

Green Economy: an ecological contradiction or a governance challenge?

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ABSTRACT

Neo-liberal and neo-keynesian economic theories have so far failed to find a way to accommodate the sustainability of the management of the earth's resources into macroeconomic theory. Parallely a growing pressure on ecosystems is causing environmental distress that is responsible for climate change with all its associated economic externalities. Yet priority is given to restart economic growth as soon as possible in order to go back to the pre-crisis status, if possible without depending too much on debt to trigger demand. Ecological sustainability is not yet considered important enough to be put at the center of economic policy. The tendency is to integrate the environment into the economy via commodification of nature rather than adapting the economy to the ecological limits of the planet. Low convertibility and resilience of natural capital in comparison to economic capital speak against a purely market based solution to address sustainability.

The EU strategy for Green Economy doesn't foresee a change of paradigm but a continuation of the current economic practices with a higher focus on resource efficiency, renewable energies, market mechanisms, etc. The focus on resource efficiency is good to increase material productivity in Europe but it is not a plan to achieve sustainability. In the best case the Green Economy strategy will achieve a decoupling of economic growth from ecological impact but sustainability will remain a far-away aim as long as we lack a plan and a time-line to get us there.

Without a change in the production and consumption patterns and a thorough upheaval of EU's priorities it is likely that we will have to wait for an ecological collapse before launching an appropriate reaction. However, the low resilience of ecological capital in comparison with economical capital speaks in favour of preventive action. It is necessary to a) properly value natural capital and include it in the books but without turning it into a tradable commodity which can be subjected to speculation, b) put to use the *Beyond GDP* indicators that the EU has been developing, c) fix contradictory legislation, create the right market incentives starting by a general shift of taxation from labour to resources, d) build a proper EU budget capable of financing investment and monitoring implementation of EU and national law and e) have powerful but fully accountable and coordinated institutions capable of guaranteeing democratic decisions, oversight and public participation at all levels.

A preventive change of production and consumption paradigm will not happen spontaneously and will not be brought about by the current EU Green Economy strategy; it will require proactive action and bold political vision that should be worked into a European Plan for Sustainability. The current institutional set-up of the EU is unfit for such an endeavour but the reforms planned to build a fiscal Union can create the conditions for the implementation of such a plan, provided the political will to live up to the challenge of sustainability can be found.

1. The ecological challenge in the EU – the most important factor for long term development?

The on-going crisis is revealing the unsustainability of the economic debt-ridden practices of the last decades. High public and private debts combined with high unemployment and low economic activity have put the EU in the most difficult situation since World War II. On the top of the economic unsustainability there is the ecological unsustainability which, although already felt in the form of high fuel and commodities prices and environmental disasters around the world, is still not properly addressed.

The management of the crisis by the EU leaders has been clearly deficient. What started as a financial crisis has been allowed to develop into a fiscal crisis which is to be attributed to the unfit EU governance structure and the lack of vision of its leaders. However, regardless of how different parts of the developed world addressed the crisis there is an underlying problem with the model of market fundamentalism that is the inherent unsustainability of a world economy fuelled by debt. The magnitude of the debt of the US and Europe and the excess of liquidity in world markets signals that a new “fuel” is needed to run the world economy (Sachs, 2009).

A certain parallelism can be drawn between the current situation and the post-WWII time in which there was a change from a philosophy of laissez-faire that led to the crisis of the 30s to a more government interventionist policies. Since without economic growth it is impossible to repay the debts some economists (Stiglitz, Krugman) defend the need to revive a more state-interventionist kind of neo-keynesianism with national and international Marshall plans to create employment and economic activity. However, despite some similarities the world economy is very different from that of post-WWII. Globalisation and open markets mean that Keynesian policies of boosting demand will be less successful than in the past because the economy is no longer national but European and sometimes even global and this would mean financing other countries demands at charge of national debt.

Another big difference is the reversed situation regarding the distribution of resources; from a situation of abundance of resources and shortage of labour in post-WWII we find ourselves in a situation of resource scarcity and labour abundance with a higher dependency on global markets for the supply of the basis for the economy from fuels to raw materials.

Finally, the last big difference with post-WWII time is the collapse of the natural ecosystems under the pressure exercised by human activity. Climate change is just one of the symptoms of a much major problem that directly challenge the mantra of macroeconomic theory of last century; i.e. the need for economic and population growth. In a world with finite resources and natural limits it is impossible to run an endless expanding consumption society. As a consequence, both neo-liberal and neo-keynesian approaches fail to present a viable and above all sustainable alternative for the world economy in the long term (Martinez-Alier, 2011).

Coming back to the short term, it is clear that a return to the way things have been before 2008 is difficult to imagine. The state has been coming back in the last 4 years to foot the bill for the financial disasters and transfer private debt into public debt. Consequently the populations are now paying the price in social cuts. However as explained above a come-back of neo-keynesianism in a globalised economy rigged with ecological constraints will not work. A new

macroeconomic model needs to be created to bring the indebted countries and the emerging economies to a situation of stable wellbeing in harmony with the earth's boundaries.

It is also important to detect the right priorities and objectives for the current situation. The EU is a union of developed states whose current main problem is unemployment and sustainability, not underdevelopment. Whilst most of the emerging economies do need sustainable development to achieve European affluence levels, the EU's new challenge is to achieve economic and ecological sustainability and redistribute wealth and labour to get to a level of sustainable wellbeing. These objectives need to be put at the core of the new macroeconomic policy in Europe replacing price stability and economic growth.

2. The European Union, austerity & ecology

As a consequence of the economic crisis and following from the suggestions of the European Commission and other international bodies, such as the IMF, many EU countries have been shrinking their expenditure in the public sector. One of the consequences of this has been the reduction of personnel monitoring the use of public goods. For instance, in Valencia, Spain it has been recognised that the removal of expenditure on forest monitoring and on conservation in 2010 is one of the main causes for the spreading of a fire that burnt 50,000ha of forests in 4 days during June 2012 alone. The direct costs of recovering this land and rebuilding the infrastructure that was destroyed by the fire vastly surpass the annual cost of keeping the ecosystem in order. Beyond, the ecological impact and its indirect effects on underground water, desertification, speculation over land, etc are very significant but again not included in the equation.

On a more general level one can argue that the current wave of austerity in the EU –regardless of its implications from a *traditional* economic point of view- plays also against any hope of success for a strategy based on the commodification of nature in Europe because the state has seen a diminishment in its power to monitor and control the natural assets. After all, financial abstractions and deregulation together with insufficient and inefficient monitoring of economic players are an important part of the current economic crisis. If austerity measures are continued (and they will be) in countries where governments have low or non-existent understanding of the importance of properly integrating ecology with economy, we are likely to witness an increased loss of natural capital which will have even higher economic impact down the line. The EU needs to elaborate a new strategy as to how to deal with the real basis for its long-term survival.

Einstein said that “we can't solve problems by using the same kind of thinking we used when we created them” and indeed we cannot pretend to solve the ecological crisis with the same kind of thinking that has created it. Financialisation of nature will create more speculation and instability and not more sustainability; once monetised why should markets of natural capital behave differently than housing markets?

Improving sustainability in Europe has been associated with resource efficiency but so far the “rebound effect” by which an improvement in the efficiency of a process can be offset by the increase in the consumption of that item has been unsurpassable; for instance cars have reduced their average CO2 emissions by 22% between 1995 and 2009 and hence are more efficient than ever but precisely because of that we have more cars than ever in the roads with

an increase of 40% since 1991 (Eurostat), same logic applies for many of the other improvements.

Eurostat data for material flows shows how a decoupling between economic growth and material use is effectively taking place in the EU and the emissions –after some accounting tricks- decreased by 22% during last 20 years. However the environmental impact in absolute terms continues to grow if one considers the emissions off-settings, the loss in biodiversity and above all the delocalisation of production –and emissions!- which can be seen in the increase in trade deficit –EU imports doubled since 1999- with the rest of the world. Indeed, the only real factor that has reduced the environmental impact of the EU in absolute terms during last decades has been the economic crisis; in 2000 each EU citizen consumed 15,7 tonnes of materials per year, in 2007 it increased to almost 17 to fall with the crisis to 14,6 in 2009 and decreasing (Eurostat). This is very important information has proven difficult to digest; as long as we have economic growth associated with current levels of material consumption it is impossible that we can reduce the pressure we exercise on the planet –unless there is a sharp fall in population.

3. A European change of paradigm based on better accounting, robust indicators, appropriate tools and supranational planning

The alternative to put Europe on the sustainability track requires structural changes in several fields but before anything it requires a political class willing to take on the ecological challenge and a governance system that allows this change to be implemented. The current EU Green Economy project serves the purpose of improving resource productivity in the time of pre-ecological collapse but it only aims at decoupling economic growth from environmental impact, even when the environmental impact in absolute terms continues to increase. There is no plan to make the EU ecologically sustainable any time within the 21st century. The EU has pioneered the development of useful data, tools and knowledge around the sustainability issue and with proper political will it could steer the boat and start changing the economic paradigm and developing a new macroeconomic theory for the years to come.

This will require concerted planning in order to make the best use of the available tools.

4. Planning the transition to sustainability

If the EU wants to be serious in tackling the dilemma of sustainability it needs to break away from the model of consumption responsible for the most important period of material affluence but also environmental destruction and unsustainability in the history of humankind. The problems of running a throw-away society on a finite planet were detected as early as 1972 with the publication of *The Limits to Growth* (Meadows, Randers & Behrens) for the Club of Rome which has developed into what has been known as sustainable development to end up coining the contradictory term of *sustainable growth*. The continuous watering down of the findings of 1972 is due to the fact that a consumerist society is the backbone of economic growth in both neo-liberal and neo-keynesian economic thinking. Indeed the consumerist society was a planned strategy that started in the US with a view to upgrading the demand of goods to the levels of increasing supply capacity brought by incredible improvements in industrial productivity. As a result the American Way of Life was engineered with key concepts such as planned obsolescence, which created an affluent but also wasteful and polluting

society. The model of American Way of Life was imported to Western Europe and Japan after World War II and it has now become the dogma around the world.

However, economic history teaches how the change to a consumerist society had to be engineered and planned. It takes a lot of effort and planning to change the preferences of a society to, for instance, choose using plastic cutlery which involves extracting oil from the ground, shipping it to a refinery, turn it into plastic, shape it appropriately, bring it to a store, buy it and bring it home to dispose of it after some minutes of use instead of washing up and reusing cutlery. This could not have happened spontaneously; the economics of a throw-away society were engineered to artificially boost the demand in order to avoid crisis for oversupply of goods. The physical boundaries of the planet are putting an end to the throw-away society but this doesn't mean that sustainability is automatically waiting at the end of the street. The change to sustainability needs to be planned the same way as the break towards a throw-away society was engineered and implemented in the first half of the 21st century.

The current European strategy consists in focusing on resource efficiency¹ whilst waiting for the change to either happen spontaneously, which is highly unlikely because most market incentives go in the opposite direction, or by ecological or economic collapse, which is not desirable as is shown by the Greek or Spanish cases. Moreover resource efficiency is a plan to improve the productivity of the European economy without increasing the impact on the environment which is very appropriate, needed and welcome but it is not a plan to achieve sustainability. The only way the EU can aim at real sustainability –what is known as strong sustainability in political ecology- is by planning a European transition out of consumerism aiming at reducing material consumption whilst maintaining wellbeing of its people.

The EU is facing the hardest crisis since the end of WWII; the growing indebtedness, emigration and unemployment rates of countries such as Greece or Spain actually are comparable to the effects of a war. Hence, it is pertinent to observe how structural planning played a vital role in the reconstruction of Europe in the aftermath of WWII. During the late 1940s, in times of poverty, hunger and social desperation a new system of social coverage that was called the Welfare State was developed. Despite some social services existed before WWII in countries such as Britain or Germany a proper “Welfare State” was created from the scratch which helped prevent social unrest and a return to totalitarianisms. Also, in France Jean Monnet developed the *Plan de Modernisation et d'Équipement* (Monnet, 1945) indispensable to understand the transformation of post-war France. All in all, the problems were detected and addressed with national or international plans. In Europe –and around the world- the plans for sustainability limit themselves to a myriad of sometimes contradictory initiatives that fail to address the root of the problem which is the need for a new paradigm of production and consumption.

This change of paradigm has huge implications for macroeconomic theory because traditional growth models involve increase in material consumption and the new paradigm would

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¹ <http://www.eea.europa.eu/themes/economy/intro>

challenge the whole notion of growth. However, recognising the boundaries and living within one's means, not spending what one doesn't have is the message to take home from the current crisis. In this case what applies to finances also applies to ecology. Europeans need a plan to live within sensible ecological boundaries. In theory this means decrease material use to sustainable levels, close the loop of materials and phase out waste, move from consumption of goods to consumption of services, leave behind most combustion-based sources of energy & mobility, shift taxation from labour (the abundant resource) to resources (the scarce resource), change incentives, etc... In practice this implies a coherent and consistent leadership and communication strategy which is credible about economic, ecological and social justice and sustainability.

The constant contradiction of the European leaders consisting in advocating for a Green Economy which is inherently unsustainable is confusing and self-defeating. However, can any political leader afford to be coherent when the industry is watching, the justification from the economic theory is lacking and the political legitimacy and credibility are insufficient to take such gigantic endeavour? An overarching cross-border plan is necessary to change the paradigm. This plan for Sustainability would need to be based on 4 pillars:

4.1 Proper accounting of natural capital

In order to start a proper transition the EU has to have a good perspective as to what are the assets and liabilities of the Union, and a plan for Sustainability needs to include the natural capital in the balance sheet.

The importance of the natural capital as underlying asset of our economy means that is vital to value it properly and include it in the balance sheet of a country for it does say a lot about its sustainability and hence future social and economic stability. But valuing natural capital shouldn't mean putting a price-tag on it and turning it into a commodity so that it can be financialised and subjected to speculation. The EU cannot trust the markets to do with public goods what they haven't been able to do with private goods. Understanding and respecting the non-convertible and low-resilience nature of the natural capital is vital for successful policy-making. It is precisely because they are a strategic asset for any country that most of water, forests, biodiversity, etc have to remain a national -or international- reserve. Authors such as Jacques Attali have already advocated for the creation of a world accounting system for natural patrimony and its consumption.

4.2 Robust indicators

The current crisis demonstrates the importance of working with and on the basis of good indicators. The European Commission has been working since quite some time on the development of "Beyond GDP" indicators². In fact, the Commission is pushing to have GDP/DMC (Domestic Material Consumption) as main indicator for resource productivity. This would be backed by other complementary macro indicators related to land, water and carbon

² <http://www.beyond-gdp.eu/>

use. However how to impose indicators such as GDP/DMC index to markets when the experience shows that markets care a lot more about the debt/GDP ratio? Indeed, in the years of economic booming the debt/GDP ratio looked fine in countries such as Spain when for instance the GDP/DMC indicator issued warning signs of ecological –and hence economical–unsustainability; how to make the markets react to ecological unsustainability the same way as they react in front of economic unsustainability? Would different indicators have made it possible to foresee the current crisis?

In order to shift the attention of policy-makers and economists to new complementary indicators it is necessary to insert them into a bigger picture frame for they are vital light-towers for the plan to make the EU economically and ecologically sustainable. An EU plan for sustainability is the best way to use the Beyond GDP indicators developed by the European Commission.

4.3 Economic resources and right economic and legislation incentives

The EU should have the economic resources to intervene in the protection of the EU natural capital and public goods but also invest in cross-border projects which demonstrate the added value of the European level. According to the subsidiarity principle, the European level needs to have the spending capacity of the same level of the ambition of the democratic decisions taken by citizens and member states. Unless the size of the EU budget is radically increased the EU is doomed to derail any national efforts towards sustainability. Taxing carbon and speculative transactions is a way to raise own resources that has been very much explored and it remains unexploited only for political reasons. The interest and potential of such measures to raise supranational funds is more than justified but it needs to go hand in hand with a change in governance structures in the line of the “no taxation without representation”.

Next to the economic resources it is important that the legislation is coherent and the right incentives are in place to push the market in the right direction. For instance in the EU the Directive on Renewable Energy (2009/28/EC) rewards energy generation from burning waste of biogenic origin such as paper. At the same time there is no economic incentive or reward in place at EU level to recycle it despite recycling being higher up in the waste hierarchy in the Waste Framework Directive (2008/98/EC) and this way avoid the disposal. Like this, burning what could be recycled causes all the emissions associated with the extraction, transport, production and consumption of a new product which means higher environmental and economic impact and less sustainability. Contradictory incentives and accounting tricks in the emissions –such as not considering emissions associated to delocalisation of production of goods imported and consumed in the EU– need to be changed and aligned in a coherent direction.

Finally, taking inspiration in the Delors Report from 1993 there needs to be a clear turn in the fiscal treatment of the basic resources of the European economy. Since the industrial revolution the scarce resource has been labour and as such it was charged with taxes in order to protect its exploitation whereas raw materials were considered abundant and free. What was expensive was the labour to extract and process the raw materials. The population growth linked to a technological progress which has boosted labour productivity has created a situation in which the scarce resource are the materials and the abundant resource –as the

current unemployment rates show- is labour. A change in taxation from labour to resources is vital to decrease the cost of labour –and hence increase employment without having to reduce real salaries- and make more visible the situation of resource scarcity –which will trigger more sustainable use of materials and force a move away from a society based on consumption of goods to consumption of services- (Stahel 2010). Another crucial advantage of this shift in taxation would be the possibility to involve the supranational level in the management of the funds and could open the door to European-wide social coverage financed by taxes on resources which something that is proving too cumbersome and political to do with labour taxes.

4.4. European integration and ecology

All in all, we have argued that the tools are at hand but a new plan for sustainability is necessary; a pioneer plan to change the model of production and consumption.

In order to do that a new accounting system that includes natural capital will need to be developed, new indicators will have to be used, new economic tools and incentives have to be implemented and a certain return of the state is necessary in order to do what markets have not proven capable to do; provide sustainability, employment, wealth redistribution, stability and wellbeing. From history we know that it is desirable that this transition is driven by planning rather than by conflict but we also learned that planning transitions requires above all committed citizens, visionary leaders and political will. It is an illusion to believe that resource productivity and the invitation to change personal behaviour are enough to achieve sustainability.

The EU is caught between several fires and vicious circles. Facing phenomenal economic challenges national leaders who are elected to take care of the national interest find themselves having to take care of European interests whereas the illusion of a sovereignty long gone is blinding member states who are doing everything possible to stop the creation of a United States of Europe. The existence of a common market and a common currency complemented with the most advanced integrated environmental and industrial legislation in the world means that it only makes sense to launch the European Plan for Sustainability at European level.

A supranational European Plan for Sustainability would be better -and easily- implemented if the EU would have a proper budget, an economic government and other complementary governance tools. However, one of the biggest challenges remains; the creation of a supranational democracy which can scrutinise and legitimise highly potentially controversial political decisions such as the implementation of a European Plan for Sustainability with all its implications on the labour, industrial and trade policies. Currently no President of the European Commission or European Council, not even the German Chancellor or the French President can decide to steer the EU enough to be able to implement a plan for a change of consumption and production paradigm for such a measure it would require unanimity among the 27 member states. The reform of the current treaties that will be necessary to further economically and politically integrate the EU to address the current economic crisis will for sure address the current EU decision making process. This should provide the EU with mechanisms

to more promptly undertake radical changes in the EU structure, be it the reform of the European budget or the creation of a European Plan for Sustainability as presented above.

Therefore, the institutional reforms that are needed for the EU to properly tackle the current economic crisis are likely to reform the EU in a way that will help to implement a European Plan for Sustainability. An European Convention should be called in the near future and it would be most convenient to include a discussion as to how to change the articles that from Maastricht to Lisbon embody a clearly obsolete macroeconomic policy and an impossible decision-making system. The stakes are high and so far the political will is not yet in sight; one more year suffering the effects of the current policies will help open some minds to look for new options.

After all, the question remains; will Europeans plan a smooth transition to sustainability or will they repeat the mistakes that led to the current crisis and wait for the collapse before starting to act? The resilience capacity of an economic crisis compared with that of an ecological crisis speaks in favour of the first option.

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