

Interview with Ian JOHNSON, secretary general of the Club of Rome

Opening up Dialogues on Energy & World Economy



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The interview below is with Ian Johnson, Secretary General of the Club of Rome, who visited Japan recently under JEF's VIP Invitation Program. His main schedule while in Japan was as follows:

May 31	The Institute for Global Environmental Strategies Open Lecture at Iwasaki Koyata Memorial Hall, International House of Japan
	Keizai Doyukai Seminar for members at Main Hall of Club Kanto
June 1	Closed-seminar in English with about 30 members of Japanese National Association of the Club of Rome, hosted by Japan Economic Foundation at JEF's conference room
June 2	JIIA Forum hosted by Japan Institute of International Affairs (JIIA)
	India and Japan in a Global Perspective: India Japan Club Welcomes Mr. Ian Johnson, Secretary General of Club of Rome

What is your impression of the meetings in Japan so far?

Johnson: They have been most encouraging. A wide range of people have attended, and asked very thoughtful questions about long-term issues. In some countries it is becoming more and more difficult to have such discussions on long-term issues, so this was very good. The best and most important part has been the opportunity for real discussion.

Do you think Japanese people are aware of the problem of the global environment?

Johnson: Among people I have met from various ministries, from industry, from NGOs and other institutions, there is a real appreciation of the long-term view. That is very consistent with my understanding of Japanese history – that people are willing to wait and take a 20- or 30-year perspective. And there are many strategic institutes in this country, whose role is to take a long-term view.

I understood from your lecture that education is the most important part of your work. It is very difficult to

educate people on economics, which is quite often considered “the dismal science.”

Johnson: Yes, we do spend a lot of time explaining why it is dismal! When I look back on my career in the Global Environment Facility, then as vice president of the World Bank and now as secretary general of the Club of Rome, my first appointment, always, has been with the Communications Director. Communication comes above and before anything else.

The world has changed. In 1972, when *The Limits to Growth* first came out, an academic book was convincing, but that doesn't work any more. You have to take that robust analysis and turn it into something that resonates with people. I think you can only generate change by spreading the same message, delivered differently, right across the board. In the Club of Rome, we have a couple of national chapters doing interesting work on children's education, thinking about how to change curricula to include some of these long-term issues. Communication right across the spectrum is absolutely essential.

Economic tends to be laden with mystery although it does not have to be. I have a sense that things are deliberately made more complicated in order to create a barrier - the less people understand, the more they will believe it is important. If you listen to financial market talk, it is like a separate language, deliberately intended to

make things more complicated than they should be. I think there is a real need to get back to the basics. For instance, if we count crime as a positive contribution to wealth, there is something wrong with economics. And if we have economic growth models that do not grow real prosperity, or models of economic growth that do not provide jobs, that is not growth. If we tear down forests and treat that as a purely positive impact on wealth because we sell the timber, and we don't take account of all the negatives, there is something wrong. It is really important to try to explain the economics of these issues in as clear terms as we possibly can.



Secretary General of the Club of Rome, Ian Johnson

Your idea of measuring values, which is generally not considered part of

economics, is fascinating. But measuring values is very challenging for a statistician and it is very difficult to collect the right data. Could you explain your thoughts on this?

Johnson: There are two catchphrases that capture this question. One is that “the search for the perfect becomes the enemy of the good.” I think on many of these issues we have very good measurements, but they are not perfect. The other phrase is “paralysis by analysis.” A measurement is only valuable if you use it to change policies or to change the course of events, and for that, you need to have reasonable and plausible assumptions. If we wait until we have the perfect information before we act on climate change, we will be in deep trouble.

Decision-making is all about risk and uncertainty. You do not have all the information, but if you have reasonable and plausible assumptions, then you can draw reasonable conclusions and therefore you can take prudent actions. That is why I've been making the case that we have to shift our economics from simple considerations of least-cost to least-risk and take actions that also keep options open. I believe the application of options theory and the application of risk and uncertainty is going to come more and more into the mainstream of economic thinking. It's very deterministic at the moment and that will have to change. I believe there are many decisions we can take where we don't have perfect information but we have better information than we used to.

The OECD and other European research institutes are already engaged in collecting data on the environment. Does the Club of Rome have any project to integrate such research?

Johnson: We do not have the staff or the funding to do basic research or data collection. What we do have is a network of members in senior positions in research, academia, business and finance and we draw on their knowledge and the knowledge of their institutions. The CoR can draw from different sources and different inspirations to help stitch things together in order to facilitate the debate and the discourse. Other people and institutions are looking at the same issues, but we bring a different perspective. We have an interesting international group of people, we are independent and objective, and we have a track record in history, which is valuable. My aim is that in the International Centre we will be able to get substantial funding to do research and more analysis. We have received some money from governments to do that, but in the long term we have to draw on existing work.

My experience tells me that institutes are not very good at linking issues together. For example, very few people looking at climate change or biodiversity loss or water supply also consider the link with employment. If you do not bring those issues together you cannot get a comprehensive view or a realistic chance of designing real instruments and real policies to make a change.

International benchmarking might be a very useful method. Does your organization have any plan to do that kind of exercise?



Johnson: We have not yet been engaged in that area, partly because the national associations are very independent. Within the general framework they do many different things. The benefit of the CoR is that it is a loose affiliation of national associations and individuals in many institutions, all doing different work and all with different ways of analyzing issues within a broad, general framework. I think that has its advantages. Getting everyone aligned in a corporate sense might be very difficult, and may not even be desirable. The model that I think is most useful for us is that of the Rotary Club. It sets a broad general theme and each group formulates its own project in its own way, according to its own circumstances, around the broad, basic philosophy and the basic framework.

It would be interesting to set up an informal network among the national associations and interested research institutes, including ourselves, and occasionally have some informal meetings here and there.

Johnson: Yes. One of the things we have been thinking about is to build discussion platforms to bring people together for debate on particular topics. Nowadays this can be done in webinars. The second thing we want to do is not just to have individual members and national associations but also think-tanks and research institutions as members. Groups like the OECD do very high-quality work, as well as the IEA in energy and other groups in finance and banking. The idea would be to create clusters like debating chambers. To produce really creative ideas, we need brainstorming and informal meetings. We are working on a format for webinars and we will be testing them out in the next month or so.

You mentioned the possibility of setting out a website platform.

Johnson: We have two websites that we are trying to bring together. The first is our own website, which will come on line in a week or so. We also have the European support centre in Vienna, which had its own site for all the national associations in Europe. I want to



transform the European support center into an international center to provide support and information to all the national institutions.

I understand that the 3-year plan of the CoR has just finished and you are moving into a new plan.

Johnson: We are just completing *Pathways to World Development*, which is really a diagnosis of the nature of the problems set out in *Limits to Growth* in the contemporary setting. We still have to work on the element of peace and security. That will be later this year, because we were unable to get the funding.

From this work, we have come to understand that if you have systemic issues you have systemic underlying causes, which need to be understood in order to design solutions. I think there are two primary underlying causes – one is the values question. Is there any point in talking about these issues if people don't value the future - not in an economic sense but in a philosophical sense? The second point is that we have the wrong economics – and economics drives our finance systems, our markets and our banking systems. It drives our decisions on what we invest in and what we don't. It drives the signals that tell us where we can make money or where we will lose money in markets and investments. So the whole question of reshaping economics is fundamental.

The financial crisis and the climate change crisis are in a certain sense the same crisis. It is a crisis of always focusing on the short term. It was not the rich bankers who suffered from the financial crisis - it was people who suffered. It was the public good that suffered. In climate change too it will be people, and the public good,

that will suffer. Once there is a serious problem, people look to governments to bail them out, whether from flooding because of climate change or for the bailing out of banks. I believe the root causes are much the same, and that is a different view from the one that most people take. It is important to look at values and at the economy, and then consider what you have to measure and change, and how that affects public policy. We will need a major reform in taxation policy that does not discriminate against labor, but reflects the real price of financial capital. I think we need to look at economic models not in terms of whether they produce GDP growth or wealth growth as we now measure it, but whether they provide employment. There is no point in economic growth unless it provides jobs.

We also have to look at those things that are going to be binding constraints on our ability to survive. The values of our natural resources such as water, forests and air are currently outside the economic realm, but they have to become central considerations. I see a direct connection – a value chain - from thinking about these issues and values, to measuring them, and ultimately to creating policy and action for change.

Turning back to employment, your argument seems to be based on the assumption that economic growth will create employment. But unemployment can be reduced by the labor market function. Even though economic growth is not as high as we expected, might we be able to contain unemployment by utilizing the function of the labor market?

Johnson: There are a number of issues here. Economic growth, even as we measure it now, will certainly have a positive impact on employment. The question is, does it provide enough jobs for the future? We had a liquidity bubble and a housing property bubble precisely because financial capital was too cheap. Had it been more expensive, people would have invested far more prudently. So if financial capital is too cheap – that is an absolute statement, but it is also relevant to the price of labor - do we have our relative prices out of alignment? Are we constantly substituting labor, and if so, how long can we do that? Research on the poorest parts of Africa, which are very labor-intensive, shows that even there, labor is being substituted. We can probably produce all the goods and services we need in the world with 20% of the current workforce but then what happens to the 80% who don't have jobs? What redistributive policies do you need to tax the 20% in order to ensure some purchasing power for the 80%? These are questions for which no-one as yet has the answers.

We have all been assuming that the lack of education is the constraint on employment and there is some truth to that. But how do we explain that to the 22% of graduates unemployed in the UK, or the 40% of under-25s unemployed in Spain? We have to think about what kind of education is necessary for the future. What will work look like for young people? I don't think it will follow the same simple steady trajectory as it did for us. We will see much more

turbulence, where people may have to retool for a different job every 5 or ten years. We may have to shift our educational systems to suit the changing nature of jobs.

There is another very important and politically charged issue on employment. In the rich world, the number of dependents is growing - those under 15 and over 65. The middle base, the workforce, is shrinking. The only way we can keep economic performance or growth moving is to fill that gap, and the only way to do that is by migration. As it turns out, there is a lot of surplus labor in some countries. But there are profound questions about how immigration shapes and changes culture and the nature of the state and the nature of where and how we live.

In the present circumstances of the unstable nuclear energy supply, there are several related questions. Should we pay more attention to income distribution policies in order to achieve fair and equal social welfare distribution? And what about the possibility of a nuclear power station crisis in other Asian countries, such as Vietnam or India? How do we contain such crises and what sort of security policies do we need?

Johnson: Those countries that decide to retain their nuclear power plants will certainly be investing in gold- or platinum-plated security systems. But even if you decide to close nuclear plants, you still have to work out what to do with the waste. Whether you keep them running or close them, there is still a problem. The bigger question concerns the construction of future plants.

The real value of nuclear plants has to include the price you put on other dimensions, like waste disposal, the security of the supply of uranium, the risks you take and the costs you have to incur if you want to protect those risks. You might want to plan on a least-risk basis rather than a least-cost basis. That might have to do with whether the nuclear reactors are placed in remote locations, or along the borders. What we need is a thoroughly professional, informed and honest discussion about these questions. There are many simplistic statements being made, and many unanswered questions. How do you compensate people who own the assets? How do you deal with waste disposal? Nobody has talked about the fact that, in Germany, all the plants are in the south of the country while renewable energy is in the north - this means that the transmission systems have to be reconfigured.

I believe that third-party reviews are really important. The IAEA review you just had in Japan was excellent. Even though they may draw the same conclusions as a government commission, the fact that an independent third party drew those conclusions confers huge credibility and transparency.

In these processes, the role of foreign policy is very important. In the case of the EU, there is a political as well as an economic community, so

perhaps the EU can manage to contain the issue of nuclear power. Is such a body possible in Asia?

Johnson: One could use the international atomic energy body to create strong regional offices and try to encourage global standards and knowledge-sharing. Although the spillover effect is important, each country has to think about its own situation. It would be useful to set agreed guidelines so that when countries do analyze their own situation, they have a basis for comparison. Germany has taken a decision to end nuclear power, though it has only 17 plants, while Japan has 54. Germany is in the center of Europe with a fully connected grid of electricity and gas and can probably purchase relatively easily from its neighbors, whereas Japan cannot. Germany is also at present in an economic boom, which is the right time to take that kind of decision. Japan is not. But there are many questions which have still not been discussed, like whether or not it is safer to keep your uranium under operation in the power plant than to dispose of it as waste. And Japan, of course, has the problem of finding a seismologically safe place to store the waste.

Coming back to the question of employment, what do you think about green jobs?

Johnson: What do we actually mean by green growth? Does it constitute a fundamental structural shift in the economy? We need first to understand what is meant by "green growth." Second, does it provide a net addition to the workforce, or more jobs than traditional economic growth does? And third, does it provide enough jobs? There is still not enough evidence to draw conclusions on any of these questions.

Why did you decide to hold the next meeting in India?

Johnson: The Club of Rome has been very West-centered. Most of the members and associations are from Europe, North America and Japan, so we felt it was an important signal, first, to hold the meeting in an emerging economy and second, in Asia. Also important is that we want to celebrate India's creation of a new national association, and our co-president is from India.

The Japan National Association really appreciates your visit and has learned a lot from you. Perhaps we can formulate our own projects. We may be able to contribute human resources and also network with others in Asia - in China, for example. That may be one contribution that the Japan association can make.

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