

# PAPER 1: THE GREEN ECONOMY

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## ABOUT GLOBAL TRANSITION 2012

Global Transition 2012 is a collaborative initiative between Stakeholder Forum and **nef** (new economics foundation) that focusses on the Green and fair Economy theme towards the UN Conference on Sustainable Development in 2012 (UNCSD), also known as 'Rio+20' and 'Earth Summit 2012'.

### GOAL

To achieve an outcome from the UNCSD 2012 that catalyses a 'Global Transition' to an economy that maximizes wellbeing, operates within environmental limits and is capable of coping and adapting to global environmental change.

### PURPOSE

To build a global civil society and stakeholder movement to promote alternative models of economy that can deliver sustainable development to people, countries and generations that builds on the three pillars of sustainable development: social, environmental and economic.

### THE INITIATIVE CONSISTS OF THE FOLLOWING ACTIVITIES:

- **Research and Thinking and Policy and Advocacy:** to **commission** and **publish** a series of research reports and think-pieces that will provide the evidence based analysis and address critical components of a Global Transition and translating research and thinking into key policy outputs towards Rio+20 and beyond and organising workshops with governments to discuss policy options; and **building capacity** and **developing tools** for countries to institute policies and systems that move towards a Global Transition;
- **Coalition Building and Dialogue:** **building a coalition** of actors and organisations from the global North and South committed to the principles and objectives of a Global Transition;
- **Submissions:** making **official submissions** to the Rio+20 process based on think pieces and dialogue;
- **Information and Resources:** publishing informative **guides** and **briefings** on aspects of the green economy; in particular developing a 'how to guide' for the green economy Roadmap work that is underway in a range of sectors and contexts.

### ABOUT STAKEHOLDER FORUM

Stakeholder Forum is an international organisation working to advance sustainable development and promote stakeholder democracy at a global level. Our work aims to enhance open, accountable and participatory international decision-making on sustainable development. Stakeholder Forum works across four key areas: Global Policy and Advocacy; Stakeholder Engagement; Media and Communications; and Capacity Building. Our Global Transition 2012 initiative sits within our work on Global Policy and Advocacy.

### ABOUT nef

**nef** (the new economics foundation) is an independent think-and-do tank that inspires and demonstrates real economic well-being. **nef** aims to improve quality of life by promoting innovative solutions that challenge mainstream thinking on economic, environment and social issues. We work in partnership and put people and the planet first.

### MORE INFORMATION

If you would like to provide feedback on this paper, get involved in the Global Transition 2012 initiative, or put yourself forward to write a paper/blog, please contact Kirsty Schneeberger, Senior Project Officer at Stakeholder Forum: [kirstyst@stakeholderforum.org](mailto:kirstyst@stakeholderforum.org)

## **PAPER SUMMARY**

Two decades after the Earth Summit in 1992, attempts to govern, sustainably, the global environment and manage the world economy without destabilising crises, are hopelessly disconnected. Since the original Earth Summit conference we have lived with an economic model based on debt-fuelled over consumption that co-exists with vast levels of poverty and inequality. Comparable dynamics are visible in most economic sectors. Many working in the fields of environment and development now find that systematic problems require a systemic solution.

This paper puts forward 6 challenges to lay the foundations for systemic change: Develop a national transition plan that puts countries on paths to operate within planetary boundaries, and on timescales sufficiently quick to preserve key, ecological life support functions; don't start from a growth perspective; agree to develop and implement new measures of economic success; commit to reduce income and wealth inequalities between and within nations; put fiscal policy and public expenditure centre stage in managing economic transition; and recapture the financial sector for the public good. Other worlds are possible but the task is to shape and fashion them in the course of the next decade before 'business-as-usual' locks in catastrophic climatic upheaval.

# PAPER 1: THE GREEN ECONOMY

## CHARTING THE PATH TO THE GLOBAL TRANSITION TO A GREEN ECONOMY

In the immediate aftermath of the 1992 Earth Summit it was said that people had gone to Rio de Janeiro with low expectations, and that all of them were met. In hindsight, with the benefit of having witnessed global gatherings that achieved far less, even on paper, suggests that such judgements may have been too harsh. The range of conventions and agreements was impressive. Of course, the lack of implementation is another matter. Perhaps the greatest mistake was to assume that major progress on human development and environmental conservation could be achieved from within an economic system that, at best, designed in neither.

At worst, that system worsened inequality, accelerated the use of irreplaceable natural resources and has brought humanity, collectively perilously close to the point of no return in its corrosion of fundamental life support systems, such as having a climate conducive to human civilisation. And the financial system itself has become more unstable with devastating crashes since the last Earth Summit caused by bonds in 1994, currencies in 1998 and the largest of them all in 2008 due to debt. The great oversight was having an economy that danced to a different tune, rather than to the objectives of environmental protection and human development.

What has happened in the global food chain is just one glaring example of this dysfunctional system. The world has about one billion people who are overweight and about the same number who are malnourished. The global trade in food has become volatile and distorted by the commodity speculation of the financial markets. There is competition between land to grow crops for human consumption, and land to grow feed stocks for bio-fuels to power the cars of the rich. 'Land grabs' are on the rise among countries and companies who can afford to the fertile soil of other nations to supply their own needs. At the same time, the Western role model of a meat-heavy diet is producing a global food system that is far more polluting in terms of climate change.

This Earth Summit offers a critical opportunity at time of great uncertainty to begin navigate a new way forward. Other UN processes are responsible for tackling specific urgent challenges the world faces such as UNFCCC for Climate Change. The Earth Summit has the vital task of understanding how these systemic challenges need to be tackled together. By doing so it can provide a framework within which these other processes operate but even more importantly it can set out an agenda for global transition – but this time it must place the economy economic transition at heart of the actions for change.

### How should we navigate our way forward?

Before anything else the Zero Draft needs to ask **what the aim of economic governance is**. At a high level this seems straight forward, namely, a world in which all people can meet their needs and enjoy relatively long and happy lives within the limits of the planet.

This has to be the starting point for the Zero Draft when defining its proposals for a 'green economy'. The reason that this is so important is that perversely one of the methods for meeting this aim, namely increasing GDP growth, has been taken as a proxy for achieving the whole of this aim. Perverse because increasingly it is not able to deliver the benefits claimed for it. Inequality continues to soar and poverty remains at the same time as we accelerate toward environmental limits. Perverse because orthodox models of growth make many heroic assumptions that fly in the face of aim of economic governance above. Two of these, that there are no environmental limits and that it is the size of the economic cake and not who gets what slice that is important, are a disastrous combination as the challenge of the Millennium Development Goals highlights.

The decade of UN conferences begun by the Earth Summit produced a range of targets that became the Millennium Development Goals. It has become increasingly clear that attempts to reach even their relatively modest aims using conventional economic development strategies will be self-defeating. The last few decades have given us the paradox that ever smaller amounts of poverty reduction at the bottom of the global economic income pile, requires ever more consumption by the already rich and over-consuming. Using the ecological footprint measure, lifting everyone in the world onto an income of around \$3 per day (around that level the strong

link between income and life-expectancy starts to break down) with prevailing levels of global inequality, would require the natural resources equivalent to 15 planets like Earth (Woodward & Simms, 2006).

Not only do we need a huge amount of political will and commitment – we need a new economic model capable of delivering relatively long and happy lives for all, whilst staying within the tolerance levels of the biosphere. It is time for the international community to pursue this new aim for a green economy with all the seriousness, resolve and resources it demands. The Earth Summit needs to mark the start of that process.

The moment could not be more fitting. We are on the cusp of the first environmental limit – climate change and the first economic reality of a global resource limit as demand for oil outstrips supply. We have a global financial sector that having caused the Great Recession that wreaked havoc particularly amongst the poorest, remains all but free of any controls to work in the public interest, and operates in a manner divorced from the ‘real’ economy whilst siphoning off value for itself.

Since the crash of 2007-2008 there have been attempts simultaneously to respond to the economic crisis whilst laying the foundations of a new system, in effect, to begin a great transition. Prefiguring later work by UNEP (2008), one such is the publication of the Green New Deal in the UK (Green New Deal Group, 2008).

Specifically, The Green New Deal by the Green New Deal Group (2008) was based on the notion that linked economic, social and environmental problems require similarly linked, and coherent, responses. In reaction to financial crises, energy insecurity and the challenge of climate change the Green New Deal proposed, among other things:

At the national level (though not exclusively):

- Executing a bold new vision for a low-carbon energy system that will include making ‘every building a power station’ by maximising their energy efficiency and potential to generate renewable electricity.
- Creating and training a ‘carbon army’ of workers to provide the human resources for a great environmental reconstruction programme.
- Ensuring more realistic fossil fuel prices that include the cost to the environment, and are high enough to tackle climate change effectively by creating the economic incentive to drive efficiency and bring alternative fuels to market. This will provide funding for the Green New Deal and safety nets to those vulnerable to higher prices via rising carbon taxes and revenue from carbon trading.
- Developing a wide-ranging package of other financial innovations and incentives to assemble the tens of billions of pounds that need to be spent.
- Re-regulating the domestic financial system to ensure that the creation of money at low rates of interest is consistent with democratic aims, financial stability, social justice and environmental sustainability. In parallel, to prevent inflation, tighter controls on lending and on the generation of credit are needed.
- Breaking up the discredited financial institutions that have needed so much public money to prop them up. Retail banking should be split from both corporate finance (merchant banking) and from securities dealing. Instead of institutions that are ‘too big to fail’, we need institutions that are small enough to fail without creating problems for depositors and the wider public.
- Re-regulating and restricting the international finance sector to transform national economies and the global economy. Finance will have to be returned to its role as servant, not master, of the global economy, to dealing prudently with people’s savings and providing regular capital for productive and sustainable investment. Regulation of finance, and the restoration of policy autonomy to democratic government, implies the re-introduction of capital controls. These are vital if central banks and governments are to fix and determine one of the most important levers of the economy – interest rates

At the international level:

- Allowing all nations far greater autonomy over domestic monetary policy (interest rates and money supply) and fiscal policy (government spending and taxation);
- Setting a formal international target for atmospheric greenhouse gas concentrations that keeps future temperature rises as far below 2 °C as possible;
- Delivering a fair and equitable international climate agreement to follow on from the Kyoto Protocol in 2012;
- Giving poorer countries the opportunity to escape poverty without fuelling global warming by helping to finance massive investment in climate-change adaptation and renewable energy;
- Supporting the free and unconstrained transfer of new energy technologies to developing countries.

The Green New Deal subsequently gave rise to a more ambitious, comprehensive and further reaching programme to attempt to restructure an advanced industrialised economy toward true sustainability. It was called the Great Transition (Spratt *et al.*, 2009). In it the challenge was set to move the UK toward meeting its fair, safe share of global greenhouse gas emissions, while maintaining its social contract. Meeting the target meant a noticeable reduction in conventional economic growth. However, it was found that by meeting a target of great economic equality, this could be offset by radically reducing social costs across a range of areas from health to crime (as the work of social epidemiologists Richard Wilkinson and Kate Pickett has shown, more equal societies almost always do better, at almost everything (Wilkinson & Pickett (2009)).

Already there are ambitious projects that are developing new macro-economic models that recognise finite environmental limits and have as their primary output increased societal wellbeing rather than infinite consumption growth as a proxy for it (e.g. Victor, 2008; Meadway & Campiglio, forthcoming). These simulation models will help the Earth Summit process going forward to deliver the transition to a green economy.

Vitality, changes in levels and patterns of production and consumption toward a green economy in already industrialised countries determine very different patterns in the trade and movement of finance, goods and services between richer and poorer countries. Interdependence is inescapable. The great challenge is to the assumption of export-oriented growth as an economic panacea, as countries become more localised in securing their food and energy supplies, and to reduce ecological footprints. The challenge is to imagine what the whole global economy will look like as individual economies re-engineer to respect environmental thresholds, resource scarcities and social objectives.

In another report by the Working Group on Climate Change and Development (Simms *et al.*, 2009), the development economist David Woodward imagined how the idea of a Green New Deal could be applied in the context of a low income country. An alternative economic model, he writes, could revolve around:

*'...a revitalisation of rural economies, taking advantage of the synergies arising from consumption patterns at low-income levels – raising demand, production and consumption of basic goods, of and by low-income communities in a virtuous cycle. It also looks at the potential for widespread application of micro-renewable energy technologies in rural areas, exploiting the potential for considerable cost reductions and technological improvements from the creation of a mass market.'*

In the same report, the Indian economist Prof Jayati Ghosh concluded that:

*'The presumptions and aspirations of what constitutes a civilised life will have to be modified. The model popularised by 'the American Dream' is perhaps the most dangerous in this context, with its emphasis on suburban residential communities far from places of work, market and entertainment and linked only through private motorised transport.'*

Whilst the Chilean economist Prof. Manfred Max-Neef believed:

*'Solutions imply new models that, above all else, begin to accept the limits of the carrying capacity of the Earth: moving from efficiency to sufficiency and well-being. Also necessary is the solution of the present economic imbalances and inequalities. Without equity, peaceful solutions are not possible.'*

Yet there is a real danger is that the soft, but ultimately disastrous option of marginal change to the current system will be pursued.

Attempts merely to overlay 'green growth' onto the finance driven model of economic globalisation, will be like setting freshly spawned fish to swim against a flood tide. The proposers of the Green New Deal dwelt on finance so much, precisely because it is the rock upon which sustainability repeatedly flounders.



We suggest 6 challenges to lay the foundations for systemic change.

## **1. Develop a national transition plan: that puts countries on paths to operate within planetary boundaries, and on timescales sufficiently quick to preserve key, ecological life support functions**

Without a chosen destination and route map, the desire for a green economy will remain as little more than mood music, it will be political dressing only on business-as-usual. The first challenge is to make explicit the intention to navigate the economy toward operating within the capacity of our life-supporting biosphere to provide resources, without net depletion, and absorb waste without critically undermining the stability of ecosystems. This means that planning has a vital role. It cannot be left to the whims of the market to decide the future on the basis of whether or not human survival is sufficiently profitable to demand attention. As we run up against vital planetary thresholds, it is not just the direction but the journey time itself that must form part of the plan. Devising plans will force decision makers to confront ecological reality, acknowledge the inescapable parameters of planetary boundaries, and negotiate new development contracts based on the sharing of resources accordingly.

## **2. Don't start from a growth perspective**

Stop assuming that all GDP growth is good, and a panacea for all other objectives. Firstly it isn't, there is jobless growth, growth with rising inequality and growth that masks qualitative decline within an economy. Secondly, continual GDP growth is incompatible with acknowledging inescapable planetary boundaries. Work by nef, the Tyndall Centre for Climate Research and others have demonstrated this. No one has successfully demonstrated the opposite. Time and again, growth swamps gains from efficiency and technological innovations. Instead, start from the explicit premise that the economy must operate within given environmental parameters. Also, begin with a vision of what the economy is for, namely, to deliver the chance of relatively long and happy lives for everyone on the foundations of social justice for all. The current growth paradigm, even with heroic levels of 'green innovation,' cannot, without reduced overall consumption, on its own keep within environmental limits and deliver poverty alleviation and greater equality. This is not to say that necessary economic activity in some sectors and in many parts of the world will not contribute to GDP and localised growth. During transition to a low carbon, lower consumption economy, sectors that are key will expand. Mapping and debating these future patterns of economic activity and what they mean for the future shape of the global economy will be a key function for The Earth Summit 2012.

Japan is no exemplar, but growth stopped in the 1990s never convincingly to return. Yet, unemployment is half that of the US, life expectancy five years longer, average real incomes are the same as Germany's, and inequality lower. These are goals normally used to justify the absolute priority of growth, but Japan has remained in relatively good shape regardless. It's environmental impact though, largely due to the large scale imports of raw materials remains high. The impact of disastrous tsunami of 2011 also presents a particular challenge.

One reason why growth is being pushed even harder at present is that the bank crisis that began in 2007 created a debt crisis in developed countries. Conventional thinking promotes the 'oxymoronic' notion of 'expansionary fiscal contraction.' Public spending cuts coupled with a private sector picking up the slack, is meant to lead to growth that will pay-down the deficit. Yet even the IMF concedes that such 'austerity' programmes have gone too far, too fast in rich countries like the UK. Added to this there is growing evidence that the imminent arrival of peak oil is already putting a ceiling on growth. Every time the economy starts to grow oil prices rise, on an already high and rising plateau, to dampen economic prospects. The Earth Summit 2012 has to confront this reality.

## **3. Agree to develop and implement new measures of economic success**

In the words of the former head of the UK's Confederation of British Industry, Lord Adair Turner, GDP as the international standard for economic success needs to be 'dethroned.' The success of economic policy instead should be assessed with metrics that measure progress toward meaningful goals – such as creating secure, well-paid jobs; raising human well-being, eradicating poverty, staying within environmental limits, and reducing inequality.

Gross domestic product was not always with us. Created in the 1930s, and despite the warnings of its pioneer, it rapidly assumed centre stage in economic policymaking. It is a near mythological gauge of national economic virility. By focusing on the size of the pie rather than the size of the slices it has also marginalised the issue of distribution of wealth. Yet increasingly when economies boom few share in its rewards and when in slows the worst-off are hit hardest.

Here we can see the beginnings of a paradigm shift with the landmark Sarkozy Commission report (Stiglitz *et al.*, 2009). This calls the international community to recognise that GDP as a measure of economic success fails economically, socially and environmentally. The challenge for The Earth Summit 2012 is to agree to develop a new standard in place of, not alongside, GDP, that is directly related to policy making and does guide the economy to stay within environmental boundaries, reduce inequality, reduce poverty and deliver wellbeing for all.

#### **4. Commit to reduce income and wealth inequalities between and within countries**

Since the 1970s, when the world collectively began to focus on the challenges of human development and environmental sustainability, the global economy has expanded and diverged. It has grown massively in terms of value, production and the consumption of resources, just as the gaps between rich and poor have grown enormously too. The challenge now is to reverse that dynamic, to reduce overall consumption so that we stop overshooting the biosphere's ability to regenerate and absorb waste, and to converge, narrowing the destructive gap between rich and poor.

How though, should this be achieved? The biosphere is made up of both global and more localised 'commons.' The difficulty of managing the commons has been a public policy challenge since long before Garret Hardin identified its potential 'tragedy' when mismanaged. Is there a basic regime that can work? The notion that the capacity of the commons should be shared equitably, based on per person entitlements, was promoted by the great American thinker Buckminster Fuller, and later developed by the ecological economist Herman Daly and others. In this approach exploitation of the commons is capped at a level which allows sustainable regeneration, and then entitlements to its use are allocated equally. With this as a founding principle (very similar, for example, to language in the original UNFCCC), in practice democratic processes could be used for flexible application, to allow for special geographical, cultural and economic circumstances.

Taking the example of climate change, this approach is fundamentally different to using mechanisms such as offsetting or even carbon taxation to account for inequality of consumption, emissions and influence behaviour. It could be said that it is about 'pre-distribution' – establishing prior equal rights to the global commons – rather than 'redistribution', which seeks to ameliorate the worst effects of entrenched inequality in the use of the commons. Also, in setting an overall, science based cap on resource use, it is the only obvious way to guarantee that we stay within planetary boundaries.

#### **5. Put fiscal policy and public expenditure centre stage in managing economic transition**

In order to meet the interlinked challenges of global recession, climate change, resource constraints and poverty alleviation purposeful government intervention is essential. This, in essence, is the thinking behind the Green New Deal initiative explained in more detail above (and hence more briefly here). In response to the global, bank crisis fuelled recession of 2008 several countries responded with 'green stimulus' spending packages, that varied enormously in scale and environmental quality. Some, such as South Korea's were substantial as a percentage of overall stimulus spending. The UK's stimulus spending, by contrast, had one of the lowest levels of environmental content.

Rebalancing the economy away from debt-fuelled over-consumption and bloated financial services is a fine aim but needs policies to match. Austerity does not just blight individual lives but cripples whole economies as demand drains out of the system. So public spending, the bedrock of an economy in recession, must be held steady. Rio +20 could explore in detail how the international financial institutions could support, and not obstruct the Green New Deal approach, and promote innovative ways to direct savings and institutional investors to fund 'transition' spending, as well as different tools such as green bonds issued at the national, municipal levels and sectorally by custom new institutions such as the UK's Green Investment Bank.



## 6. Recapture the financial sector for the public good

Following on from several of the observations above, it's clear that a green economy will not be created without a new financial architecture to support it. We need to ask, what is the banking system for? The Good Banking Report, published by the Good Banking Forum, quotes a definition of purpose proposed by nef. Mervyn King, governor of the Bank of England famously commented that, "Of all the many ways of organising banking, the worst is the one we have today." The definition suggested by nef is:

*'To facilitate the allocation and deployment of economic resources, both spatially and temporally, to ecologically sustainable activities that maximise long-term financial and social returns under conditions of uncertainty.'*<sup>3</sup>

Faced with threats on the scale, imminence of those to be discussed at Rio +20, the precondition for tackling them will be ensuring that we have the right type of investment, at the right time, in the right place, at the scale and speed required. The current, weakly regulated banks will not deliver it. Considering the vast amounts of public support they enjoy, the banks enjoy a disproportionate and inappropriate level of freedom to pursue their private interests and private profit – something they have done at vast cost to the economy. The Earth Summit 2012 should look at how we can develop a banking system that operates more like a public utility, and is regulated accordingly.

## CONCLUSION

Collectively we must devise and manage a rapid economic transition. We need to implement new economic models that allow us to meet basic needs and maximise human well-being, without catastrophically overshooting the Earth's biocapacity to support us. Some of the key questions for further debate at The Earth Summit 2012 are:

- What will an alternative economic development pathway for a post-carbon society mean for patterns of trade, production, consumption, investment and the movement of finance, at a wide range of levels from local to global?
- Given that any solution to the challenge of climate change must be both global and equitable, how can the North facilitate an alternative development paradigm in the South and how can the South facilitate a transition to a post-carbon society in the North?
- What would a post-2012 climate agreement that recognises the implications of the above look like?
- How can we address and reverse environmental despoliation and the destruction of ecosystems.
- Most importantly, in terms of solutions, we believe that our governments and institutions must stop pretending that we can carry on in much the same way. The challenge is not only to find answers to these questions, but to find and act on them quickly. Other worlds are possible but the task is to shape and fashion them in the course of the next decade before 'business-as-usual' locks in catastrophic, climatic upheaval.

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