

Cents and Sustainability

Securing Our Common Future by Decoupling Economic Growth from Environmental Pressures

Michael H. Smith, Karlson 'Charlie' Hargroves and Cheryl Desha



The Natural Edge
P R O J E C T

earthscan

publishing for a sustainable future

London • Washington, DC

Introductions

I

Jim MacNeill, OC

Secretary-General of the World Commission on Environment and Development, and chief architect and lead author of its report, Our Common Future (1987)

When we launched *Our Common Future* at a major event in London on 27 April 1987, I never expected that within a year our recommendations would be endorsed by the UN system, regional bodies like the Association of Southeast Asian Nations (ASEAN), OECD and the Commonwealth, as well as the World Bank and all of the regional banks. Nor did I expect that within two years, our recommendations would begin to reshape curricula in universities and graduate schools and would become a preoccupation of a growing number of leading companies worldwide. Nor that within five years, our recommendation that an international conference be held to review progress and develop plans for a global transition to more sustainable forms of development would be realized through the 1992 Earth Summit in Rio.¹ I also never expected that within a few years the words ‘sustainable development’ would become part of the common everyday lexicon of humankind. I must add in that respect that I also never thought that the concept of sustainable development could and would be interpreted in so many different ways. I sometimes think that a new way to define ‘infinity’ is the ever-expanding number of interpretations of sustainable development. Many of these, of course, are totally self-serving. In fact, the concept raises profound questions about values and about our relationship with nature, on whose integrity and stability all life depends, as well as implying a revolution in the way we now do business.

In 1987, we thought the concept was plain enough. We defined sustainable development in several ways including ethical, social and ecological. A number of the definitions appeal to me: for example, development based on ‘consumption standards that are within the bounds of the ecological possible and to which all can reasonably aspire’. Or development that, ‘at a minimum ... must not endanger the natural systems that support life on Earth: the atmosphere,

the waters, the soils and the living beings'.² Only one definition grabbed the headlines, however, and stuck, unfortunately to the exclusion of all the others. It's the one that features the need for intergenerational equity:³

Development which meets the needs and aspirations of the present generation without compromising the ability of future generations to meet their own needs.

In addition to defining the concept from various perspectives, the Commission put forward a number of broad directions that development must take if it is to be sustainable. We called these directions and the policy changes needed to achieve them 'strategic imperatives'.⁴ They range from ensuring a sustainable level of population, to increasing equity within and between nations, to reducing poverty, reducing the energy and resource content of growth, reorienting technology, and merging environment and economics in decision-making. We also discussed other imperatives like opening information systems, supporting human rights and empowering indigenous peoples.

These imperatives are fundamental to any transition to sustainability. Some of them have received considerable attention since 1987 and we've seen some progress. In no case, however, has it been at the pace and scale needed to keep up with the unsustainable trends we charted in *Our Common Future*. Our failure to address these imperatives more effectively and rapidly is, I think, linked directly to our failure to make any real progress on the most critical of the imperatives: the urgent need to 'merge environment with economics in our processes of decision-making', not only in the cabinet chambers of government but also in the board rooms of industry and the kitchens of our own homes.

I call this the 'forgotten imperative of sustainable development'. Yet, it is the most important imperative of all. If we change the way we make decisions, we will change the decisions we make – if we don't, we won't. One of the key assumptions underlying *Our Common Future* was that we could and would change the way we make decisions. This new book by The Natural Edge Project, *Cents and Sustainability*, will help us move significantly in that direction.

We have in fact made some progress on this imperative but, in my experience, mainly in the corporate sector in Europe and Asia.⁵ In the governmental sector, with perhaps a few small exceptions, there has been very little movement. We devoted an entire chapter of *Our Common Future* to the institutional and legal changes needed for sustainable development and, in my view, we could hardly have been more clear. Some of us who were there will recall that during the late 1960s and 1970s, governments in over 100 countries established special environmental protection and resource management agencies. But, without exception, they failed to make their powerful central economic, trade and sectoral agencies in any way responsible for the environmental implications of the policies they pursued, or the revenues they raised, or the expenditures they made. Moreover, almost without exception, the new

environmental agencies were given extremely limited mandates. They were told to focus on the downstream end of the development cycle. In fact, they were told to take development as a given and to worry about ways and means to deal with the negative effects of development on health, property and ecosystems. Moreover, they were told to do so almost exclusively with add-on technologies, add-on policies and add-on politics.

Our economic, trade, energy and other sectoral agencies, on the other hand, retained their historic mandates intact, along with their unfettered control over the tax system and over a critical menu of incentives, such as grants and subsidies to industry, fossil fuel and nuclear energy, agriculture, fisheries, forestry, etc. These are, of course, the policies that command the biggest budgets. These are the policies that encourage farmers to spend their ecological capital or build it up. These are the policies that encourage the forest industry to draw down its forest capital or build it up; that encourage industry to build environment into product design or not; and manufacturing processes and marketing that encourage consumers to use more or less energy, or to purchase or not purchase environmentally friendly products.

What is the most significant statement of environmental policy that any government makes in any given year? Clearly, it's not the report of the minister of environment. As I have observed and stated repeatedly since my days in the OECD, it is the budget of the minister of finance. The government's annual budget sets out the framework of incentives and disincentives within which businessmen, farmers and households make their decisions. It determines, more than any other single statement of government policy, whether development will move in directions that are sustainable or unsustainable. In terms of power and resources, with few exceptions, the environment agency is the low man on every totem pole. In my years with the OECD, the Commission and the World Bank, visiting governments around the world, I often noted that if there were 25 ministers in the government, the last on the protocol list, and the weakest, is the environment minister. Unless, of course, they had a sports minister, or an urban affairs minister – in which case, environment may rise a few ranks. Yet, as you all know, whenever there's an environmental problem – whether it's a polluted well or soil erosion or climate change – everyone expects the environment minister to solve it. I remember a meeting in Oslo in the mid-1980s sitting around a table discussing this with Mrs Brundtland. She was then Prime Minister and had been Norway's Environment Minister for years. She said, and I paraphrase, 'Yes, Jim, you know, it's true. Environment ministers do spend most of their time trying to repair the damage caused by the policies of their colleagues.' The Earth can no longer bear the consequences of these institutional arrangements. It is past time to make the strongest ministers in government responsible for the ecological consequences of their policies. In 1960, global population stood at 3 billion and global GDP came in around US\$6 trillion. Today, with population at 6.5 billion and GDP around US\$60 trillion, our economic and ecological systems are now totally interlocked: till death do them part. It is time for governments to end the institutional divorce between the environment and the

economy. It is time for every public agency to become an environmental agency, a green agency, a sustainable development agency.

This book by The Natural Edge Project will help to build momentum for such a change. The single most significant barrier for institutions wishing to embrace sustainable development has been the dominant belief that the more one does to help the economy the worse off the environmental and social outcomes will be, and the more one does for the environment or society the worse off the economy will be. *Cents and Sustainability* brings a wealth of evidence together to challenge this conventional wisdom. By demonstrating how best economic growth can be decoupled from environmental pressures, it provides an invaluable resource to decision-makers seeking to embed the environment into their economic decision-making. The most compelling reasons for protecting the environment are often economic. Environmental problems become incredibly expensive and even sometimes impossible to solve if you wait to a later stage to attempt to solve them. The earlier environmental problems are identified, the cheaper they are to solve. *Cents and Sustainability* builds on this ‘delay dilemma’ – most effectively noted in *The Stern Review* in regards to the issues of climate change – and shows that the same is true for other environmental and social challenges. It shows that the costs of inaction significantly outweigh the costs of action for decoupling economic growth from other major environmental pressures. It also shows that proactively addressing many social problems, such as extreme poverty, corruption, illiteracy, unemployment, poor education and health standards, significantly helps economic growth rather than harming it, and underpins environmental actions. In *Our Common Future* we called for a new form of economic growth that is forceful and also environmentally and socially sustainable. *Cents and Sustainability* shows how this goal can be achieved.

In doing so, it also demonstrates the sea-change occurring in the field of economics. When I began my career 50 years ago, environmental externalities were seen as largely irrelevant by most economists and not worthy of study. Economic textbooks in the 1950s and 1960s made statements like ‘the weather is clearly an exogenous or non-economic variable, affecting individual choices but unaffected by them’⁶ and ‘rainfall affects the economy but is not affected by the economy’.⁷ Many decision-makers and economists today went through university at a time when environmental economics was not taught to them and such attitudes were common. Even today environmental economics tends to be taught to economists as a sub-discipline of economics rather than as central to economics, which is shocking given the interdependence of the world economy and ecology.⁸

At a time when, globally, there is better access to education than ever before, too few receive any formal education in economics, even though many of the most critical societal decisions are made on the basis of economics. It is not wise simply to hope that our decision-makers will make the right choices, especially given the fact that there are still powerful vested interests who do not want to see a transition to sustainable development.

In the end, it is up to each and every one of us to leave as positive a legacy as possible to future generations. *Cents and Sustainability*, with its inspiring world class success stories, our earlier 1987 report to the United Nations entitled *Our Common Future*, and free online education and training packages by The Natural Edge Project will help empower you to play your part in helping achieve a sustainable future.

Jim MacNeill is a former Chairman of the World Bank's Independent Inspection Panel in Washington, DC, and Chairman Emeritus of the International Institute for Sustainable Development (IISD) in Winnipeg. Earlier in his career MacNeill was the Secretary-General of the World Commission on Environment and Development, Director of Environment for the Organisation for Economic Co-operation and Development, the Canadian Ambassador and Commissioner General responsible for the 1976 UN Conference on Human Settlements in Vancouver, and Deputy Minister for Urban Affairs in Pierre Elliot Trudeau's administration. MacNeill has over five decades of experience as a policy adviser to leaders of governments, industry and international organizations in the fields of energy, natural resources, management, environment and sustainable development. He is an author, speaker, and recipient of many honours and distinctions, national and international.

Notes

- 1 World Commission on Environment and Development (WCED) (1987) *Our Common Future*, Oxford University Press, Oxford, Chapter 12, p343.
- 2 WCED (1987) *Our Common Future*, Oxford University Press, Oxford, Chapter 2, p44.
- 3 WCED (1987) *Our Common Future*, Oxford University Press, Oxford, Chapter 2, p43.
- 4 WCED (1987) *Our Common Future*, Oxford University Press, Oxford, Chapter 2, pp49–65.
- 5 Cogan, D. (2006) *Corporate Governance and Climate Change: Making the Connection*, Ceres Publications, Boston, MA.
- 6 de Graaf, J. V. (1957) *Theoretical Welfare Economics*, Cambridge University Press, Cambridge, p6.
- 7 Klein, L. R. (1962) *An Introduction to Econometrics*, Prentice Hall, Englewood Cliff, NJ, p16.
- 8 MacNeill, J. (1991) *Beyond Interdependence: The Meshing of the World's Economy and the Earth's Ecology*, Oxford University Press, Oxford.