

A new global social contract

Keynote Speech by Former Federal President of Germany Horst Köhler

Annual Meeting of the Asian Development Bank, Opening Session

Frankfurt, 3 May 2016

I am honored to be able to speak to you today, but also humbled by the task. Your annual meeting is happening at a time of uncertainty. The world is in crisis mode – the refugee crisis, the chaos in the Middle East, the worries about the world economy, the ongoing environmental crises in many parts of the world, including Asia... We all know this list. And yet what is especially worrisome is that there doesn't seem to be much confidence about how to really get out of the several messes we are in. Maybe the biggest crisis of all is the crisis of confidence in the ability of politics to find lasting solutions.

At a time where crises suck up all the political oxygen in the room, it can be difficult to find energy to think about more fundamental issues. And yet I believe that this is exactly what we have to do: to not get overwhelmed by crisis mode, but to try to understand how we got to the current state of disorder. Only if we realize the underlying causes of today's problems will we be able to do more than just fighting symptoms.

I believe that our political and economic systems, both on the national and the international level, have not yet found a way to adapt to the two most fundamental realities of the 21st century. These realities are, first: our challenges are global, and second: our challenges are long-term. Conversely, the two most fundamental illnesses of our times are nationalism – disrespecting others – and short-termism – disrespecting the future.

Why is it, firstly, so hard to cope with the irrefutable fact of interdependence? Be it global warming, be it terrorism, be it pandemics, be it migration, be it the world economy – the big challenges are connected globally, and no sustainable solutions can be found by any one nation alone. Policies pursued at one end of the globe have an effect on the other end.

Why is it, secondly, so hard to accept the fact that the choices we make today are having an effect far into the future? Of course, „in the long run we are all dead“. I wouldn't dare to contradict John Maynard Keynes here. And yet it is our children who will be alive when we are dead, and we should leave them a world which is better than ours: a world with at least the same degrees of freedom that we are enjoying today. But looking at our greenhouse gas emissions, at some recent dangerous ventures in the area of foreign policy, or at some of today's monetary and fiscal policies, it is clear that we continue to debt-finance our present by borrowing from the future. The convenient but illusory solutions of today are paid for with natural resources and trust resources and financial resources of the next generation.

Of the many conclusions that we need to draw from the inconvenient realities of interconnectedness and long-term impact, there are three that I would like to share with you today.

1. Cooperation is not a sign of weakness, but the only solution to our common problems

The simple truth is: we are all in the same boat. Pursuing national interests by confrontation is, at the end, self-destructive. In this interconnected world, we must stop fooling ourselves: whoever tries to strengthen oneself by weakening others, whoever tries to escape responsibility by shifting the burden to others will not solve any problem, but only postpones the problems to tomorrow, when they will come back like a boomerang, with even greater force. No country, as powerful or rich or populated as it may be, can in the long run gain or sustain its prosperity without taking into account the perspective of the other countries. In short: Interdependence forces us into cooperation. The fact of interdependence urgently calls for a new thinking in international politics, a new spirit of cooperation for mutual benefit, solidarity and mutual accountability. I like to call this a “new leitmotif of global partnership”. Such a leitmotif must not deny the existing asymmetries and differences, but find a way to constructively and honestly deal with them. Working towards this is not naiveté, but reason; it is not idealism, but the true realpolitik in the 21st century.

And despite all the divisions and difficulties, the year 2015 has given reason for some optimism that the awareness for this spirit is indeed rising. With the Paris Agreement and the 2030 Agenda on Sustainable Development, the United Nations, the governments of this world – all of them! – agreed that the biggest challenges of our times, extreme poverty and global warming, can only be addressed if we work together as a global community. They agreed that these challenges need a *long-term* political approach. These two agreements are an important counterweight to the current atmosphere of distrust and tension and cluelessness in world politics. We must never believe those who tell us that the politics of division and egotism are “just how things are”. There is another path, and never before has it been clearer what this path must be.

2. We need a structural transformation of our economies and societies - everywhere

I believe that it is no accident that the Paris agreement and the 2030 Agenda with the Sustainable Development Goals were adopted in the same year, 2015. They are twin sisters, because together they make clear how saving our planet is inextricably linked to eradicating extreme poverty and vice versa. The two things must not and cannot be achieved at the expense of one another. And this is why the 2030 Agenda and Paris are universal agendas, calling for change not just in developing countries and emerging economies, but in industrialized countries as well. The 2030 Agenda and the Paris agreement are a political framework for transformation everywhere, in the North and the South, the East and the West.

There is no country that has yet learned to decouple economic progress from resource consumption and ecologic destruction. Consequently, the growth model that has brought prosperity to many parts of the world is coming up against its limits. Nature does not allow us

to grow the way we were used to. The warning signs can be breathed from New Delhi to Beijing; they can be felt from the Sahel zone to the coasts of America; they can be seen on the mountain tops of the Alps and the glaciers of Antarctica. If extreme poverty could only be eradicated at the expense of ruining the very natural environment that humans need to live, if prosperity could only be attained on the basis of an old, resource-intensive, dirty, unsustainable and thus ultimately irresponsible growth model – if that were the case, then there would be little hope left for the human race. There has to be another way.

I am no fan of the term “green growth” because I believe it underestimates the profoundness of the change that is necessary. A change of color will not be enough. What is needed is a structural transformation of our economies and societies. The key: prices must tell the truth about the real costs of products and services (and yes, we need an effective price on carbon emissions). We must free ourselves from our dependence on fossil fuels, we must rethink mobility and transportation, we must change our production and consumption patterns. It is encouraging to see how much innovation is happening in that regard all around the world. Still, we know this is only the beginning. Difficult choices lie ahead. A world economy that provides a path to a dignified life for all, also for our children’s children, will produce new winners and losers. Therefore, a new great transformation also requires systematic attention to inclusive and responsive governance on all levels, mediating these changes. The great transformation is a truly crosscutting herculean task for all areas of government. So please, please!, let’s not pretend that this is an issue for environmental ministries or development partners alone. And, ladies and gentlemen, this must also touch the core of tax codes and fiscal policies and industrial strategies. Dear Finance Ministers – this is your homework, too!

3. We need a global social contract that takes a global perspective on growth

Economists love growth. Politicians love growth even more. And they have good reasons to do so: growth is a measure of human progress, a sign of creativity and inventiveness, an enabler and creator of prosperity and wellbeing. But our love of growth must not blind us: growth is a means, not an end. Growth rates per se do not necessarily reflect progress in the real economy or improvements in the wellbeing of people – take, for example, the financial markets with their inflated growth rates that are decoupled from the real economy, or the jobless growth we have seen in some Asian and many African economies.

Treating growth rates like a universal, magical cure is not only *not* helping, it actually has side effects which are increasingly endangering the fundamental health of the world economy.

I believe that we have to concentrate on three questions: Where does growth come from? What is it that should grow? And where should it grow?

Regarding the first question on the sources of growth, allow me to say this: flooding the market with cheap money is not a viable long-term strategy. We must not forget one of the major lessons of the financial crisis – money might make money, but money does not create value. *People* create value, with their ideas and their hard work. So the best stimulus program is the one that stimulates the minds of the people, one that builds a structural environment enabling their dreams and aspirations to become reality.

I therefore have no doubt: a new, great transformation towards sustainability and prosperity for all is not a *threat*, but a *promise*. It is in itself a *driver of growth*. If the governments of this world, if all of us take the implementation of the 2030 Agenda for Sustainable Development and the Paris Agreement seriously, then I guarantee you: this will become the *biggest* stimulus program and the *most enduring* stimulus program of all times. Finding new ways for prosperity everywhere within the planetary boundaries is a challenge that will require an endless amount of imagination and innovation. We just need the courage for policies which set this imagination free. In a world of limited resources, there is one resource that can grow infinitely: the human mind.

Furthermore, we must not shy away from the question of where material growth is a real and urgent necessity. Yes, in those countries where there are still people living in extreme poverty, we need more schools and more hospitals and more energy plants and more roads and more services and more IT. But do we really need more cars in Germany? From a global perspective, isn't it ironic that the North is desperately trying to push demand at any cost while there is almost unlimited demand in the South? Isn't it paradoxical that the advertising industry in the rich countries is spending billions to convince people to consume things they don't really need, while in poor countries there are unmet needs so obvious and so basic?

I would like to encourage all of us, especially the economists among us, to not get used to this absurdity and to not accept this as normality.

I am asking again: What is it that should grow? And where should it grow?

These questions should challenge us to have a more differentiated, more global perspective on growth. Maybe the richer countries need to find new ways in defining well-being in order to make room for more growth – growth in those countries where economic development is a question of survival. And make no mistake: the task of providing jobs and perspectives to the massively growing youth population of Africa and many parts of Asia is not a task for these regions alone. It is a truly global challenge. Its success or failure will decide not only the fate of these countries alone, but of the whole world.

And because we are all in this together, we need new bridges between the regions. I believe that the demographic and economic challenges marking the 21st century call for a global social contract; a new awareness that seeks justice and mutual benefit not least between the ageing societies of the rich countries and the societies with a rapidly growing youth population. We need each other to survive. The bridges we build should include ways for legal migration as well as a truly fair and development-friendly global trade regime. In that context, allow me to tell you – and I am sorry I cannot hide my anger about this: abandoning the Doha round was and is a mistake of historic proportions. Again, we urgently have to rethink our growth models, which should complement each other instead of eating each other up.

Maybe there could also be new ways to use the gigantic amount of capital in the savings-heavy ageing societies which today is desperately looking for return – to redirect it to where it is really needed, in the real economies of the South, in order to build infrastructure or support

education or create jobs. Couldn't the IFIs be at the forefront of such a new global social contract, couldn't they be the architects of the financial bridges, together with their shareholders, developing stronger risk hedging mechanisms that make such bridges viable?

Ladies and Gentlemen,

Dear governors,

I have outlined some thoughts on why I believe we need a new spirit of partnership in international politics, underpinning a structural transformation of our economies and societies. This could ultimately lead to a new global social contract between the rich and the poor, the old and the young, between today and tomorrow.

You might say that this is stuff for inspirational speeches, not for concrete politics. But looking at the world today, I am more than ever convinced that the old thinking which got us into the mess will not lead us out of it. A new world requires new thinking.

And I passionately believe that the IFIs, and not least the Asian Development Bank, can be vanguards of this new world. You can live the spirit of cooperation and partnership that is needed in this interconnected world. You can catalyze finance and investment into the transformation of economies that lifts people out of poverty while respecting the planet. You can build bridges between societies and put the money where the real need is.

My point is this: the world needs you, ADB! Do not underestimate the part you can play. Think big. Challenge the old ways. Find new paths to push forward myriads of transformations on grassroots level which then translate into the great transformation. Make change happen where the people can see it, feel it, breathe it. Have the courage to pursue policies which are good not only for our generation, but also for our children's children, even if that means confronting resistance to change. Listen to each other, because nobody has all the answers.

In our age of crises, I am firmly convinced that only those who will adapt to the fundamental realities of interdependence and long-term impact will be able to secure a good future for all. I trust that the ADB will be on the right side of history. If you now set the course, then the biggest achievement of all is within your reach: a world in which every child, man and woman can live a life in dignity, within the natural boundaries of our common planet earth. In order to get there, we all need to change. Let's start today.

I wish you a productive, visionary and joyful annual meeting.

Thank you.