando

Mi territorio que una vez gira
en la oscuridad de esa pregunta,
de esa pregunta:
¿Será posible el Sur? ¿Será posible?
si se viese al espejo ¿se reconocería





SERA POSSIBLE EL SUR VERDE?
Exhibit 4

CONTENTS OF THIS PAPER

PRESENTING GREEN BUDGET EUROPE

WE ARE (WERE?) LEADING THE WRONG DEBATES

**SOCIAL EQUITY AND SUSTAINABILITY ARE NOT JUST
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ECONOMICALLY AND ECOLOGICALLY**

**GREEN BUDGETS HELP; BUT LOW HANGING FRUITS HAVE
MOSTLY BEEN PICKED**

SO WE MUST LOOK FOR UNCONVENTIONAL MEASURES

**..... WITHIN A BOLDER AND GREENER
EUROPEAN PERSPECTIVE**



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Exhibit 5

About GBG, GBE and the author

Green Budget Germany / Forum Ökologisch-Soziale Marktwirtschaft

- Founded in 1994 as **single-issue-NGO** (then mainly eco-taxes)
- Worldwide first expert platform on **all Market-Based Instruments for environmental policy**
- Contributor to **German, EU and World eco-tax and ETR Debate**
- 2008 focus enlarged to target vision of **Eco-Social Market Society**

Green Budget Europe

- Launched in Brussels 2008 to bundle **European EFR activities**
- Members and friends from all EU Member States and beyond
- A platform for all: Representatives of authorities, policy makers, international organisations, EU Commission, NGOs, research community, business
- GBE events: Brussels (2008), London (2009), Budapest (2010) and others

Dr. Anselm Görres

- Economist and former McKinsey consultant, owner and manager of ZMM, a leading German interim management company (www.zmm.de)
- Cofounder of FÖS and GBE; numerous books and articles on MBI

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Topics of this paper: elements of a more comprehensive recovery strategy

The potential fiscal contribution of green fiscal reform, including a practical proposal for a city toll in the major metropolises of the South.

The necessity of strengthening cooperation and institutions within the European Union and the Euro countries, and the quality and direction of governance, both on a national and European level

A new model of growth and prosperity involving ecological sustainability not as a mere addendum, sheer decoration, or meek afterthought, but as a centrepiece of the necessary vision of a responsible society based on "economics of the long term".

- **Most important conclusions: The past growth models of the South were inflation plus devaluation until 2001, then artificial bubbles financed with cheap money. They no longer work.**
- **But also the debt based traditional growth drugs, Keynesianism's left-wing or right-wing varieties ("supply side") can no longer be employed**

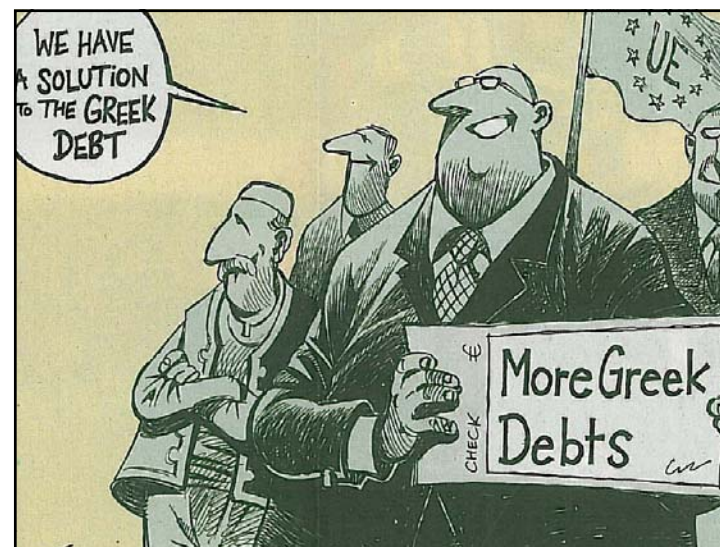
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1. WE ARE (WERE?) LEADING THE WRONG DEBATES

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It is time to shift the focus of some of our present debates about the EU South

Predominant topics and aspects	Neglected perspectives and aspects
Focus mainly on financial engineering: Insolvency (ordered or not)? Haircut? Pro-tection of EU banks? Devaluation and temporary exit from €-Zone?	How to find a new growth model? What is the macroeconomic perspective for the South?
Conservative austerity approach: Indiscriminate raising of taxes – no growth perspective – no social vision	Austerity plus: With a lot more green elements and a green growth perspective
Helping/ pressuring the South: How can we convert the budget sinners to a life of more fiscal virtue?	A turnaround for the entire EU: Do not most countries have similar problems, the South only more accentuated? What future do we hold for our youth? Is there any common vision beyond the pursuit of individual happiness?
The EU's weaknesses under attack from the financial markets: A mainly defensive debate, spurring nationalism and fear in many member states	How can we turn these weaknesses into strengths: By developing our institutions and finding new rules for the Union!
In sum: The North hesitantly helping, but also paternalising the South	In sum: The European Union opening the debate about a better growth model and new societal vision, including a greener and fairer Capitalism

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Some ideas may – may! – make sense economically – but not politically

- **Dividing the Euro Zone in a Northern and a Southern part!?! (Like Aldi Nord and Aldi Süd in Germany?)**
 - **Throwing the Greeks out of the Euro – and how many more countries then?**
 - **Getting rid of the Euro altogether, back to DM, Schilling, Drachmae, Lira...?**
- **Historically, this political union is rather young (*1957)**
 ➤ **The Currency Union is even younger (*1999/ 2002)**
 ➤ **So let us give both institutions the benefit of youth and ...**
 ➤ **.... let us use this crisis to improve them, not to abolish them**

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After the summit is before the summit? Perhaps not this time!



- RESULTS BETTER THAN EXPECTED**
- Large (?) haircut for Greek debt (*PSI = Private sector involvement*)
 - Stern regulations of banks with higher capital requirements
 - Leveraged EFSF "firepower" sufficient to fight speculators (?)
 - Surprising unity between MS
 - More governance thru Olli Rehn as VP and "chief controller", intensified country surveillance etc.
 - Bunga Bunga under pressure

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After all: we owe Greece the name of our
continent and the idea of democracy!



- Further considerations:
- What would become of Greece if it had to leave the Euro Zone – an ally of Turkey, Egypt, China?
 - Who would be the hedge funds' next target?
 - Germany/EU should not repeat the mistakes of Versailles...

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Plus: we cannot blame all the guilt on the
“fiscal sinners” – it’s our common fault

- ECB is responsible for both price stability *and* financial stability. ECB refused to set different rules for different member states, on the basis that the bank should be concerned by system-wide aggregates and that it cannot be made responsible for national economic conditions.
- The national bubbles that became lethal were driven mainly by bank credit expansion. Policy to be effective must be able to control credit creation. But this is outside the control of individual member states.
- Unless the ECB intervenes directly to restrict bank credit in some countries more than others, by applying differential minimum reserve requirements, or by imposing anti-cyclical capital ratios, they put financial stability at risk.
- **This gap in governance is at the heart of the Euro-malaise.** Insolvent banks anywhere in the Euro zone are integrated with the financial system across the member states, and beyond.

Source: Frank J Convery University College, Dublin (GBE-Member), here partly based on Paul De Grauwe

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Implications of ECB Policy Failure

- Banks in Ireland and Spain borrowed and lent recklessly – compromised their own economic future, and that of their country.
- Banks in Germany, France etc lent recklessly to them, comprising their own future and the whole Euro-project. The Contagion problem.

Source: Frank J Convery University College, Dublin (GBE-Member)

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**2. EQUITY AND
SUSTAINABILITY ARE
NO DELAYABLE
LUXURIES**

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The unspoken subtext of many contributions is a supply side concept of society



CONSERVATIVE RECOVERY FIRST!!!

THEN (PERHAPS) SOCIAL ETC. LUXURIES..

Integrated approach: minimize social burden, maximize green impact

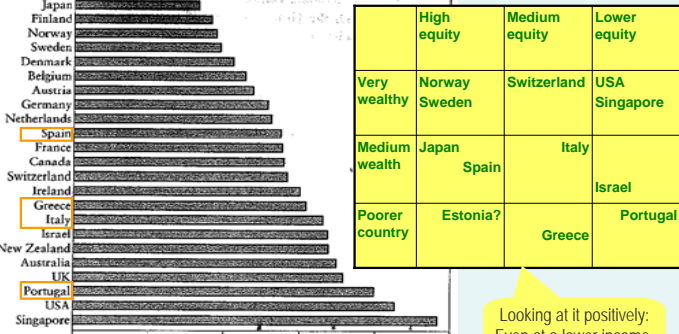
"In neoliberal thinking, many "liberal" public goods like social security, international development aid, culture and education, environmental policies etc. are always seen as an economic burden and therefore, only promised as a "reward" for good economic performance. Or they are seen like an enlarged concept of *trickle down*: If the supply side is doing fine, eventually some money will be available also for less urgent public needs. Unfortunately, the trickle down in practice arrives seldom or never. It's main role seems to serve as a promise.
I owe this observation to the Walloon green leader, Philippe Lamberts, Co-Chair of European Green Party

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Our four Southern countries have not been exaggerating social justice

WEALTH MULTIPLE OF THE OF THE POPULATION'S TOP FIFTH IN RELATION TO THE POOREST FIFTH



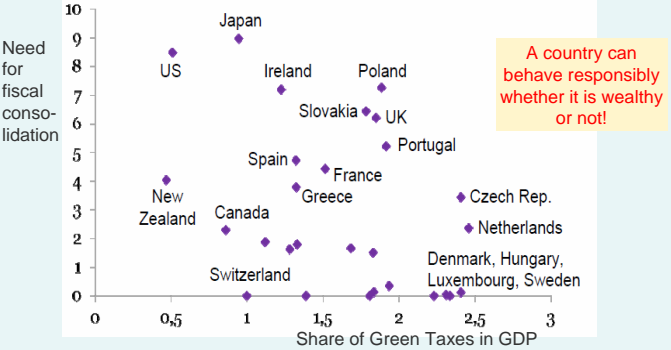
Looking at it positively: Even at a lower income, countries have a choice!

Source: Richard Wilkinson, Kate Pickett: The Spirit Level, Why Equality Is Better for Everyone, Penguins Books: London 2010

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Environmental and fiscal responsibility can go hand in hand



A country can behave responsibly whether it is wealthy or not!

www.foes.de/pdf/GBE_Brussels%20Dec%202010_Lundsgaard.pdf

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Possible priorities for a socially and ecologically integrated recovery

OVERVIEW, ONLY CONCEPTAL

	Social Priorities	Ecological Priorities
1	<div>Stern and swift collection of existing taxes (including tax receivables/ pending law suits)</div> <div>Tax stocks before flows, wealth before income, in particular real estate</div> <div>Put more burden on higher incomes than lower incomes</div>	

 Introduce/ raise classical ecotaxes Increase ecotaxes rather than "blind" consumption tax (VAT) Target fossil energy imports (money stays in country, i.e. domestic demand) Abolish environmental harmful subsidies (i.e. on fishery) || 2 | Grant minimum social protection for all citizens Tax money on foreign banks (Switzerland etc.) Consider worktime reductions | Develop new bases for green taxation (i.e. city tolls, plastic bottles, shipping emissions etc.) |

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www.eco-tax.info
www.foes.de

Page 5

An eco-social concept means to have crash barriers on both sides of the road



IN BOTH CASES:

- Protection of the weaker members of society, latter generations, or Nature
- Against overexploitation, reckless greed, or own myopia
- While possibly minimizing bureaucracy or abuse
- Combining a social and environmental state

- Fight for Social State took >200 years
- Ecological State must come much faster!

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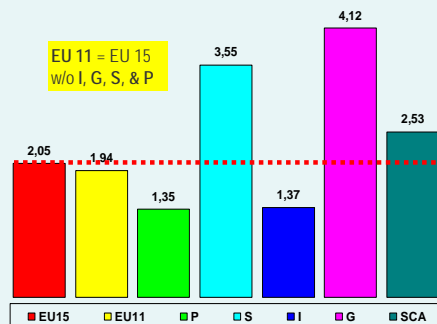
3. EU SOUTH: UNSATISFACTORY BOTH ECONOMICALLY AND ECOLOGICALLY

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Compared to EU15/11, Spain and Greece had high growth – but was it debt driven?

AVERAGE REAL GDP GROWTH RATE 2000-2005 IN WESTERN EU



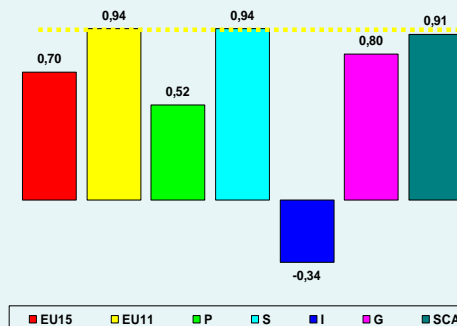
Source: Eurostat statistics provided by European Commission: <http://ec.europa.eu/eurostat/data/main>

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In the second half of the decade, only S and G had growth rates similar to EU11

AVERAGE REAL GDP GROWTH RATE 2006-2010 IN WESTERN EU



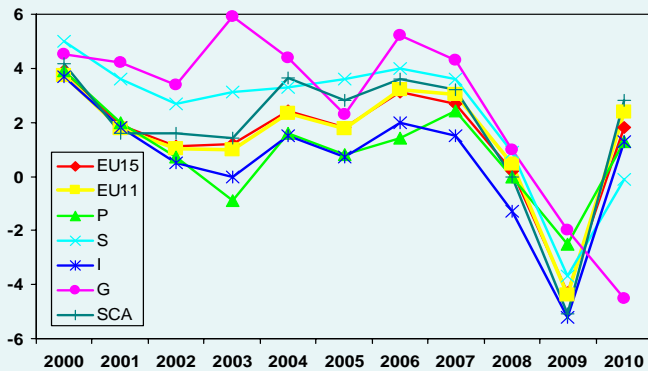
Source: Eurostat statistics provided by European Commission: <http://ec.europa.eu/eurostat/data/main>

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In the last years of the decade, all four Southerners remained below EU 11

REAL GDP GROWTH RATES FROM 2000 TO 2010 YEAR BY YEAR

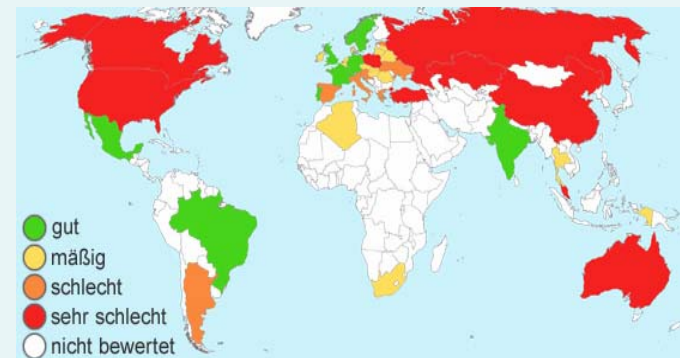


Source: Eurostat statistics provided by European Commission: http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&code=sdg_08_01_01_02

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Within Southern Europe, only Portugal gets a green light. Orange only for S, GR, I



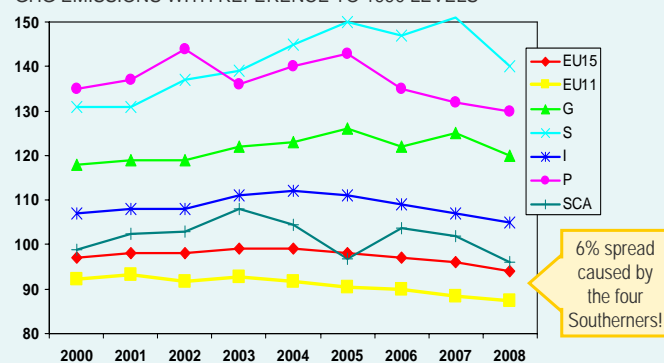
www.klima-wandel.com/2011/08/26/klimaschutz-index-2011-und-weltkarte-des-klimaschutzes-von-germanwatch/

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GHG emissions are much higher in G, S, I, and P than in EU 11...

GHG EMISSIONS WITH REFERENCE TO 1990 LEVELS



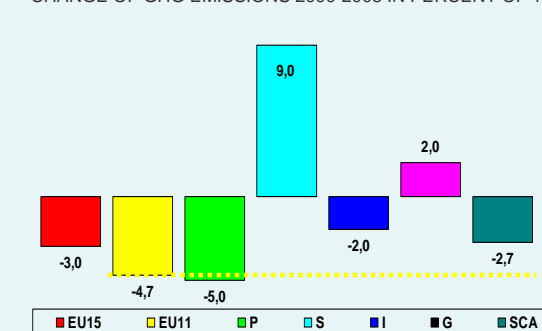
Source: Eurostat statistics provided by European Commission: http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&code=sdg_08_01_01_02

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... and could not be reduced as much as in the rest of EU (with the exception of P)

CHANGE OF GHG EMISSIONS 2000-2008 IN PERCENT OF 1990 LEVELS



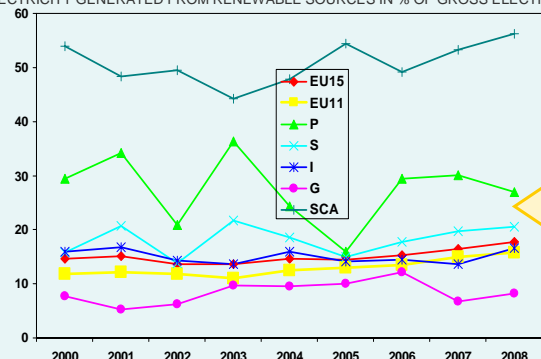
Source: Eurostat statistics provided by European Commission: http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&code=sdg_08_01_01_02

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Despite good geographic conditions, I and G don't keep up with the RE growth in EU

ELECTRICITY GENERATED FROM RENEWABLE SOURCES IN % OF GROSS ELECTRICITY CONSUMPTION



But P and S better than EU 11!

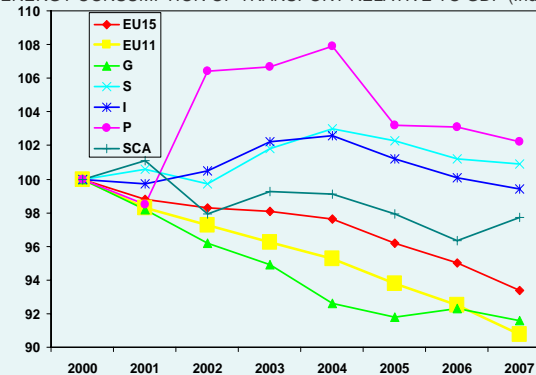
Source: Eurostat statistics provided by European Commission: http://ecpp.eurostat.ec.europa.eu/portal/page/portal/energy/data/main_tables

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"EU 11" and GR decoupled transport energy from GDP. P, S, I increased it

ENERGY CONSUMPTION OF TRANSPORT RELATIVE TO GDP (Index year 2000 = 100)



GR only case close to EU11!

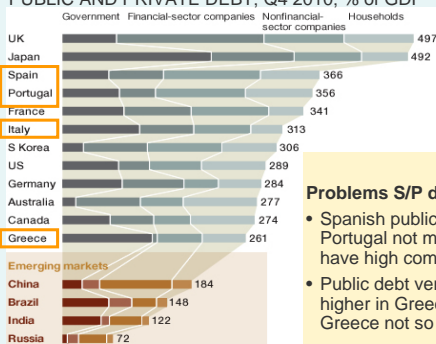
Source: Eurostat statistics provided by European Commission: http://ecpp.eurostat.ec.europa.eu/portal/page/portal/energy/data/main_tables

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Debts are a problem of the developed world, less of the emerging countries

PUBLIC AND PRIVATE DEBT; Q4 2010; % of GDP



Problems S/P differ much from I/GR

- Spanish public debt very low, in Portugal not much higher – but both have high company debt
- Public debt very high in Italy and even higher in Greece – but overall debt of Greece not so horrible

¹Defined as all credit market borrowing, including loans and fixed-income securities; figures may not sum to totals, because of rounding.

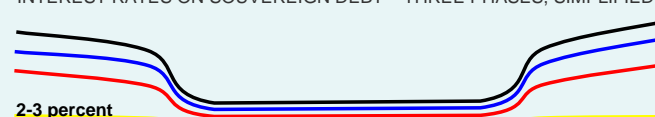
Source: Going for growth in a go-slow world. By Lowell Bryan, John Horn, and Sven Smit. www.mckinsey.com/view/GlobalGrowth.aspx

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The European South must find a new "business model" – two are now obsolete

INTEREST RATES ON SOVEREIGN DEBT – THREE PHASES, SIMPLIFIED



The Adaption Problem: Coping with declining competitiveness

Before Euro (2001)	1st Euro decade (01-10)	New era (2011ff.)
A "comfy combo": • Permanent inflation and • Periodic devaluations	Artificial growth: • Pseudo-wealth thru artificial boom and bubbles • Financed thru unusually cheap money	• Austerity must • But beyond paying off the debts, what else ?

➤ Euro countries must learn the tough path of adaption

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But not only some growth models are absolute, also some political models



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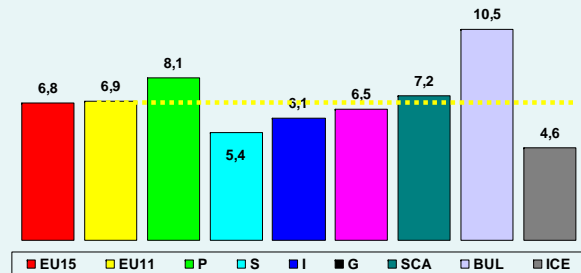
4. GREEN BUDGETS
HELP BUT LOW
HANGING FRUITS HAVE
MOSTLY BEEN PICKED

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Even before recent measures, most “Southerners” had relatively high eco-taxes

ENVIRONMENTAL TAX REVENUES AS % OF TOTAL REVENUES FROM TAXES AND SOCIAL CONTRIBUTIONS (2009)



Source: Eurostat statistics provided by European Commission: http://app.eurostat.ec.europa.eu/portal/page/portal/national_accounts/data/main_tables

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5. SO WE MUST LOOK
FOR UNCONVENTIONAL
MEASURES

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Reducing fuel imports is generally beneficial – more money left for domestic use

Goals	Burden on imports rather than domestic sources	Equitable burden distribution	Positive environmental effects
Tools			
Taxes on fossil fuels	Usually >90% imported GR/P: Little domestic car production	Owner of biggest cars hit most	Incentive for less or more efficient driving Increases competitiveness of public transportation
Electricity taxes	Fossil power >90% from imported energy	Households of the well-off use much more electricity than poorer families	Possibility to exempt renewables, creating comparative advantage
Highway tolls	Leads to saving of fossil fuels	Highway usage is usually superior good	Less CO ₂ , less pollution Reduced noise Less accidents
City tolls	Saving of fossil fuels (less cars, less traffic jams)	Can improve quality of public transport	Dramatically better air quality Reduction of noise, odour
Plastic bottle tax/ deposit	Most plastic made from oil	Poor kids can earn money by returning empty bottles	Dramatically less bottle littering

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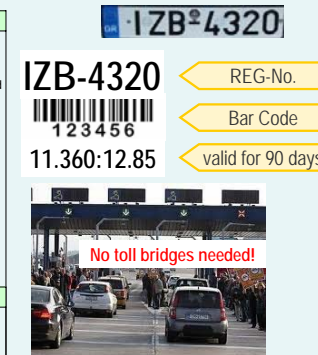
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A city toll for Athens would save fuel, improve life quality, and generate funds

Business model
Simple booking system via internet with access from everywhere, even for tourists, based on license plates and credits cards
Max. period length 90 days, max. advance booking 120 days (for greater ease of control)
Daily rate 5€. Only slow regression of daily rate for periods >5/ >30 days. Rates can be lower for days with less traffic.
No dedicated distribution network necessary
Print-out a home PCs or in shops for 1 Euro fixed fee.
Optical control through electronic cameras and through toll guards with cell phone app

Necessary investments
Software to administer bookings and payments; no control of payer's identity necessary beyond credit card
Control cameras at all entry and exit points
Bike Avenues: Designated roads cleared for bicycles only
Bus Avenues: Designated roads only for buses, taxis, street cars
New Green Buses: Part of revenue should be set aside for low-emission speed buses

EXPECTED RETURNS p.a.
€500 Million to 2 Billion



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Toll schemes are working successfully in London, Stockholm, Milano...

The central London Congestion charge is in operation



Stockholm:
Erlöse (in Mio € pro Jahr): rund 95
Einrichtungskosten: rund 200
Wirkungen: 22% weniger Verkehr



"Our goal is to reconquer public space for pedestrians"
Zurich City Planner Andi Fellmann
NYT Süddeutsche Zeitung July 4, 2011



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Athens must have dedicated bike and bus avenues – with no cars allowed



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Yannis Paleokrassas proposes a dramatic increase in ecotaxes...



B €	2006	2009	2011	2015	2018	2021
GDP	211	235	225	252	283	323
Green Taxes	4,7	6,3	7,6	18	23,6	31,2
- as % of GDP	2,2%	2,7%	3,4%	7,1%	8,3%	9,7%

➤ Net potential probably overestimated, because of
a) necessary social compensation and b) slower growth

Source: Paleokrassas, Yannis, Proposal for a comprehensive environmental fiscal reform in times of Budget Consolidation, Athens, July 2011
http://www.foes.de/pdf/Yannis_EFR_Proposal_EN.pdf

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... based a multitude of new tax bases

Year	2011	2015	2018	2021
Category of tax				
Total Revenues	7.627	21.588	26.248	30.169
Existing green taxes	7.627	9.628	11.795	14.653
New green taxes (see below)		11.960	14.453	15.517
1. Special Consumption Tax (SCT) on plastic packaging		68	69	70
2. SCT on chemical fertilisers and agro-drugs		56	56	57
3. SCT on construction aggregates and marbles		102	103	105
4. SCT on lignite consumption		1.015	1.052	1.069
5. Energy tax on electricity and final consumption of natural gas		471	656	889
6. Urban tolls in congested areas		4.963	6.292	6.145
7. Realistic tariffs for water use, SCT on domestic water overuse		268	271	273
8. Extra tax revenues on petroleum products		935	1.048	1.179
9. Special Construction Licence charges		1.006	1.426	1.963
10. Special charges on solid and liquid waste, demolition materials		2.490	2.858	3.124
11. Special tax on gas emissions		586	623	641

Source: Paleokrassas, Y...
Proposal for a comprehensive environmental fiscal reform in times of Budget Consolidation, Athens, July 2011
http://www.foes.de/pdf/Yannis_EFR_Proposal_EN.pdf

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For many countries still further measures seem possible (here: Portugal)

Examples of successful subsidy reform	Potential further measures
<ul style="list-style-type: none"> - Car and fuel taxation (one of the highest in the world) - Removing the fiscal benefit for biofuels in Jan 2011 - VAT update for electricity consumption (since the electric vehicle is a crucial axis) - VAT update for gas consumption (to avoid energy substitution from electricity) - Penalties for abandoned land (to be approved in October 2011) 	<ul style="list-style-type: none"> - Re-think company car taxation and introduce company tax benefits for expenses in public transport with employees - Remove subsidies for fossil fuel to produce electricity - Remove exemptions, apply the full price and let the social institutions flag and support the poor - More transparency of information, prices must reflect the cost - Environmental studies (Avaliação de Impactes Ambientais - AIA) should weight more in decisions - Outside the cities car parking areas close to public transport and free for ones using them - Apply not only emission and noise standards to motorcycles, but also annual inspections (as for cars)

Source: Nuno Dominguez, Green Budget Europe

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We must think of many other new ideas, from a Desertec test plant to speed limits



Desertec plant for Crete?



Enforced spending thru tougher building rules



Mare Nostrum: Enforcing shipping and fishing modernisation in Med



Plastic bottle tax or mandatory deposit



Spain reduced speed limit from 130

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The EU/IMF Troika's programme for Ireland required some green taxes and structural reforms

Environmentally related taxes required

- Property Tax
- An increase in the carbon tax on all non-EU ETS emissions to €15 per tonne of CO₂, to mirror EU ETS price and avoid distortions. A tax at this level (€15) does have significant effect, especially on heating costs.
- Tax is planned to rise to €25-30 per tonne by 2014.

Structural Reforms required

- Transfer of responsibility for water service provision to a water utility
- Start *charging for water services* during the EU/IMF Programme Period

Source: Frank J Convery University College, Dublin (GBE-Member)

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The 15€ carbon tax implies price changes from 3,5 to 11% and yields 1/3 of a billion euro

Fuel Type	Unit	Current Price IN €	Carbon tax (incl. VAT)	% price change	Revenue p.a. (incl. VAT) €M
Petrol	Litre	1.19	4.2 cents	3.5%	75
Diesel	Litre	1.10	4.9 cents	4.4%	92
Kerosene (heating oil)	Litre	0.52	4.3 cents	8.4%	47
Marked Gas Oil	Litre	0.54	4.7 cents	8.7%	43
LPG	Litre	0.72	2.8 cents	3.9%	4
Natural Gas	13,750 kwh	800	€47.86	6.0%	47
Coal	40kg	16.20	€1.79	11.1%	15
(Peat Briquettes and Fuel Oil omitted)				Total Yield	330

Source: Frank J Convery University College, Dublin (GBE-Member)

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Exhibit 48

Lessons from the Irish Recovery

- Fiscal crisis does indeed create opportunities
- Irish Carbon tax and prospective water charges examples
- Getting IMF and EU to make these changes conditional is good, but may be blowback regarding sovereignty
- Many opportunities remain to be taken
- In some cases there are tough trade-offs regarding revenue and environmental effectiveness

Source: Frank J Convery University College, Dublin (GBE-Member)

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Exhibit 49

**6. WE NEED A BOLDER
PERSPECTIVE FOR A
GREENER AND BETTER
EUROPE**

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Exhibit 50

Not all reports are true – but they are being read by European readers

	Greece	Italy
Classe politique/ Public service	<ul style="list-style-type: none"> - "Office for search of lost offices" finds ghost units - Pensioners and even 4.500 deceased people on public payroll 	<ul style="list-style-type: none"> - Police officers drive MoPs' wives to shopping and MoPs to girl friends. - € 1 B chauffeur service for politicians - Montecitorio barber costs €11.000 monthly (Spider Truman) - Bunga Bunga
Tax Collection	<ul style="list-style-type: none"> - Of 17.000 private pools in larger Athens, only 340 declared (2%) - Very incomplete registry of real estate, new real estate tax is collected by utilities (!) - € B 50 outstanding tax receivables - Tax collection units partly corrupt - € B 200 black Greek money in Swiss Banks 	<ul style="list-style-type: none"> - Black builders regularly get ex-post amnesty - Equally many tax sinners - Berlusconi clan and friends suspect of tax violations, but successfully block legal measures
Social Services/ Unions/ Academics	<ul style="list-style-type: none"> - 600 people on Zakynthos island population get blindness support - Union bosses: Expensive trips to Moscow - 60 professors and 240 staff at Ioannina University withhold € 1,8 M (Journal To Vima) 	<ul style="list-style-type: none"> - "Baby pensions" at 42-52-62 years - social pensions to supposed "blinds" and "disabled" in low-income areas - no effective audit on Unions' and Parties' accounts
Sports	- Soccer scandal	- Soccer scandal

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Exhibit 51

The "Green Covenant" – financial aid receivers should support EU green goals

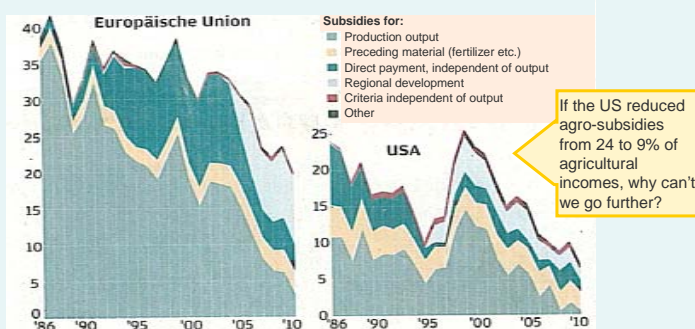
- **Financial measures in support of "Southerners" will not be popular with tax payers in the "North" – in particular, if world economic conditions become more difficult for everybody**
- **Receiver countries should therefore at least support strategic EU goals, for instance**
 - Reform of agriculture budgets
 - Political reforms for more governance
 - Green goals, for instance Energy Tax Directive ("Green Covenant")

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Exhibit 52

Why don't we use the consolidation pressure to cut EU agro-subsidies?

AGRO-SUBSIDIES AS A % OF AGRO-INCOMES



Source: Geyer, H., 2011. Agrarförderungen: The Queen is not amused. Wirtschaftsblatt 17Oct, p.12b

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Exhibit 53

Europe must learn from the Versailles (1919) precedent

Keynes writing in 1919

- *Moved by insane delusion and reckless self-regard, the German people overturned the foundations on which we all lived and built. But the spokesmen of the French and British peoples have run the risk of completing the ruin which Germany began, by a peace which, if it is carried into effect, must impair yet further, when it might have restored, the delicate, complicated organisation, already shaken and broken by war, through which alone the European peoples can employ themselves and live.....*
- *It is an extraordinary fact that the fundamental economic problem of a Europe starving and disintegrating before their eyes, was the one question in which it was impossible to arouse the interest of the Four. Reparation was their main excursion into the economic field, and they settled it as a problem of theology, of politics, of electoral chicane, from every point of view except that of the economic future of the states whose destiny they were handling.*

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Exhibit 54

Not only the South is in search of a new, more sustainable business model

FAILED BUSINESS MODELS OF THE EUROPEAN SOUTH

- Over many years, usually less productivity growth than in the North
- Before € persistent inflation + periodic devaluation, every 2 or 3 yrs.
- 1st € decade: artificial growth thru artificially low interest rates (bubbles)

TRADITIONAL DEBT-BASED STRATEGIES ALSO BLOCKED

- Traditional "leftist" Keynesians use deficits for social spending or public goods
- "Supply Siders" in truth only "rightist" Keynesians, using debts for tax cuts or subsidies for the rich

➤ All four growth models now blocked by debt crisis!

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Exhibit 55

So how do we get future growth without the old growth drugs?

~~Permanent Inflation + periodic devaluation~~

~~Cheap Money + artificial bubbles~~

~~"Rightist" Tax-Cut Keynesianism (supply side)~~

~~"Leftist" Spending Keynesianism (demand side)~~

STATES MUST CONSOLIDATE

BANKS MUST CONSOLIDATE

STATES MUST FIND WAYS TO INITIATE INVESTMENT AT NO/ LIMITED COST

- Massive shifting of relative prices in favor of environment
- Regulation-induced investment

BUSINESS SECTOR MUST FIND NEW GROWTH OPPORTUNITIES

LONG TERM CAPITALISM (McKinsey)

- "Instead of narrow calls for tax cuts, private sector should take lead for driving growth through innovation"
- "Business must take lead in renewing capitalism or risk losing support"

Source: Going for growth in a go-slow world. By Lowell Bryan, John Horn, and Sven Smit.
www.mckinsey.com/en/Features/Growth.aspx

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If we manage to survive this crisis, we may end up with a stronger and better EU

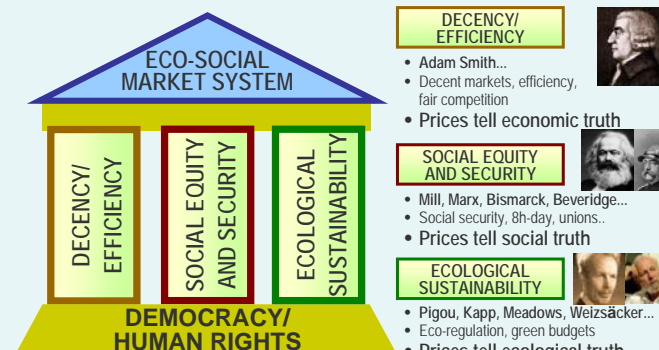
SOME ELEMENTS

- Better coordination within Euro countries, up to *Gouvernement économique*
- Strengthening of fiscal control and governance
- Overall reduction of debt level
- More green taxes, less perverse subsidies contributing to fiscal consolidation
- Other new revenues like transaction taxes (Tobin tax)
- Much stronger regulation of banking sector
- etc...

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Exhibit 57

The new vision: A greener capitalism, with more equity and decency



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Exhibit 58

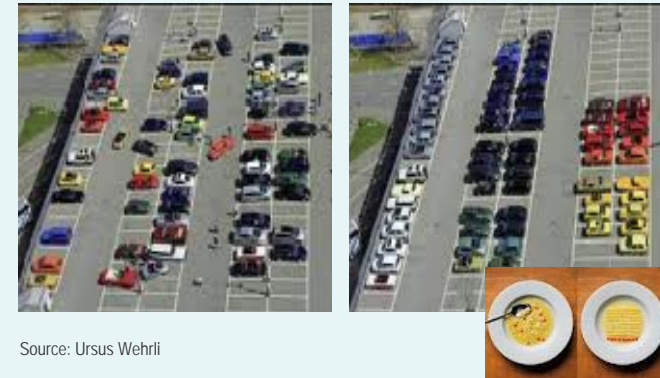
One not so far day, everything we make
and buy will be green....



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Exhibit 59

A Swiss artist has great ideas for ordering
things in Europe much more beautifully



Source: Ursus Wehrli

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Exhibit 60

The important thing is to keep up the
good spirit after the catastrophe



*"Never have I seen
anything breaking
down so beautifully..."*
Alexis Sorbas to the
young Englishman



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Exhibit 61

Here some practical suggestions about
what you and I can do

Read New York Times or Süddeutsche Zeitung

Don't vote for parties that ignore the climate threat or fight
market based instruments. (If you prefer to stay in such a
party, work to change their position.)

Watch your personal CO₂-balance

Drive more BMW (= Bike, Metro, Walk)

Compensating air miles is a good idea
(but no substitute for tickets taxes, ET or other strong tools)

Never forget: this is a political issue at first
(an issue of personal ethics only in second or third place)

➤ Something's foul in this planet, not because people are bad, but
because of failing institutions, ignorant elites, and misleading prices!



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Personally, I sold the big station wagon
use the new company car most of the time



247 gram CO₂/kg



With 112 gram CO₂/kg
most eco-efficient
German car (2008)

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Exhibit 63

IF YOU LIKED THIS PAPER AND OUR IDEAS:

- Don't be surprised if perverse incentives produce perverse results
- Please support Green Budget Germany or GB Europe
- Please help us organize future conferences in your city/ country/ organisation
- Please help us to create a fairer and greener Capitalism; in the EU and elsewhere!

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Exhibit 64