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Davos

Prime Minister
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The vital issues of the 1990s

The most striking characteristic of our time is the unparalleled speed and scope of the changes we are experiencing today. These changes are probably greater than at any time in human history. We must face them and, most importantly, we must direct them. The consequences of failing to act, or of acting wrongly, may very soon pose a threat to our future.

For the first time in history, millions of people all over the world are not just worried about their own and their children's future: They are deeply anxious about the future of this planet. In 1987, the World Commission on Environment and Development sounded an urgent warning about the environment and development crisis. And the awareness is spreading. This year, for the second time in 60 years, Time Magazine dropped its "Man of the Year" theme to emphasize that this is the year of the "endangered earth".

There is no "invisible hand" which by itself guides the vital process ahead of us in the right direction. Determined political action is called for, both at the national and the international level.

The technological change is becoming a superpower in its own right. It often follows its own course, and politics must take care not to fall behind.

For private business, the primary transformer of global resources, the challenge is to respond to the new political, economic and ecological realities. Business can have a leadership role in turning the threats to the future into opportunities for sustainable development.

At a time when traditional concepts are being rethought, particularly in the Soviet Union and Eastern Europe, we in the Western industrialized world who have a powerful armoury of ideas and traditions to build on, must also be ready for new paths and new ideas for solving common problems.

The time for complacency is over. It is time for a global perestroika. We need a broader international consensus on political decisions to address the megachallenges facing us. Social and environmental needs demand a new mix of more effective markets and firm, consistent government guidance.

The challenges we face will remain unresolved unless we are able to generate forceful economic growth. As pointed out by the World Commission, only growth can create the capacity to solve

environmental problems. Only growth can eliminate poverty.

- In spite of all our technological and scientific triumphs, there have never been so many poor, illiterate or unemployed people in the world. We continue to live in a situation where abundance exists side by side with extreme need, where waste overshadows want, and where our very existence is in danger due to mismanagement and over-exploitation.

- In spite of all the experience of history, 200 years after the French Revolution, millions are still denied their basic human rights, and in many cases, the right to life itself.

Only growth which is more equitably distributed will release the potential of millions of destitute who are, in the words of Robert McNamara, now denied the very potential of the genes with which they are born.

What are our main challenges for the 1990s?

Firstly, we must create conditions for a global peace economy.

The prevention of war is a prerequisite for further progress. Although a nuclear holocaust has been avoided, some 130 conflicts have claimed the lives of around 20 million people since World War II.

However, the picture is changing. The cold war is becoming history. We must take advantage of the new opportunities and spare no effort as we work towards progress in disarmament. The borders between East and West are becoming more permeable. There is a new awareness in Europe that we are confronted with problems which cannot be solved within the confines of the nation state, nor by maintaining the dichotomy between friend and foe. We must increase communication and exchange, and cultivate greater pluralism and openness.

While the assertion that nuclear weapons have helped to preserve peace in our part of the world cannot easily be dismissed, the very existence of nuclear weapons is still our most serious existential problem. A nuclear war cannot be won and must never be fought. The acknowledgement of this now offers the leaders of the world's two most powerful nations the opportunity to take bold new steps, with our firm support, towards a lasting peace based on common attitudes towards common problems.

We are encouraged that negotiations are starting with the aim of stabilizing conventional forces in Europe at lower levels.

Still, the world is overarmed. Every year 1 trillion dollars are spent on armaments, and one-fourth of all research and development activities are for military purposes. Our challenge is to reassess our priorities. We must replace the state-of-siege economy by a global peace economy.

We in the West should sensitize ourselves further to the ongoing changes in Eastern Europe. It is a major challenge for us to be supportive of the changes towards more openness. In the light of the extended contacts between East and West, we have a vision of

a future market, not merely of 320 or 350 million, but of 700 million people in Europe alone.

Secondly, we must create economic stability and equal economic opportunities

We are witnessing an accelerating economic globalization. All viable policy options for the 1990s must presuppose radical changes in international economic cooperation.

In the 1980s, many industrialized countries have applied tight monetary and fiscal policies, and placed emphasis on the supply side. These policies have been fairly successful in diminishing inflation and budget deficits and restoring profitability, although unemployment has remained high in Europe.

However, the reverse side of the coin is that these policies have been unable to redress the most severe economic setback in the developing world since World War II, and this downturn aggravated the debt crisis in which many developing economies found themselves in 1982. Total external debt, as estimated by the IMF, will reach 1280 billion US dollars by the end of 1989.

The Third World seems convinced that international poverty is not a mere aberration of international economic relations which minor adjustments can correct - but the unspoken premise of the present economic order. Developing countries have been told to produce more and sell more in order to earn more. And the amount of coffee, cotton or copper they had to produce to buy a water pump, antibiotics or a lorry kept increasing.

This in turn lead to overtaxation of the environment which has fueled soil erosion and accelerated the cancerous desertification and deforestation, which in turn also threaten the genetic diversity which is the basis for tomorrow's biotechnology, agriculture and food supply.

The 1980s are likely to be remembered as a decade of crisis and lost opportunities for many developing countries. Their crisis is deeper and more sustained than the crisis in Europe and the United States during the Great Depression of the 1930s. This is the picture even though certain developing countries, especially in Asia, have weathered the difficult 1980s remarkably well.

But despite these ominous signs there have been some encouraging developments. The Plaza and Louvre agreements were steps in the right direction. G-7 cooperation was successful in avoiding a recession after the world stock market crash a little over a year ago. This kind of cooperation should be extended to other areas and should not be restricted to the seven.

In the 1990s, economic policies and developments in the OECD area will be of overriding importance to the developing world. Major challenges facing us include reducing payments imbalances between the USA, Japan and the Federal Republic of Germany and mass unemployment in Europe.

The new US administration will have to deal with "twin deficits".

Lower federal deficits and increased private saving in the USA will not only reduce the US external deficit and thus global payments imbalances, but it could also make the surpluses of Japan, the Federal Republic of Germany and other countries increasingly available to developing countries. From a world development point of view, financial surpluses in OECD countries should increasingly be used for investments in developing countries rather than to finance private consumption in the major industrialized countries.

The combined surplus on the current account balance of Japan and the Federal Republic in 1990 is estimated to be around 120 billion US dollars, approximately three times the total ODA.

Moreover, by 1990 a decline of 1 per cent in the level of dollar interest rates would contribute to debt management as much as 24 billion US dollars worth of new lending.

Consequently, if by means of cooperation and prudent policies, a stronger level of non-inflationary growth can be sustained in the OECD area in the 1990s, this will promote a prosperous future for developed and developing countries alike.

To meet the challenges ahead, there is a parallel need both for more market and for less market. If we are honest with ourselves we must admit that the market alone is a most inadequate instrument. Clearly, there are objectives with which market forces are not concerned. Thus, the market does not ensure stability, equality, or justice, nor does it concern itself with long-term ecological consequences.

On the national level all governments, whether social-democratic, liberal or conservative, have supplemented market forces with a wide array of incentives, rules and measures.

On the international level, however, we have seen very little of this. Nonetheless, there are isolated examples showing that governments can - though often belatedly - redirect developments generated by market forces. One example is the concerted action taken in the autumn of 1985 by the Group of 5 to stop the further rise in the value of the dollar - and indeed the measures taken later to hinder its fall!

Trade, finance, energy, and the environment interact with one another. We cannot ignore this fact by dealing with each of them separately. We must establish more systematic cooperation between governments and better links between organizations such as the OECD, the IMF, the World Bank, UNCTAD and GATT.

Our ambition should now be to make the 1990s a decade of more rapid social, economic and environmental cooperation rather than confrontation. The option of confrontation is essentially an option only we in the developed world can live with, and only a short period of time. The option of consensus is the only option open to rich and poor alike.

Protectionism is one such confrontational issue that must be abolished. Protectionism is a no-benefit game. Protectionism costs the developing countries twice the amount of total development assistance. The benefits of free trade both for the

North and for the South should be obvious. Uruguay Round must succeed.

A broad global economic strategy for the 1990s must comprise:

- Policies to promote vigorous non-inflationary economic growth and to reduce unemployment;
- Policies to ensure more stable exchange rates and increased access to markets on a global basis;
- Policies that will sustain and improve commodity prices
- Policies to encourage and support diversification of the economies of the developing countries.
- Major new efforts to reduce debt;
- A "Marshall Plan" for the poorer nations in the developing world, notably in Africa;
- Improved development assistance.

A Global Economic Consensus for Growth in the 1990s should be developed along these lines. It should observe ecological limitations. It should include adjustment measures and sound economic policies within developing countries, and be particularly sensitive to the poorer nations in Asia, Africa and Latin America. It is indeed time to revive the process that stopped halfway in Cancun.

It is time for a global economic summit.

Thirdly, we must respond to the environmental challenge.

We are living in an historic transitional period in which awareness of the conflict between human activities and environmental constraints is literally exploding.

Already in 1972 Indira Gandhi said that poverty is the biggest polluter. To this day poverty has been a source of environmental degradation in the Third World. In their quest for survival the poor have overused the environment because they had no choice.

In the developed countries we have seen time and time again how technology has backfired as environmental tolerances are exceeded. Most of the great environmental struggles will be played out in the 1990s, and it is imperative that they be won.

I do not intend to deal in detail with the problems of acid rain, hazardous wastes, or industrial accidents. I know we have the capacity, though perhaps not the necessary determination, to solve these problems. What I would like to share with you are two basic, organizational issues which will limit progress if they remain unresolved.

First, environmental thinking must become fully integrated into top-level management and lines of communication in both government and industry. Ideally, environmental concerns should

be inseparable from all technological, economic and political considerations.

Consumers are gradually becoming aware of the environmental effects of their choices. Industrial corporations, financial institutions and banks should, in pursuing their long-term profitability, make it clear to shareholders, employees and customers that avoidance of conflict with the environment is a firm part of company policy. Those who first succeed in this will have the competitive upper hand tomorrow.

Secondly, we need to replace the "react-and-cure" approach with an "anticipate-and-prevent" strategy. Mankind seems to need to observe a problem before taking active steps to cure it. However, if we are successful in taking preventive action - perhaps even costly and politically demanding action - we may never even have to face the problem.

Fourth, we must act immediately to address the threats to the global climate.

Today we are faced with an overwhelmingly complex, vital environmental issue: the global climate -, the greenhouse effect or the "heat trap".

The greenhouse effect is not new. We depend on it. Without carbon dioxide in the atmosphere, the global temperature would have been 30° Centigrade lower.

However, the CO₂ concentration has increased by one-third from preindustrial levels.

The entire climatic picture is sensitive to very small variations in temperature. The impact of a few degree's increase in global average temperature will have disastrous consequences for the whole world. That is why we have no time to lose.

Significant CO₂ reductions will be achieved by substituting coal with natural gas, which yields only half as much CO₂.

However, the truth of the matter is that even if we were to replace all coal used in power generation with gas and improve efficiency by 15%, it would not be enough to maintain CO₂ emissions at the 1986 level in 2010.

So what is the answer? Clearly, we need a global climate stabilization strategy. Such a strategy must address both energy efficiency and the mix of energy sources, as well as other issues involving atmospheric gases and massive reforestation.

Energy efficiency improvements are essential. There is vast potential for improvement and the technology is available.

Renewable sources of energy must be developed. What we need is a programme for renewable energy which is similar in scope and scale to the investments in nuclear energy some decades ago.

A strategy for dealing with the other greenhouse gases, in particular CFCs, will have a dual aim: to protect the ozone layer

and to reduce global warming. Therefore such a strategy should be pursued vigorously by all states.

New technology, the need for renewing the infrastructure and, quite simply, the climate of public opinion may give competitive advantage to the firms that invest in environmental protection. Specific projects to protect the environment should be plentiful in the future. A market is not, however, created by demand alone; effective demand presupposes someone who can pay. The major industrialized countries will have the main responsibility. Special attention must be paid to those developing countries which contribute very little to the greenhouse effect, but which will suffer severe consequences if worse comes to worse.

The deforestation issue must be addressed. Forests absorb CO₂. At current rates, 10 trees are felled for every new one that is planted. Therefore, a major global reforestation effort is a key component of a strategy to preserve and expand the world's forest cover and thus improve the CO₂ balance.

A global strategy of halving tropical deforestation and planting the equivalent of 130 million hectares of trees in developing countries and 40 million hectares in industrial countries could effectively counter one-fourth of current global CO₂ emissions.

Our ability to adopt an offensive strategy for protecting the atmosphere and the global climate will be a test case for the state of our civilization. We now need global agreements and a strong global authority that can set the standards and verify, support and enforce their implementation.

To redirect world energy trends in the absence of direct market pressures is an unprecedented challenge. Adam Smith's well-known "invisible hand" has been believed to lead private self-interest unwittingly to serve the common good. In our modern world it is tempting to suggest that an "invisible foot" leads private self-interest to kick the common good to pieces.

Energy uses and climate are closely interrelated. Energy prices are at the core of the greenhouse problem as well. It is now high time that we all recognize the tight links between energy, economy and the environment. They are one and the same issue.

Economic and environmental concerns now call for concerted action to avoid wild fluctuation in oil prices. More stable oil prices would be in the interests of both exporters and importers. Very low prices, although economically beneficial to importing countries in the short run, may in the long run lead to insufficient supplies and possible future oil price shocks and increased import dependency.

On the other hand, too high oil prices, while beneficial to exporting countries in the short run, will threaten the economic development of importing countries.

Improved international dialogue in the energy field is vital. The World Commission on Environment and Development recommends that new mechanisms for promoting dialogue between producers and consumers be explored.

We should do away with the image of confrontation that hampers rational behaviour and policy decisions. We should instead help to bring the relationship between energy, environment and economic development more clearly into focus.

I want to call for greater contacts and deeper mutual understanding between oil-exporting and oil-importing countries. We see a need for a work-shop gathering of governmental leaders to assess the resource situation and market perspectives as well as environmental and climatic effects, and we are prepared to host such a work-shop.

Finally, we need much stronger international cooperation

In the 1990s the process of internationalization will become truly global. Most of the individual trends which together make up today's vastly complicated world community have been visible for quite some time.

The number of different influences and actors on the global scene is increasing all the time. The world community of tomorrow is shaped not only by the major headline decisions taken by the superpowers, by Japan, by the European Community or by other major players on the world scene. It is being formed by a myriad of other actors: by the transnational corporations, by other players in the global economic market, and by each and every individual who decides to have a child or who cuts down or plants a tree. Knowledge and technology are powerful multipliers in this process.

Let me in this forum make a plea for better use of two of the main instruments of international cooperation: multilateral institutions and the rule of international law.

The case for multilateralism is, of course, not a new one. The record period of peace and prosperity in the Western industrialized world is largely due to cooperation within NATO, the OECD, the EC, EFTA, GATT and other organizations.

The UN system has been through a steep uphill struggle in recent years. One of the most positive aspects of world events in 1987-88 was the remarkable successes of the UN peace-keeping operations, for which they were awarded the Nobel Peace Prize for 1988.

As with the aerodynamics of the bumblebee, there are few objective reasons why the system should work, dependent as it is on the veto system of the Security Council. Yet it does work, and supporting the blue berets, not least financially, is good not only good for peace, but for economic stability as well.

We now need to move forward. We also need a stronger sense of collective global responsibility in the way we organize and finance international cooperation. The UN system is still too weak and fragmented. Important as they are, GATT and the Bretton Woods institutions do not lend themselves to the kind of interdisciplinary approach which is now called for.

We should move to make the international bodies which we have created more effective. Stronger mandates for making binding decisions should be contemplated. The time has come to seek more

innovative structures for cooperation than those we have available at present. As a long-term goal, we could also use the UN Security Council as a model in other areas, such as ecological issues.

There can be little doubt that the concept of national sovereignty is becoming less and less relevant as a basis for intergovernmental and international cooperation. The 12 members of the EC have taken the consequences of this development in their approach to the challenges of the 1990s, and President Delors last week reached out to the six EFTA countries.

The time may not yet be fully ripe to propose similar action at the global level. But the time is fast approaching when we have to start considering more effective forms of cooperation than those we have today.

The undermining of respect for international obligations was one of the many negative trends in international politics during the late 1970s and early 1980s, a trend we now see changing.

Immanuel Kant said that the civilized state had been achieved within nations, but between nations the natural state still prevailed. There would be no end to the tragedies of history until the civilized state, the rule of law, was also established between nations.

We have made considerable progress since Kant. The promotion of an international community based on the rule of law and agreed codes of behaviour is a concept which has become more deeply embedded in our own form of civilization. Still we have a long way to go. We must now lay the foundation so that we can look back to the nineties and say with confidence that we met their challenges!