

Dear Rector, distinguished colleagues, esteemed guests, dear students,

It is my honour to introduce Professor Nicholas Stern and his outstanding accomplishments in the field of welfare economics.

In 2006, Lord Stern published the Stern review on the economics of climate change. The report estimated that if we don't act, the costs and risks of climate change will be equivalent to losing 5% to 20% of global GDP each year, now and forever. In contrast, the costs of reducing greenhouse gas emissions to avoid the worst impacts of climate change can be limited to around 1% of global GDP each year." As a result of this discrepancy between the large damages of droughts, floods and storms and the relatively low costs of action, the report considered climate change to be "the greatest market failure the world has ever seen".

The alarming message had an explosive impact on policymakers and on the academic debate among economists. A vibrant debate followed on how we should value damages that will arise far in the future. Many people think that economics is about maximizing money but in fact we maximize wellbeing, happiness if you will. The Stern report took the ethical stance that the wellbeing of each generation should be considered equivalently. We call a kg of happiness a util in our jargon, but that doesn't change the reasoning. If we can avoid 10kg of unhappiness in 100 year by investing 9kg of happiness today, we should do so. This ethical stance on climate change argues that to evaluate a transfer between 2 people or generations, it matters what your income is and what the environmental quality is you enjoy, not when you are born.

This 'ethical approach' to valuing the future was opposed by more classical economists, who advocated the 'descriptive' approach. They said: "If we observe in financial markets that people are impatient, who are we, economists, to impose our ethical view on society?" Or they would argue: "If we can invest 2€ on financial markets today and obtain 100€ in 100 years, one should not invest more than 2€ today to avoid a damage of 100€ in 100 years."

Let's admit that valuing the future is a difficult question. After the Stern review, dozens of papers in top economic journals have debated this question, several of which are written by Lord Stern. However, most importantly Professor Stern ignited the whole debate.

Imagine that in 50 years from now, the world is at zero carbon emissions, we are at the end of the fossil fuel era. And imagine that by then, a Hollywood producer would like to make a feel-good movie on how humanity managed to get to zero worldwide emissions. I would advise them to start with the Stern review and the ensuing hot debate on the ethical foundations of welfare economics.

There are many economists working on climate change. But let me mention 3 of professor Stern's distinguishing qualities. First, he has an optimistic view on the future, focussing on the potential of green innovation combined with good public policy. Why did the price of photovoltaics and wind energy decrease so fast to the point that it is now cheaper than coal in some regions of the world? Why do certain countries see billions of investments in green energy and others don't? How can you obtain for a given climate budget a maximum of emission reductions?

Second, Lord Stern has a discourse on climate change that keeps the developing countries on board. If we want growth, we need a sustainable model. But growth and improving decent livelihoods for all is possible. Growth is a condition sine qua non for the Chinese, the Indians and Brazilians. If you want developing countries to do costly cuts in emissions, propose them access to green technology. If you want cities with few cars? Do smart city design in the new mega-cities that are currently being built in the global South.

Third, Professor Stern emphasizes the connections between economic problems. When one enters the London School of Economics, there is a poster of Nick Stern stating: the two defining challenges of this century are overcoming poverty and managing climate change. If we fail on one, we will fail on the other. That is profoundly true, though I am not sure this is well understood by all climate negotiators.

To do justice to Lord Stern's very diversified career, I also need to talk about his abundant accomplishments in many other domains. He is professor at the London School of Economics since 1987, published more than 15 books and 100 scientific articles. He was chief economist at the European Bank of Reconstruction and Development from 1994 to 1999 and Chief Economist and Senior Vice-President of the World Bank from 2000 to 2003. From 2003 to 2007 Second Permanent Secretary at the Finance Ministry of the United Kingdom. Since 2008 he is director of the Grantham Institute on Climate Change and the Environment, one of the largest research centres on climate change.<sup>1</sup> And last but not least, he has a prominent role in the international climate negotiations, including the Paris Agreement, as you can see in the last documentary of Al Gore.

For all these achievements and following the unanimous decision of the Academic Council, I would like to propose to our Rector, to welcome Lord Nicholas Stern into our university community and award him the diploma and the signatories of a Honory Doctorate.

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<sup>1</sup> Optional : In 2009 has was a member of the Stiglitz commission on the measurement of economic performance and social progress, advocating new measures of welfare that should replace GDP as a measure of economic progress.