

# NINE

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## Lessons from 1989 for the Forthcoming Climate Transition

**T**hirty years after the post-communist transition began with the fall of the Berlin Wall, the world faces another massive system change. The urgent need to prevent catastrophic climate change will drive a new transition from our current economies and lifestyles to low-carbon, sustainable human activity. There are important lessons to learn from past successes and failures of system change – the Industrial Revolution and its political ramifications, the post-war years and globalization. However, Europe also has a unique experience to learn from – namely, the past three decades of transition from state socialism to integration into the EU.

The lessons are not straightforward: the extensive literature on the history of the post-communist transition shows that many variables affected the outcomes, and the many paths followed in both politics and economics across the region over the past 30 years illustrate the unpredictability of transitions. Moreover, there are some big differences with the scale and scope of climate challenge. Nevertheless, European policy-makers should draw on some valuable insights as they formulate policies at the start of this most crucial term of office. The stakes are high. If they get the climate transition started well in Europe, many parts of the world will adopt the models and norms that succeed. But if they fail, future generations will pay a very heavy price. So let us use all the insights we can gain.

### **Lesson 1: When everything changes, change everything.**

The first lesson is that changing the economic model is a huge endeavour that affects the whole of society and politics, and it takes more than a generation. In much of the policy debate in Brussels and most national capitals, there is an assumption that climate action is about environmental measures. But the transition to a sustainable economy is not about a few flanking measures to tweak the current economic model. Rather, it requires a fundamental system change, on a massive scale – comparable to the Industrial Revolution, and definitely on the scale of what

happened after 1989. To move to a sustainable, generative rather than extractive economy will mean completely changing both production and consumption models, because decarbonization means putting a price on the environmental impact of every aspect of the production of goods and services – indeed, every aspect of human activity. Climate and eco-system impacts will need to be built into everything from investment criteria to accounting systems to insurance policies. That will massively change prices and hence consumption patterns.

Like the transition after 1989, this is a system change to every aspect of the economy, which will also have a major impact on politics. That is why the scale and the scope of the transition after 1989 are our most recent and most useful example of how to do things right, and how to do them wrong – because the entire economic and hence political system also changed then. The post-communist triple transition was described as “rebuilding the ship at sea” (Elster et al 1998); the climate transition will be doing that while riding a tidal wave.

## **Lesson 2: Faster is better, but it needs to go in a clear direction to change expectations.**

For such a major shift, is it better to go for shock therapy or gradualism? One of the big decisions that the EU will have to take is about the speed of change in the European Green Deal. If it goes too fast, the political backlash could be fierce, with the EU taking the blame from national governments and the public. But if it goes too slowly, the EU will disappoint the young generation of new and future voters that is pushing for faster, radical change, and – most critically – it will miss its targets and fail to provide global leadership on the transition. The EU could become the scapegoat for unpopular measures, and also for not achieving results fast enough.

The choices made by post-communist countries about the speed of change greatly affected the outcomes in their transitions. On the whole, the faster the change, the more complete the adjustment, because the rapid adjustment of people’s expectations shifted their behaviour in ways that supported the new system. They invested in the new economy rather than in propping up the old one, reducing the number of stranded assets. Political resistance was less intractable too, because a critical mass of people started building a stake in the new order rather than trying to defend the old one.

The social consequences and human costs of shock therapy were often awful, with people losing their livelihoods and falling into poverty with little or no social safety-net. This time the EU needs to help national governments to construct better social support, including by using its new “Just Transition Fund” wisely (see below). But post-communist transition also showed that gradualism can be painful, for example for the people who continued to work in economic sectors that were ultimately doomed. Gradualism was also wasteful of resource – for example, by continuing investment in assets that would become stranded as the transition progressed.

A clear direction set by the state is essential to get markets to make the transition happen. Economic actors will not change their behaviour until it is clear that

the system is changing. Political statements are not enough; regulation and taxation have to change the incentives.

This change in incentives is also vital to start behavioural change. In the case of climate action, the cumulative effect of individual people changing their daily behaviour is essential to reducing carbon emissions dramatically. If every human started saving energy and consuming fewer carbon-producing goods such as fossil fuels and beef, that would itself make a huge difference.

Ironically, the behavioural change needed now is the opposite of the one encouraged by the move to capitalism after 1989, which was to encourage people to consume more. Just a generation after Central Europeans discovered shopping as leisure, the message they will be getting is to consume less and better to reduce their climate impact.

### **Lesson 3: Fairness is primordial and it is vital to maintain democratic consent.**

The feeling of unfairness is perhaps the most significant and long-lasting political effect of the post-communist transition in Central Europe. Even in countries where the economic transition was relatively smooth and huge amounts of foreign direct investment and EU aid eased the pain of adjustment, such as in Hungary, there remained a resentment of the growth in inequality that remained politically exploitable.

It is vital that the European Green Deal creates a manifestly fair system for sharing the burden of adjustment. That is because nobody knows exactly what their position will be in the new system, and they need a guarantee that all will have opportunities and at least a minimum of social protection.

At the start of any major systemic change, most people are under what John Rawls called the “veil of ignorance” in his classic of political philosophy “A Theory of Justice” (Rawls 1971). Rawls argues that the rules to ensure justice should be made behind a “veil of ignorance” in which those deciding on the rules don’t know what their own position will be in the society they are creating the system for, so they will design it to be fair also for the least powerful and most vulnerable. In reality, the human beings who create any system do know what their own position will be, and often they are involved in designing (or reforming) the system because they already have a privileged status within it.

The climate transition creates uncertainty for most citizens, who cannot know what their status will be in the society of the future. Over the next decades, technological change – especially digital – plus measures to decarbonize will fundamentally restructure the economy. Whole sectors will disappear, while new ones will emerge that we cannot imagine now. At this point in time, the individual citizen does not know whether her current job will vanish, whether her professional skills and experience will be relevant for the new jobs that emerge, and whether she has the emotional resilience and mental flexibility to adapt. Beyond the labour market, the citizen cannot tell whether the outlook for her well-being and ambitions in life

will improve or deteriorate. Does a decarbonized world mean she has to turn vegan and never travel by air? Will her quality of life and opportunities for her and her children get better or worse? Will her city or region be flooded by rising sea levels?

This is no theoretical exercise, because this citizen will be asked to vote many times during the climate transition on measures where there is a veil of ignorance about their consequences for that voter. This problem is not new, for the long-term implications of particular measures are often hard to predict and politicians have to make the best case they can to citizens about the likely impact. But the urgency and massive scale of the action needed to avert climate disaster will take this problem to a new level.

After 1989, nobody knew exactly where they would end up in the new economic system. Most people had an idea that life could be better, and the vast majority wanted change. But the key difference was that the elites were discredited, which made it easy to remove them in many countries. It took a lot longer in others – for example, the Bulgarian Socialist Party managed to stay in power until 1997 – and many former elite members found good positions in the new system. But the perception of elites being knocked off their pedestal helped to push the reforms faster.

However, at this point in the climate transition, elites are still in power and they will try to hold onto their positions. The EU therefore needs to build in fairness so that elites do not try to game the new system to reinforce their own privileged position and perpetuate existing inequalities and injustices.

Moreover, humans have a cognitive bias toward loss-aversion, meaning that they hold on to what they have, rather than thinking about what they might gain in a new situation. As a result, not only are elites likely to resist system change in order to hold on to the resources and position that they have; so are the poor, and even those families that are just getting by. People who have jobs in the current economic system are pretty reluctant to give up those jobs for an uncertain future. Many will have to accept major change if their grandchildren are to have a habitable planet. But it is quite hard to sell that proposition if people also feel that the transition will cost them more than it will cost others.

For this reason, economic and social justice must be the primary objectives of the climate transition. Moreover, fairness will help to speed up behavioural change, which is driven by deep intrinsic motivations – like seeking a better future for your children, not just extrinsic ones like prices.

#### **Lesson 4: Encourage contribution, not compensation.**

The EU has to avoid falling into the trap of being the Great Compensator of Losers, especially in the short term. After 1989, the countries that did best were those that moved fast towards the new system rather than investing in industries that would ultimately disappear. However, the EU could do much better this time in providing social protection and transition funds to create new opportunities.

As the EU launches the European Green Deal, there is a strong temptation to pay off those who suffer the initial losses of the transition because action is urgent

and every EU member government has to agree to key measures. This creates a huge collective action problem because the unanimity requirement for many EU decisions and funding gives a perverse incentive for national governments to block collective action in order to extract compensation payments.

Already the Commission has proposed to create a new “Just Transition Fund”, in addition to the EU budget. This fund is much needed to provide social protection and catalyse transition measures. However, it needs to be designed to avoid misallocation of resources. First, it must not give incentives for blocking behaviour by member states. This is especially important for the European Council, where the heads of state and government meet several times a year. If the EU follows the path of the past ten years of crisis – lurching from one European Council summit to the next with short-term deals to get temporary agreements between the 27 leaders to kick the can down the road – then it will waste resources and destroy public trust in the Green Deal.

Second, the EU should not start by compensating short-term losers from the first measures taken for climate transition. That would create an industry of lobbyists for all possible losers across the whole cycle of the transition, gobbling up public money for compensation rather than productive investments in the new circular economy that would provide new opportunities for those potential losers. For example, rent-seeking entrepreneurs would buy up end-of-life coal-fired power plants in the expectation that they will soon be paid from public funds to close down those plants. It would also privilege organized labour – for example, coal-miners who have strong unions – over people working in sectors without such representation, such as in wind power and solar that are essential to reduce carbon emissions.

In the post-communist transition, public funds – mostly in the form of aid from the EU – helped to ease the transition. But more important was the prospect of new opportunities for employment, entrepreneurship and life experiences. This is what changes mental maps and behaviour.

If the EU starts by paying off the first and loudest protestors, it will destroy social trust because those people who are affected later in the transition process will find that there is no money to compensate them. And they would increase resistance to all change that is not immediately compensated. This would also create completely the wrong political culture for achieving a fair transition. The mentality among both governments and the public would become “Somebody needs to pay me for my loss.” Instead, the EU needs to encourage the view that “We all have to make a contribution to creating a better economic system that serves us all”.

## **Lesson 5: A positive vision for the future is vital to the success of any transition.**

When embarking on any major system change, fear is inevitable in the face of uncertainty. For this reason, a positive vision for the future life in the new system is vital. In the case of the post-communist transition, the EU provided the prospect

of prosperous, stable, secure, and well-functioning societies. After 1989, there were West European economic models available to be copied, and the EU offered assistance and encouragement to adopt its single market rules, with the incentive of EU membership as a reward. Even if EU membership in reality failed to live up to the ideal in many respects, this vision gave hope and motivation for the reforms that helped to overcome resistance and speed up the transition (Grabbe 2006).

However, this time the new economic model to transition to does not exist yet. There is no sustainable capitalist economy to provide inspiration and assistance. The “European Green Deal” will require the invention of new, low-carbon methods of production and consumption and the changing of people’s lifestyles. Moreover, most EU policies will have to change, from the Common Agricultural Policy to competition policy (on state subsidies), industrial standards and norms, regional funds to compensate for the differential impact of both climate change and measures to reduce it, and infrastructure such as Trans-European Networks.

To build public trust and encourage behaviour change, the EU needs to set out a positive vision of how the future life can be better than the present. This is vital to maintain democratic consent. As with the post-communist transition, the scale of the change will require maintaining commitment to major reforms across many changes of government and many electoral cycles. This is the reason why the post-communist transition was so much more successful in Central and Eastern Europe than in the Balkans, where it started later and has lacked the close and tangible perspective of EU membership that fostered deep reforms.

Thus, the EU needs to set out for citizens how life after the climate transition can be better than life now. It needs to explain with tangible examples what will improve (for example, air quality, which is terrible in many Central European cities) and will benefit them, such as convenient non-hydrocarbon transport and new economic opportunities. Above all the EU must overcome the fear of extinction.

## Conclusion

This article has considered some of the lessons for Europe from the last big systemic change on this continent, while recognizing that climate change brings important differences too. What we face now is akin to 1989 on a global scale, but this time there is no alternative economic model ready for adoption. No country has yet shifted from being an advanced, industrial, globalized economy into achieving a fully sustainable, carbon-neutral alternative. There are no communist Ossies and capitalist Wessies this time around. Instead, every country has to try out new policy innovations simultaneously.

As with the post-communist transition, the climate transition will happen not through public investment in closing down unsustainable industries, which sets all the wrong incentives. Rather, it requires a systemic change in which all resources are transferred as rapidly as possible from the unsustainable brown economy into the circular green economy to produce new jobs and economic opportunities in a system that is sustainable for future humans and the planet. A fair transition is

not one where the burden of adjustment is put on those in society who have limited lobbying power and whose losses lie in the future and are hard to calculate, while those whose losses are short-term and visible pay little.

Moreover, solidarity will be a huge challenge. After 1989 a huge amount of public aid and private capital poured into Central and European Europe from the West. Government-sponsored advisors and Western consultants poured advice and policy guidance into the region, with mixed results in terms of policy effects, but this definitely gave a feeling of momentum. Similarly, the climate transition will need the EU to lead towards the future, rather than compensating for past investments. The most important lesson of all is that a successful transition depends on a positive vision for the future.

## REFERENCES

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