

Translating Ideas Into Action

Former banker and Treasury Secretary HANK PAULSON took the stage at the annual dinner and responded to questions about environmental protection in China and environmental policy in the United States and internationally. Paulson's conclusion: It takes business, NGOs, and government working together to get things done

Luis Moreno, president of the Inter-American Development Bank, strode to the podium at ELI's annual dinner to introduce Henry "Hank" Paulson, former secretary of the treasury and chief executive of Goldman Sachs — and winner of the 2016 ELI Award for career achievement in environmental policy.

"He's a man of big ideas but not just any ideas," Moreno said. "He wants to translate ideas into action. This is a characteristic that you seldom find, because ideas are easy, realizations are difficult. The world owes a lot to Hank. I come from a region that has had a lot of financial crises. Hank managed these in a way that not only saved the United States but saved the world. He did it because of his tenacity, because of his capacity to think big, his ability to bring people together to find common ground."

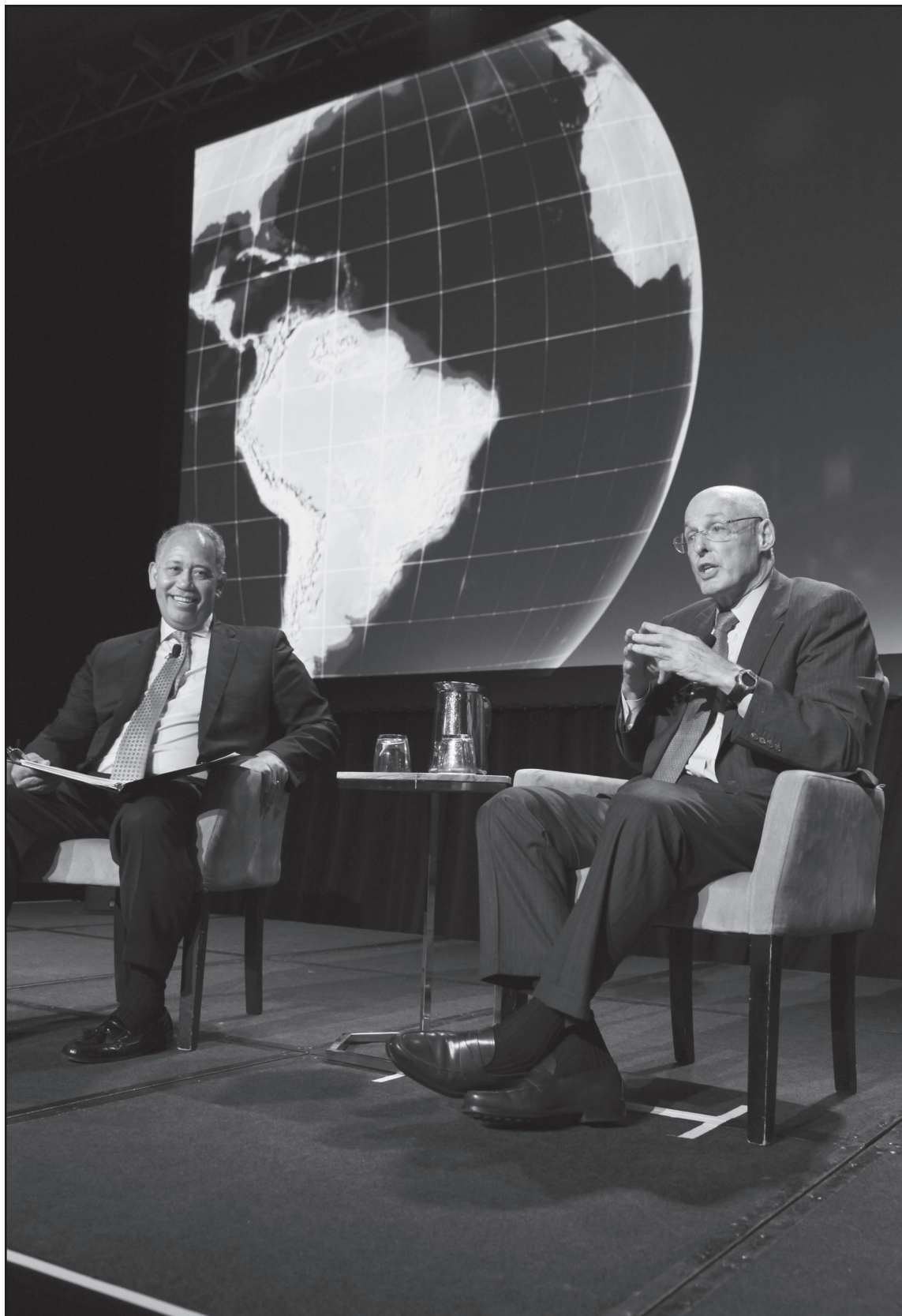
Following Moreno's introduction, Paulson took the stage along with Beveridge & Diamond managing principal Ben Wilson, who was to be Paulson's interlocutor during a dialogue on his long and interesting career.

Ben Wilson: Secretary Paulson, you have focused on China for many years as an important region for environmental progress. Take a moment please and tell us why China is important. When did your interest in that country first begin?

Hank Paulson: As my career progressed at Goldman Sachs, I wanted to stay in Chicago, and I was finally made co-head of investment banking in that city. My partner in New York said he wanted Europe. "Europe is closer to New York," he said. "Why don't you take Asia?" It's funny, but it's absolutely true.

So I made my first trip to China in 1991. I worked with Chinese leaders on what became landmark capital-market transactions that brought western know-how and money and opened up competition. When I became treasury secretary in 2006, one of the understandings I had with President Bush was that there was a better way to manage that relationship, so he let me start the Strategic Economic Dialogue, the SED.

I had this other interest, conservation, starting early in my career. My wife, Wendy, led the way for us, donating \$500 so we could become lifetime members of The Nature Conservancy before we could afford it. When I was working at Goldman Sachs, I helped set up the Asia Pacific Council, where we worked for parks in Yunnan Province, among other projects. At Treasury, we did a number of things to protect the environment, including putting in place the 10-year framework on energy and environment with China.



Beveridge & Diamond's Ben Wilson and former Treasury Secretary Henry Paulson at the ELI Award Dinner.

Photo credit: Rick Reinhard

"There are a host of issues — global growth, climate change, world peace, denuclearization — that are easier if we are working with China rather than at cross purposes"

When I got ready to leave Treasury, I decided to spend most of my time where I thought I could make the biggest difference. I believe that the U.S.-China relationship is the most important bilateral relationship in the world. There are a host of issues — driving global growth, climate change, keeping world peace, denuclearization — that are easier to deal with if we are working with China rather than at cross purposes. If you care about the global ecosystem, you've got to

engage China. The main idea for the Paulson Institute, which I founded in 2011, is to strengthen U.S.-China relations by working to advance sustainable economic growth and to protect the environment of both countries.

Ben Wilson: Can you tell us how relationships drive diplomacy with China?

Hank Paulson: It is a very different place — different history, different culture, different language, different life experience. But in many ways it is similar. They have a similar sense of humor, and they are also very pragmatic.

As an example, when I was at Goldman Sachs, I met President Jiang Zemin in 1992. He is also the general secretary of the Communist Party, and he asked me in English, "Mr. Paulson, we need to learn U.S.-style accounting and I'm studying it." Then he looked me right in the eye, and with a smile, said, "Assets equals equity plus liabilities." And this, from the chairman of the Chinese communist party—I'm not even sure an American president would have known that. Yet, it was so Chinese. They look anywhere in the world for best practices and then bring them to China.

Ben Wilson: Great leaders have great intellectual curiosity. You've met so many. What is your experience?

Hank Paulson: Great leaders, as I've looked at them, come in different shapes and sizes. But they all have certain things in common. The better ones surround themselves with great people — they have teams that help them play to their strengths and compensate for their weaknesses. At the same time, they are all willing to do whatever it takes to achieve objectives as long as it is legal and it is done with integrity.

Everyone talks about integrity. To me, it is not just a matter of obeying the law. It's doing the right thing and creating an environment where everyone in the organization is encouraged to raise questions when something does not feel right. Too often, good people do bad things when they get caught up in groupthink. Also, great leaders are accountable. They run to problems — they don't run away.

Ben Wilson: The 2014 U.S.-China climate accord

was, in your words, a critically important act of bilateral leadership and also was significant in the lead up to the Paris Agreement. Why was the U.S.-China relationship so important?

Hank Paulson: Even as a Republican, I see that as a sensational accomplishment — to get the two biggest emitters to agree to curb carbon emissions. Other things will now fall into place. We have differences with China but we also have shared interests. Shared interests mean nothing if you don't turn them into something tangible that benefits the world in both countries, and both publics can see it.

Ben Wilson: Well, are you hopeful that China will make good on its Paris commitment?

Hank Paulson: I am. The leaders are truly committed, because dirty air is killing their people. It is an existential threat and even affects the long-term survival of the Communist Party. Reducing emissions is now in the Five Year Plan — their goal is to decouple energy use from growth. They understand they cannot solve the problem by building more wind farms and solar alone. They also recognize that their prairies and forests and coastal mudflats are important carbon sinks.

What gives me some confidence in China's approach are the following things. First, they are going to get a natural pickup from what they need to do to rebalance the economy. They need to rely much less on energy-intensive manufacturing, to go up the value-added curve into services instead. There is a huge benefit in energy efficiency, and that's where the Paulson Institute spends a lot of time.

Second, they understand the need to build legal and regulatory capacity. Xi Jinping is trying to modernize the government. They have reorganized the environmental ministry, so that key officials report directly to Beijing. Zhou Qiang of the Supreme Court is training environmental judges.

The other thing they really need to do in the short term is hold mayors and governors accountable for what they do with the environment. In the past, they gave lip service. If you grew GDP, you got promoted, it didn't make any difference what happened to the environment. That has changed. When you meet with mayors and governors today, they recite the environmental data right along with the economic data.

I see positive signs. They are reducing air pollutants — the sulfur oxides, nitrogen oxides, and particulates. Do that right and you also reduce your carbon emissions, particularly through energy efficiency. But I also see behavior that I don't like. At the same time that they are closing down dirty plants in China, they are building coal-fired power plants in other countries. It's a continuing battle.

Ben Wilson: But you have also pointed out how

outside suggestions allow Chinese leaders to make changes.

Hank Paulson: They are going to act in their self-interest, just as we do. The trick is to come up with ideas that makes sense for them. And there is no doubt that what's good for the environment in China is good for the U.S. and for the rest of the world.

Ben Wilson: To change the topic, you have been involved in the Risky Business Project with philanthropists Tom Steyer and Michael Bloomberg — both also recent ELI Award winners, incidentally. The project makes the case that businesses in the United States need to protect themselves from the compounding economic risk of climate change, just as they would any other major risk. Can you describe this key economic risks to businesses?

Hank Paulson: Tom Steyer came to me with the idea behind Risky Business. He said it would be non-partisan — it would be pure economics. That appealed to me because businesses need to be more aware and protect themselves against climate risk. We want businesses to integrate climate risk into their economic decisionmaking just like they do any other risks.

Crop yields will be going down. States like Illinois, Iowa, and Indiana will find it more difficult to grow soy beans and corn because their climates will go from being temperate to arid. Farmers know that climate change is real. But if you approach them and say, "We've got a problem and you're the cause and we want you to pay a tax," farmers will get their backs up. But if you say, "We've got some interesting data," they're all ears and no one is denying the problem.

Ben Wilson: John Adams said that facts are stubborn things, and what you've done is to develop some stubborn facts. It seems to me the Risky Business model could also work internationally.

Hank Paulson: For sure. These risks are global, and the way in which we will do business everywhere is going to change. But climate change is a really difficult issue because it impacts different regions of the world and different industries disproportionately. There are going to be some relative winners and some relative losers. In China, the leaders aren't doubting the science or the fact that the impacts are going to be significant. They are already full speed ahead because of the ambient-air crisis, and the water and soil pollution problems. They have a monumental challenge on their hands, but they are working to turn it into an opportunity to create lot of new jobs and industry around green finance

Ben Wilson: Can you tell us how the power of business can be harnessed to collectively advance sustainability? What are the policy changes needed in critical places in the world?

Hank Paulson: It takes business, NGOs, and gov-

ernment working together to get some things done. I work with China because of its ecological footprint and Latin America because there is an abundance of natural resources there and we'd like to avoid making the same mistakes we made in the U.S. But business can only be counted on to do so much, because business is only going to do things that make economic sense. If their customers care, then they go a little bit further. If their employees care, they'll go even further. But business is not going to solve environmental degradation without government policy. And the root cause of every problem we have environmentally is flawed government policy.

It is going to take \$90 trillion to roll out the new clean technologies to meet the Paris targets. Governments don't have that kind of money. There is plenty of money in the private sector. Governments have to create the conditions for the private capital to come in. They've got to create the framework. And so, my biggest focus over the last year has been working with China in green finance.

Again, China has become a leader in creating models to funnel private-sector capital to green the economy. Of course, the biggest model of all will be their cap-and-trade system. It is going to take a while for that to get up and running, but it will be by far the biggest in the world and will make a real difference if they succeed.

Ben Wilson: The election is in two weeks. Any advice for the next administration on the U.S.-China relationship? Any advice on climate change policy?

Hank Paulson: Well, in terms of U.S.-China policy, the politics have become more difficult. China is not the same country it was 15 years ago, even five years ago. It has become richer. It has become more powerful. It is competing more economically. It's a national security competitor. Its foreign policy is more activist. They have what every other great power has: clout. They are using their clout to help achieve their interests around the world.

We need to be strong economically, militarily, diplomatically. We need to lead. And then, we can't let our differences preclude us from finding common ground — and there is plenty of common ground. So, the key is being imaginative and finding ways to get things done that benefit both sides.

In our own small way, we at the Paulson Institute are working on the problem. And again, we need to recognize that the politics are very difficult now, so this relationship is going to become more challenging. But it is vital to mitigating global challenges. **TEF**

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