



Prof. Dr. Carlo Jaeger
Tel.: +49 331 288-2601
Fax: +49 331 288-2580
E-mail: cj@european-climate-forum.net

“Beyond the Financial Crisis – Globalization at the Crossroads”

An International Conference

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Goal

What will we learn from the financial crisis that has brought the world economy once more to the brink of the abyss in which it fell in 1929?

This question forms the focus of a conference that will bring together experts from different countries and disciplines. The conference takes place in the heart of Berlin at a moment when Germany, the nation with the biggest economy of Europe, is installing a new government. Which kind of models are needed in the face of the twin challenges of global economic instability and global environmental risks? What kind of mindset is appropriate to deal with these challenges?

The panglossian view of economic rationality that dominated the policy debates of the last decades has experienced its Waterloo in the past two years. The return of Keynesian policies, however, should not obfuscate the fact that Keynesian models experienced their own Waterloo in the stagflation period following the first oil crisis. In the present situation, the tools of multi-agent modelling, pioneered, among others, by the Santa Fe Institute, and the related theory of socio-ecological systems, pioneered, among others, by Nobel prize winner Elinor Ostrom, hold promise of an improved understanding of the economic dynamics we need to shape within a perspective of sustainable development.

The conference shall lead to innovative scenarios and policies, not by one mere quick response to problems that require patient inquiry—but by improving the models and concepts in an on-going dialogue with investors, policy-makers, and opinion leaders.

Background

The conference shall identify the challenges arising with the end of the current financial crisis. It will analyze what lessons can and should be learned from this crisis—and what dangers arise if those lessons are missed. The debate will proceed in two steps:

- 1) What are key features of the situation arising beyond the financial crisis?
- 2) What options arise from this situation?

In spring 2009, in the midst of the greatest financial crisis seen in recent history, the website of McKinsey & Co. hosted a crucial debate: Will globalization be derailed by the world financial crisis? The well-known journalist Moisés Naím (editor of *Foreign Affairs*) responded with a “no”, historian Harold James (Princeton) responded with a “yes”. The difference in opinion reflects the differences between a short-run and a long-run view. The former sees the crisis as a disturbance that has to be corrected by suitable corrections – like the driver of a bicycle who keeps his vehicle on track despite a bump in the road. But the latter sees the crossroads where the bump lies and asks which direction the cyclist shall take.

Will development after the crisis be characterized by growing coordination problems, environmental risks, and social tensions? Or will we realize a sustainable development where global problems are solved step-by-step in a process of joint learning? This is the crossroads ahead of us.

The current crisis was triggered by the breakdown of the American sub-prime market. But the instability not just of that market but of the global economy as a whole was due to the fact that the globalization of the last decades had built up huge tensions. In particular we witness tensions between the forceful rise of emerging economies – first and foremost China – and the complacency of highly industrialized countries. Less visible, but equally important, is a tension that has arisen within many countries between their upper third of society, that enjoys the advantages of globalization, and the substantial parts of society that do not share them.

Both of these developments have contributed to a situation where investors wanted to place huge savings on financial markets at low levels of risk while entrepreneurial investments promised attractive returns only at relatively high risk levels. Under these conditions financial institutions could make huge profits with complex financial services that at first sight looked much less risky than they would become through their massive scale of use. At the same time - and from a historical perspective this is essential - the capacity for global coordination between leading nations was much less robust than expected.

Currently there are strong reasons to expect that short-term crisis symptoms will be overcome without solving the long-term problems. Therefore, we better prepare for major surprises—and not necessarily pleasant ones. Despite the uncertainty of the future, two developments are quite clear: China and other emerging economies will grow much faster than the global average, and climate policy will become even more important as a challenge for global coordination than is presently the case.

The growth of emerging economies will continue because people in these countries know that they can narrow the gap separating them from rich countries, and therefore

any government will run into massive difficulties if these expectations are not met. In addition, climate policy will become even more important for two reasons. First, the risks of climate change have impressed public opinion worldwide much more than any short-lived fashion could. Second, climate policy is closely connected with the issue of energy security, which will present a key economic and political challenge in the decades to come.

In this setting the declarations of the G8 and the "Major Economies Forum" (MEF) on climate change matter. In July 2009 these fora endorsed the goal of limiting global warming to 2° Celsius (MEF members are Brazil, China, India, Indonesia, Mexico, Russia, South Africa, South Korea, the G8, and the EU). Without major climate policy measures global warming will reach 4+° Celsius by the end of the century. This will lead to the melting of huge amounts of ice in Greenland and Antarctica over centuries and millennia, and therefore to flooding the coastal cities of the world where the majority of humankind presently resides. Sooner or later, the perspective of limiting global warming while fostering energy security will lead to a massive transformation not only of the energy sector, but also of the global economy as a whole.

Is the complacent picture of the world economy that has evolved in the past decades appropriate to deal with this situation? Economic models that did not envisage the possibility of the present crisis will hardly be good enough for the challenges we are facing.

The conference shall help develop a process of inquiry that accepts the challenges of integrated risk governance posed by global financial crises as well as by global environmental change. Advances in multi-agent modelling are an essential element of this process, as is the theory of socio-ecological systems that is currently emerging hand-in-hand with these modelling tools. The conference shall enable scholars and practitioners to engage in a joint learning process in the years to come, blending modelling efforts, policy implementations, and public debates in a perspective of sustainable development.

The Organizers

The European Climate Forum (ECF) is an association of leading research institutes, businesses, and NGOs interested in issues of sustainability, especially climate change. Founding members include the Potsdam Institute of Climate Impact Research (PIK), Munich Re, and Greenpeace. ECF designs and implements joint studies and events leading to insights and actions on climate change within a sustainable development perspective.

The present conference is an outcome of a study on sustainable responses to the financial crisis that ECF is performing on behalf of the German Federal Ministry of the Environment together with two leading German institutes of economic research – the Kiel Institute for the World Economy and the Macroeconomic Policy Institute (Düsseldorf) as well as with the leading German institute for research on climate change – the Potsdam Institute for Climate Impact Research.

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