

## KEY FINDINGS

- The Rio Earth Summit of June 1992 marked a major victory for the so-called "global salvationism," an alliance between progress-adverse environmentalists and the assorted enemies of economic freedom
- Since then global policies have felt the undue influence of collectivist and regressive notions, with the help of the assent of governments
- Not only the scientific underpinnings of the IPCC's conclusions are dubious, but its treatment of economic issues is plainly inadequate and slanted
- Governments have surrendered large areas of ground to collectivist ideas and pressures, with serious implications both for economic performance and for individual liberty

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## Economics, Climate Change Issues and Global Salvationism

by David Henderson

*I begin with a confession, a story of failure on my part. On 30 April 1992 I passed a career milestone: I ceased to be a salaryman. The last position I had held was as Head of what was then the Department of Economics and Statistics at the OECD, in Paris*

In that capacity, I had two principal sets of clients and taskmasters. First were officials from the central economic departments of state of OECD member countries - treasuries, ministries of finance or economics, and in the US, the Council of Economic Advisers. Second were representatives of those countries' central banks. Officials of both kinds came together twice a year, as they still do, to meet in the OECD's Economic Policy Committee (EPC).

The last EPC meeting that I attended took place in April 1992, just before my time as an official expired; and as is usual on such occasions, some kindly farewell words were spoken at the end. The Chairman took three minutes or so to say how much the Committee had benefited from my services; and in response, I took three minutes to speak appreciatively of the Committee, my staff, and the work of the Organisation. Such official exchanges, however sincere the words that are spoken, bear a routine stamp. They are soon forgotten.

It took me five years to wake up to the fact that, on that occasion in April 1992, I had failed to grasp an opportunity. Out of my 3-minute address to

a captive audience of senior finance ministry officials, I should have spent no more than 90 seconds in rendering thanks, however genuine, and in paying tributes, however well deserved. I should have spent the remaining 90 seconds in telling these officials, using direct though civil language, that they were currently failing in their duty. That would have made the occasion less forgettable: it might even have made some impact. But I failed to perceive the opportunity.

What ought I to have said to those finance ministry persons, in a highly irregular accusatory 90-second Part II? What were the grounds for bringing a charge of dereliction of duty against them? The charge, a just one, would have been that they had paid and were paying no attention to the United Nations Conference on Environment and Development which was about to be held in Rio de Janeiro. I should have told them that the so-called Rio Earth Summit was an important and worrying event; that it and the developments it gave rise to could well bring serious economic consequences; and that they ought accordingly to inform themselves, to monitor developments,

and to take a continuing interest in the issues and processes that were involved.

Such a warning would have been justified by events. The Rio Earth Summit of June 1992 marked a major victory for what I call *global salvationism*. This outcome passed unnoticed by my former official clients; and as I have said, it took me longer than it ought to have done to realize just what had been happening in the world, both at Rio and subsequently.

Since the Earth Summit, the ground won there by global salvationism has been consolidated and extended. The trends and ways of thinking that I should have given warning of in Paris in April 1992 are more worrying in May 2005. Alas, even now such worries are not shared by my former clients: they have still not cottoned on. Had I been offered the chance of a 13<sup>th</sup>-anniversary 3-minute presentation to the EPC meeting that took place in Paris last month, I would have accepted with alacrity; I would have taken as my theme the need for these officials to inform themselves more fully, better late than never, about what has been going on in the world around them, and to consider what they might do about it; and I would have commended to them my already-published proposal for prompt specific action on their part within the framework of the OECD itself.<sup>1</sup> However, I would also have referred to issues and concerns that go well beyond those that I failed to raise in 1992. These relate to the broader domain of what I have termed *new millennium collectivism*. I shall touch on them at the end of my remarks.

## *Global salvationism*

First, what do I mean by global salvationism? Here I give a brief summary: a fuller concise treatment is

<sup>1</sup> My proposal is that the EPC should now concern itself with economic issues relating to climate change, and with the way in which those issues are handled by the Intergovernmental Panel for Climate Change and its sponsoring departments and agencies. The reasons for this will appear below.

to be found in Chapter 4 of a short recent book of mine.<sup>2</sup>

The salvationist doctrine has two main strands, which originally were separate but have long since come together to form an influential world-wide consensus. The first strand is *developmental* salvationism, and relates to the economic fortunes of poor countries. The second strand is *environmental* salvationism.

In both strands, two elements are combined. One is a relentlessly dark - not to say alarmist - picture of recent trends, the present state of the world (or 'the planet'), and prospects for the future unless prompt and far-reaching changes are made in official policies. The second is a conviction that known effective

remedies exist for the various ills and threats thus identified, remedies which require action on the part of governments and 'the international community.' 'Solutions' are at hand, given wise collective resolves and actions. Global salvationism thus combines alarmist visions and diagnoses with confidently radical collectivist prescriptions for the world

The first coming together of the two strands, developmental and environmental, can be traced back to the early 1970s. Since then what has evolved into a combined salvationist consensus has set the tone and content of a continuing series of international meetings, reports and resolutions: an early landmark was the establishment in 1972 of the United Nations Environment Programme (UNEP), following the Stockholm Conference on the Environment which was the first of its kind. The essence of the consensus diagnosis can be illustrated by a quotation from a mid-1970s Club of Rome study:

Two gaps, steadily widening, appear to be at the heart of mankind's present crises: the gap between man and nature, and the gap between "North" and "South", rich and poor. Both gaps

<sup>2</sup> *The Role of Business in the Modern World: Progress, Pressures, and Prospects for the Market Economy*. Published in 2004, in London by the Institute of Economic Affairs and in Washington D.C. by the Competitive Enterprise Institute.

must be narrowed if world-shattering catastrophes are to be avoided...<sup>3</sup>

During the 1980s, the salvationist consensus found expression in two widely read and influential reports, each produced by a specially convened international group of eminent persons. The first of these was the Brandt report of 1980, and the second the Brundtland report of 1987. The Brundtland Report led on to the December 1989 resolution of the UN General Assembly which authorized the Rio Summit.

Before commenting on the Earth Summit and its sequel, let me put before the reader eight summary propositions relating to economic progress.

### *Material progress and its sources*

- Over the past half century or more the world economy, and most though by no means all of the economies within it, have grown at rates that were substantially higher than in the past, and much higher than anyone foresaw. All the countries that counted as developed in 1950 have shared in this greatly increased prosperity. But the record of economic progress goes beyond these already advanced countries, in ways that no one foresaw or even imagined, and which mark a decisive break with the past. In the course of these past five to six decades, an increasing number of previously poor countries achieved sustained rates of growth in GDP per head which were either rare or wholly unprecedented anywhere in earlier history.
- The advances in GDP per head have gone together with striking improvements in life expectation, in health, in educational standards, in leisure, and, in important respects, in the quality of the environment.
- Contrary to many alarmist assertions and predictions, these remarkable and widely diffused gains in material welfare have not been achieved at the cost

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of putting the future at serious risk through pressure on natural or non-renewable resources.

- Generally speaking, the extraordinary progress that has been made by many countries that were previously poor has owed little to foreign assistance. It was not the outcome of official aid programmes, of public-spirited conduct by large international firms, or of charitable actions on the part of 'the international community.' It was not brought about by 'empowerment.'
- These developments have further confirmed, what earlier economic history already indicated clearly, that *everywhere, the material progress of people, rich and poor alike, depends primarily on the dynamism of the economies in which they live and work.*
  - The success stories also confirm that, in economies where a number of background conditions are broadly established and maintained, material progress, including improvements in the quality of life and in the environment, is likely to go ahead at rates which half a century ago would have been viewed as unthinkable.
- The background conditions are that there is reasonably stable government, with no serious internal disorders, that governments do not act irresponsibly in matters of public finance and the control of the money supply, that property rights are well established and maintained, that economic decision-making rests largely with private individuals and enterprises, and that the economy is substantially open to transactions with the rest of the world. These are the main conditions, political as well as economic, which make it possible for a market economy to operate effectively.
- Everywhere, the advancement of ordinary people largely depends, as it always has, on the access to opportunities, and the ability to make choices, which economic freedom provides *both for them and for others.*

<sup>3</sup> Mihajlo Mesarovic and Eduard Pestel, *Mankind at the Turning Point: The Second Report to the Club of Rome*, London, Hutchinson, 1975, p. ix.

## Salvationist dissent

I would argue that these eight propositions are well founded; and I think that all readers, even if they might not be willing to join in signing a letter to *The Times* in their support, would at any rate agree that a case can be made out for all of them. You may wonder why I have spent my strictly limited time this evening in putting before the reader already familiar arguments.

The reason why I have done so is simple. In the domain of global salvationism, and the constant stream of writings and statements in which it continues to find expression, all these propositions are played down, glossed over, disregarded, or denied.

Let me quote a recent instance, chosen from among a wide range of candidates because of its source: the source is UNEP. UNEP has an ambitious flagship publication entitled *Global Environment Outlook*. Here are two short excerpts from the Synthesis chapter of the third and latest in the series, a 446-page volume.<sup>4</sup>

'Poverty and excessive consumption - the twin evils of humankind - continue to put enormous pressure on the environment ... the state of the global environment ... continues to deteriorate.'

'The world is continually plagued by increasing poverty and continually widening divisions between the haves and have-nots.'

In the salvationist picture of the world, the record, sources and lessons of economic progress go unrecognized. Poor countries, whose relative poverty is typically much overstated, are portrayed as victims whose progress chiefly depends on empowerment and deliverance from above, while environmental issues are treated almost exclusively with reference to problems, threats, and potential or even imminent disasters. In so far as such beliefs and assumptions form

the basis for economic policies, there are grounds for concern.

## Salvationist alliances

Who are the global salvationists? There are three main parties which make up a working triple alliance on the international scene.

First, virtually every UN agency embraces and gives expression to salvationist assumptions and ideas. On the economic side, we have in particular the UN Secretariat, the regional economic commissions, UNDP, UNCTAD, UNIDO, the ILO and UNEP. The World Bank under its present leadership should also be counted in.

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Second, there are the non-governmental organizations (lower case). Here there are two main categories. One comprises what are officially known as 'the social partners' - i.e., business and trade union organisations. Both partners largely accept salvationist assumptions and arguments - big business now more than ever,

as I have amply documented both in the book I mentioned and in a predecessor study.<sup>5</sup> The second category is the so-called 'public interest' non-governmental organisations, usually referred to as NGOs (upper case). These are often given the title, in a worrying misuse of language, of 'civil society.' A feature of the Rio Summit was an enlarged scope for participation of the NGOs. Almost without exception, the NGOs are hostile to, or highly critical of, free trade, globalisation, capitalism, multinational enterprises, and the idea of a market economy; and the great majority are preoccupied with what they see as dire threats to the planet. Since 1992 their status and influence have grown.

However, the most important members of the salvationist alliance are governments. It is they that fund

<sup>5</sup> The predecessor is *Misguided Virtue: False Notions of Corporate Social Responsibility*, published in 2001 in London by the Institute of Economic Affairs and in Wellington, New Zealand, by the New Zealand Business Roundtable.

<sup>4</sup> *Global Environment Outlook 3*, published in 2002 by UNEP and Earthscan, London.

and give instructions to UN agencies, and it is they that decide how far, and in what ways, non-governmental organisations of both kinds, social partners and NGOs alike, are able to participate in national and international affairs. What happened at the Earth Summit and after largely reflects the perceptions, wishes and intentions of governments, as formulated and given expression by the responsible departments of state. In the context of Rio and similar occasions, these latter are chiefly environment departments, labour departments, development agencies, and foreign offices.

### *The significance of the Rio Summit*

Now global salvationism was flourishing and widely accepted long before the Rio Summit of 1992. It is flourishing and widely accepted today. You may therefore ask what was special about the Rio Summit, and what makes me still rue my failure at the time to draw the attention of my clients to it. The answer comes under three headings.

First was the level of participation. For the first time, an international conference of this kind was attended by heads of state and heads of government: over 120 of these actually came to Rio. The various proceedings and outcomes were thus given an extra standing and authority: governments as a whole, as well as particular departments of state, appeared as committed.

A second distinctive feature of Rio was that an important international agreement, still very much in force, emerged from it. The vast majority of the world's governments signed then, and later ratified, the UN Framework Convention on Climate Change, which later gave birth to the Kyoto Protocol. It was at the Rio Summit that governments formally agreed to recognise, and to take action to deal with, what was now officially identified as a serious problem posed by global warming arising from economic activity.

These two special features of the Earth Summit are linked: the reason why so many heads of state and heads of government came to Rio, and put their governments' names to resolutions and agreements there, was that they were persuaded that the threat of global warming was real: the decisive new element was the issue of climate change.

That issue had been reviewed at length in the First Assessment Report of the Intergovernmental Panel on Climate Change, the IPCC, which had been established in 1988. This Report, which was published in 1990, laid the basis for the Framework Convention. Since then the IPCC has brought out two further massive Assessment Reports, and it is now engaged in preparing the fourth in the series, which is due to emerge in 2007.

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### *The IPCC and the salvationist connection*

Now when people think of the IPCC and its work, what they visualise, I think, is an objective and thoroughly professional scientific inquiry which has a status of its own, independently of other influences and

proceedings, and which is weighed and reviewed as such by governments. It is taken to be an independent, non-ideological, self-contained exercise. Let me give you two reasons for questioning this perception.

First, go back to 1992. Climate change issues formed only part of the Earth Summit agenda. They were incorporated, as an additional reinforcing element, into the familiar UN-style dark salvationist message. In the Rio documents and resolutions, that familiar message was neither qualified nor watered down. Chief among the many documents prepared for the Summit was a 600-page proposed action programme called *Agenda 21*, which the conference actually adopted in an amended form. The preamble to this document opens as follows:

'Humanity stands at a defining moment in history. We are confronted with a perpetuation of disparities within and between nations, a worsening of poverty, hunger, ill health and illiteracy, and

the continued deterioration of the ecosystems on which we depend for our well-being.’

Those opening sentences were not amended. They were accepted by participating governments and went into the final text.

The proposed remedies for the stark situation thus depicted in *Agenda 21* were to be given effect through ‘a new global partnership for sustainable development.’ This brings me to a third notable feature of the Earth Summit. It marked the general acceptance by governments, many of them at the highest political level, of the principle of ‘sustainable development’ as a basis for policy. Since then this dubious formula has acquired an even more assured official status: it has been accepted uncritically almost everywhere, including by the European Commission.<sup>6</sup>

Such was the salvationist diagnosis and prescription which all the participating governments at Rio proved ready to endorse, many of them at the highest political level. The IPCC’s contribution entered into the Summit proceedings, not as a separate stand-alone exercise, but rather as a powerful new chapter in the already existing widely accepted global salvationist story.

History aside, consider the formal status of the IPCC. One may ask why the work of the Panel should have been, as it still is, so closely linked with already established and highly questionable salvationist proceedings and ways of thinking: why is the IPCC process not a fully independent undertaking? The answer is simple. Through the decision of member governments, the IPCC is the creation of, and reports to, two parent agencies. One of these is the World Meteorological Organisation, which one might expect - though increasingly, I wonder about this - to have no particular leanings either towards or away from global

salvationism. The other parent, which along with its sponsoring ministries and participating NGOs is fully committed to global salvationism, is UNEP.

### *The IPCC and economics*

Since the IPCC’s terms of reference extend to economic issues, it is worth asking whether and how far its treatment of those issues measures up to what we would see as professional standards, and meets the requirement laid down for the Panel that its work should be ‘comprehensive, objective, open and transparent.’ I am pleased to say that this question, among others, has been considered by the House of Lords Select Committee on Economic Affairs.

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Over the past two and a half years I and an Australian co-author - Ian Castles, formerly Head of the Australian Bureau of Statistics - have published, jointly and severally, a number of pieces in which we set out a critique of the IPCC’s handling of economic issues, together with proposals for improving it. Among the many instances I might quote, a special press release is noteworthy which the IPCC issued in December 2003, and which is specifically

and exclusively devoted to answering - and dismissing - our critique. The text is now carried, in a somewhat less impolite form than the original, on the Panel’s website. This high-level official document is truly remarkable for both tone and substance.

The opening paragraph of the press release says of the IPCC that

‘It mobilises the best experts from all over the world, who work diligently on bringing out the various reports... The Third Assessment Review ... was released in 2001 through the collective efforts of around 2000 experts from a diverse range of countries and disciplines. All of IPCC’s reports go through a careful two stage review process by governments and experts and acceptance by the member governments composing the Panel.’

<sup>6</sup> In this context, I would like to commend to you Sir Alan Peacock’s 2003 Presidential Address to the David Hume Institute in Edinburgh, entitled “The Political Economy of Sustainable Development,” published by the Institute.

I believe that in relation to economic aspects, there is good reason to question the claims to authority and representative status that the IPCC thus makes. Those of us who are skeptics do not question the numbers of those involved, their diligence, or the existence and observance of formal review processes. But we think that when it comes to the treatment of leading economic issues, the IPCC milieu is neither fully competent nor adequately representative. We also hold - and this does not apply only to economic aspects - that building in peer review is no safeguard against dubious assumptions, arguments and conclusions if the peers are all drawn from the same restricted professional milieu.

In its recent evidence to the House of Lords Select Committee, the responsible Whitehall department, the Department of the Environment, Food and Rural Affairs, expressed the view that "there are very many distinguished economists working alongside ...[IPCC] scientists..." Those of you who are curious about this aspect may care to go to the IPCC website and trawl the list of around 400 persons who are expected to act as authors, contributors and reviewers for Working Groups II and III of the Panel.

### *Failure at the centre*

I believe that the treatment of economic issues within the IPCC process can be made more professionally representative and watertight only if new participants are brought into it, and this can be achieved only if and in so far as member governments act to make it happen: the IPCC milieu appears impervious to unofficial criticism. In this context, it is the central economic departments of state - my former clients - that have a potentially key role if they choose, not before time, to play it. Up to now, and despite the large amounts that are at stake, they have been content to leave these matters to the departments and agencies directly concerned to handle as they think

best. The questionable treatment of economic issues by the IPCC and its sponsoring organisations, which Castles and I have drawn attention to as independent outsiders, has apparently not been queried, or even noticed, by a single official in a single finance or economics ministry in a single OECD country.

In my opinion this is only one instance of a continuing lack of imagination and resourcefulness on the part of these ministries. In my fantasy 3-minute EPC presentation in Paris last month, I would have moved on from global salvationism to the broader theme of new millennium collectivism. I would have suggested to these officials, not only that they should focus at long last on IPCC-related issues, but also that they have failed, among other things, to wake up to, and

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try do something about, the growing influence of anti-business and anti-market NGOs, the interventionist and anti-market line taken by most international agencies, the uncritical endorsement by their own governments of questionable notions such as 'sustainable development', 'social exclusion', and 'Corporate Social Responsibility', and - in particular - the substantial and continuing erosion of freedom of contract through intrusive laws and reg-

ulations. On these and other fronts, they have surrendered large areas of ground to collectivist ideas and pressures, with serious implications both for economic performance and for individual liberty, without effective resistance, and indeed without fully realising what has been going on around them. They have allowed anti-liberal influences and trends to prevail.<sup>7</sup>

### *Economists in government*

Behind this sombre performance report lies an element of personal frustration and disappointment. In the Oxford long vacation of 1960 I wrote an article,

<sup>7</sup> I use the term 'liberal' in its continental European rather than its American sense. Hence a liberal is taken to be one who emphasises the value of individual freedom, and who accordingly judges arrangements and policies, whether economic or political, primarily with reference to their effects on freedom.

published in early 1961, which drew attention to the fact that in almost all British government departments outside the Treasury economic policy was viewed and decided without the involvement of economists.<sup>8</sup> I noted, with telling examples, that in these situations economic ideas entered into the policy process, often decisively; but that these were intuitive beliefs and assumptions, arrived at without benefit of an economic training. I made the point, which I later developed in my 1985 Reith Lectures, that these notions '[might ] well be inadequate or oversimplified if not quite literally fantastic.' I argued that economists as such should be introduced into departments, and I may have been the first to suggest the establishment of what four years later became the Government Economic Service.

I think my article reads well today, and when it comes to practical proposals there is only one sentence I would want to amend. But I find myself wondering, rather disconsolately, why and how the kind of reform I was advocating has not produced the results that I had hoped for. The Government Economic Service today has around 800 professionals. Given the worrying situations and developments that I have pointed to this evening, the question arises: *What are these people doing?*

### Concluding thoughts

In the final chapter of the recent book I mentioned earlier, I consider the question of how far today's widespread and influential anti-liberal pressures, tendencies and ways of thinking represent a serious threat to the market economy and to economic freedom. In that context, I offer now a final rather gloomy reflection. It is based on the closing paragraph of a recent review article of mine, where I place Martin Wolf's fine book on globalisation alongside two other

publications on the same subject which I was not impressed by.<sup>9</sup>

Classical liberals are few and far between, while most of today's social democrats and democratic conservatives, while not to be counted among the anti-market activists, are well disposed towards, or ready to acquiesce in, much of the thinking that enters into new millennium collectivism. Not many of them would wish to question the status of such plausible and generally accepted notions as sustainable development, positive human rights, corporate social responsibility, socially responsible investment, anti-discrimination, equal opportunity, diversity, social justice, social exclusion, global social governance, the precautionary principle, or participatory democracy. As currently interpreted, however,

all these guiding principles find expression in anti-liberal measures and programmes. A continuing threat to economic freedom thus arises, not just from anti-capitalist groups and movements on the periphery, but also, and principally, from representative opinion of various kinds in conjunction with a wide range of interest group pressures old and new.

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<sup>8</sup> 'The Use of Economists in British Administration', *Oxford Economic Papers*, Volume 13 Number 1, February 1961.

<sup>9</sup> Wolf's book is entitled *Why Globalization Works* (Yale University Press, 2004). My review article is entitled 'Globalisation, Economic Progress and New Millennium Collectivism', and appeared in *World Economics*, Vol. 5 No. 3, July-September 2004.





## *ISTITUTO BRUNO LEONI*

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